BANK AL-MAGHRIB

MONETARY POLICY REPORT

No. 44 / 2017

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THE BANK BOARD
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FOREWORD

Pursuant to the provisions of Article 6 of Royal Decree No. 1-05-38 of 20 Shawwal 1426 A.H. (November 23, 2005) promulgating Law No. 76-03 on the Statutes of Bank Al-Maghrib, "with a view to ensuring price stability, the Bank adopts and implements monetary policy instruments".

In accordance with these provisions, Bank Al-Maghrib's objective in conducting monetary policy is to ensure price stability in order to preserve the purchasing power of citizens and provide the right conditions for investment and growth.

To achieve these objectives, Bank Al-Maghrib has put in place an analysis and forecasting system which rests on an integrated approach based on a monetary policy model and several satellite models that feed and complement it. Adapted to the current monetary policy framework and exchange rate regime and also to the transition to inflation targeting and gradual flexibility of the exchange rate regime, this new system makes it possible to predict the future course of macroeconomic aggregates, including inflation, and monetary conditions and to assess the impact of the materialization of risks to the central projection.

The assessments of the national economic situation and its medium-term prospects are outlined in the Monetary Policy Report (MPR), prepared by the Bank staff for the Board members. The MPR is published quarterly on the day of the Board meeting once the Board approves it.

In addition to the press release that explains the basis for the monetary policy decision and the overview that summarizes all the economic, monetary and financial developments and macroeconomic projections, the MPR has two parts. The first part, consisting of six chapters, analyzes the change in the main determinants of inflation, namely the international environment, external accounts, demand, supply and the labor market, fiscal policy, monetary conditions and asset prices, and recent trends in inflation. The second part is devoted to the presentation of medium-term prospects for the national economy.

Bank Al-Maghrib Board members:

The Governor, Chairman

The Director General

The Government Representative

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

Mr. Abdellatif BELMADANI

Mr. Mohammed BENAMOUR

Ms. Miriem BENSALAH CHAQROUN

Mr. Bassim JAI-HOKIMI

Mr. Mustapha MOUSSAOUI

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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.

OVERVIEW

During the second quarter of 2017, global economic activity continued to accelerate, particularly in advanced economies. Growth rose from 2.0 percent in the first quarter to 2.3 percent in the euro area, from 2 percent to 2.2 percent in the United States and from 1.4 percent to 1.6 percent in Japan. On the contrary, growth slowed down from 2 percent to 1.7 percent in the United Kingdom, due to uncertainties as to the Brexit and the risks of inflationary pressures. As for the main emerging countries, growth stabilized at 6.9 percent in China, 5.6 percent in India, and recorded in Brazil its first increase since the second quarter of 2014, by 0.3 percent. Similarly, in Russia, the positive trend was confirmed in the second quarter, as growth rate reached 2.5 percent after 0.5 percent a quarter ago.

In the labor market, unemployment rate recorded a slight rise in August to 4.4 percent in the United States, with 156,000 jobs created. In the euro area, this rate stabilized at 9.1 percent in July, with differing developments from one country to another. It thus decreased from 3.8 percent to 3.7 percent in Germany, stagnated at 17.1 percent in Spain and increased from 9.6 percent to 9.8 percent in France and from 11.2 percent to 11.3 percent in Italy.

On the stock markets, data from the leading advanced economies show that, in the period between July and August, the Dow Jones and the FTSE 100 performed well by 1.6 percent and 0.2 percent respectively, while the NIKKEI 225 and EUROSTOXX declined 1.9 percent and 0.9 percent respectively. In emerging economies, the MSCI EM increased by 2.8 percent, namely covering the rising indexes of China, Turkey and India.

In the sovereign debt markets, yields on the 10-year bills declined overall between July and August in advanced economies, and fell from 0.5 percent to 0.3 percent in Germany, from 0.8 percent to 0.7 percent in France, from 1.6 percent to 1.5 percent in Spain and from 2.2 percent to 2 percent in Italy. For its part, US Treasury bill rates declined from 2.3 percent to 2.2 percent.

On the foreign exchange markets, the euro appreciated by 2.5 percent against the dollar between July and August to reach 1.18 dollars, by 2.9 percent against the pound sterling and by 0.1 percent vis-à-vis the Japanese yen. However, in the main emerging countries, the Brazilian real, the Turkish lira and the Chinese yuan appreciated by 1.5 percent against the dollar, while the Indian rupee rose by 0.7 percent. As for bank credit, its annual change decreased slightly between July and August from 3.6 percent to 3.5 percent in the United States and rose in the euro area from 2.3 percent in June to 2.2 percent in July.

On the commodity markets, oil prices reached $ 50.1 per barrel on average in August, up 4.6 percent compared to July and down 7.2 percent from the first month of the year. This development is probably due to a sharper decline in oil stocks in the United States and to the decision of OPEC and non-member countries to extend the agreement on production reduction for nine months. For non-energy products, the Dow Jones-UBS index was up 4.3 percent year-on-year. Durum wheat prices, although up 14.7 percent year-on-year, were down 15.5 percent from one month to the other. On the other hand, prices for phosphates and derivatives showed annual declines of 22.5 percent for crude, 1.4 percent for Potassium Chloride, 1.1 percent for TSP and 0.6 percent for DAP.

Under these conditions, inflation in the euro area would have accelerated to 1.5 percent in August after 1.3 percent a month earlier, while it rose from 1.7 percent to 1.9 percent in the United States.

With regard to monetary policy decisions, the ECB decided in September to keep the rate of the main refinancing operations unchanged at 0 percent, and added that it still expects these rates to remain at their current levels over a longer period, far beyond the horizon of assets purchase operations. The latter would continue at their current monthly rate of EUR 60 billion until the end of December 2017 or beyond if necessary and, in any event, until it observes a sustainable adjustment of inflation in line with its objective. Similarly, the FED decided, at its September meeting, to maintain the target range of the federal funds rate between 1 percent and 1.25 percent. It also pointed out that the monetary policy stance remains accommodative, promoting further improvement in labor market conditions and sustained return of inflation to its target. The FED announced that it will begin implementing its standardization program in October 2017 in accordance with the terms and conditions published in June.

At the national level, external accounts data for the first eight months of the year indicate a 4 percent increase in the trade deficit and a 0.6 percentage point improvement in the coverage ratio to 55.3 percent. Imports rose by 5.5 percent to 284.8 billion, mainly due to a 30.2 percent increase in the energy bill to 44.9 billion, while purchases of capital goods decreased by 0, 6 percent, after their significant increase over the same period in 2016. Exports increased by 6.7 percent, reflecting strong sales in the sectors of «Agriculture and agri-food» and «phosphates and derivatives», while sales of automotive construction decreased slightly by 1 percent. For the other main items of the current account, expatriates' remittances grew by no more than 2.7 percent, while travel receipts increased by 4.9 percent. Taking into account an FDI inflow of 21.2 billion dirhams, as well as banks purchases of foreign currencies for hedging purposes, net international reserves stood at 217.3 billion dirhams at the end of August, equivalent to 5 months and 16 days of imports of goods and services.

This development has impacted bank liquidity, as the deficit widened to 73.9 billion dirhams at the end of August. As a result, Bank Al-Maghrib adjusted the volume of its injections, bringing it to 74.7 billion, thus maintaining the weighted average rate on the interbank market very close to the policy rate. Nevertheless, monetary conditions saw a marked easing in the second quarter as the real effective exchange rate depreciated and the lending rate decreased. In this context, credit to the nonfinancial sector continued improving and grew by 4.3 percent at the end of July. Taking into account the lower foreign exchange reserves and the stagnated increase of claims on central government, M3 increased by 5.3 percent in the second quarter as against 6 percent in the first quarter.

On the public finance side, budget execution over the first 7 months of the year is in line with the Finance Act programming. Budget deficit stood at 18.3 billion euros after 26.6 billion over the same period of 2016, mainly owing to better revenues. The latter increased by 4.7 percent, reflecting improved tax revenues, notably with an increase of in CT proceeds by 18.8 percent and of VAT revenues by 6.8 percent. At the same time, overall expenditure rose by 0.4 percent, including a 40.7 percent increase in subsidy fees to 9.2 billion euros and transfers to local authorities, as well as a 3 percent decline in investment. Given the 5.9 billion reduction in arrears in payments, the cash deficit stood at 24.2 billion, down 1.4 percent from the same period in 2016. This gap, as well as to the net external inflows of 5 billion, were covered by domestic resources amounting to 29.2 billion.

As regards national accounts, after having reached 3.8 percent in the first quarter, growth would have accelerated to 4.9 percent in the second quarter. This mainly reflects the 15.7 percent surge in agricultural value added and the 3.4 percent increase in nonagricultural value added, mostly due to the more rapid increase in household final consumption, particularly as a result of improved agricultural incomes. On the other hand, investment would have slowed down, as indicated in particular by the lower rate of imports of capital goods, thought it maintained its positive contribution to growth, while that of net foreign demand almost equaled zero.

Labor market in the second quarter saw the creation of 74,000 jobs, of which 52,000 in agriculture, 19,000 in services and 7,000 in construction, while industry lost 4,000 jobs. Taking into account a net inflow of 107 thousand job applicants, unemployment rose slightly from 9.1 percent to 9.3 percent at the national level and from 13.4 percent to 14 percent in urban areas.

On the property market, prices were down 1.3 percent quarter to quarter, thus recording their first decrease since the third quarter of 2015. In parallel, transactions rose 0.8 percent, particularly reflecting the 4.9 percent rise in apartment sales. On the stock market, after the 2.3 percent decline in the first quarter, the MASI was up, thus bringing its annual performance at the end of August to 6.5 percent. As for the PER, it rose to 21.4 in August from 18.9 at the end of 2016. The volume of transactions on the central market equaled 3.4 billion on the first eight months of the year against 2.5 billion over the same period of the previous year.

With regard to price developments, inflation slowed down from 1.3 percent in Q1-2017 to 0.3 percent in the second quarter before falling to an average of 0.1 percent in July and August. This development reflects the more rapid fall in prices of volatile food products, mainly in relation to the drop of fresh fruits prices. It also reflects, to a lesser extent, the slowdown in core inflation from 1.5 percent to 1.2 percent and the mitigated rise of fuel and lubricant prices from 6.3 percent to 3.5 percent. On the other hand, prices of administered products increased by 1 percent after 0.6 percent due to the changes in tobacco prices as part of their pricing approval.

In terms of prospects, global economic activity is expected to strengthen. In the Euro area, growth would firm up from 1.7 percent in 2016 to 2 percent in 2017 before falling back to 1.5 percent in 2018, particularly due to the Brexit. In the United States, growth rate, which reached 1.6 percent in 2016, is expected to reach 2.1 percent in 2017 and 2.3 percent in 2018, due to higher domestic demand. Under these conditions, unemployment rate is expected to stand at 9.3 percent in 2017 and 9.7 percent in 2018 in the euro area and at 4.5 percent and 4.7 percent respectively in the United States. In the main emerging countries, after Russia, Brazil is also expected to emerge from the recession, while growth in China is expected to continue decelerating, albeit at a slower pace, owing to fiscal support measures.

In the commodity markets, food prices are expected to follow an upward trend, stronger than forecasted in June, resulting from the expected negative effects of unfavorable weather conditions on supply, particularly wheat. On the other hand, oil prices, which averaged $42.8/barrel in 2016, would hover around $50/barrel in 2017 and 2018, in line with the improved global growth prospects and the extension of the production reduction agreement. As for phosphates and derivatives, and due to production capacity surpluses, prices are forecasted to reach relatively low levels, reaching $360/mt in 2017 and $366/mt in 2018 for DAP and $100/mt and $ 102/mt respectively for rock phosphate.

Under these conditions, inflation would accelerate from 0.3 percent in 2016 to 1.5 percent in 2017 in the euro area and from 1.3 percent to 2 percent in the United States before reaching 1.4 percent and 1.9 percent respectively in 2018.

At the national level, the current account deficit is expected to ease in the medium term, and fall from 4.4 percent of GDP in 2016 to 3.9 percent in 2017 and 4 percent by 2018. Despite the expected increase in the energy bill, imports would slow in the medium term, largely as a result of the slower increase of capital goods. At the same time, exports growth rate is forecasted to accelerate due to stronger growth in the euro area and to the recovery of phosphate sales. Improved current account also reflects an annual inflow of 8 billion from GCC countries. Under these conditions, given the assumption of continued FDI inflows similar to those observed in recent years, and taking into account purchases by banks for hedging purposes, NIR forecasts have been revised to 230 billion at the end of 2017 and 234 billion at the end of 2018, equivalent to 5 months and 25 days of imports of goods and services.

Liquidity gap is expected to increase from 14.7 billion in 2016 to an average of 46.8 billion by the end of 2017 and to 53.9 billion by the end of 2018. Despite this widening, monetary conditions should remain accommodative in the medium term, resulting from a depreciation of the real effective exchange rate over the forecast horizon. Under this background, and taking into account the medium-term growth path, bank lending to the nonfinancial sector should remain in line with the June prospects and increase by 4.5 percent in 2017 and by 5 percent in 2018.

With regard to public finance, fiscal adjustment is expected to resume. The budget deficit would ease from 4.1 percent of GDP in 2016 to 3.5 percent in 2017 and 3.2 percent in 2018, assuming the continued mobilization of revenue, forecasted to improve significantly in the medium term. At the same time, efforts to control expenditure on personnel and procurement of goods and services would continue, while subsidy costs are expected to increase in 2017 before falling in 2018 in line with the change in international oil products prices. Besides, investment would remain high, standing at about 6 percent of GDP.

In terms of national accounts, after having reached 1.2 percent in 2016, growth would stand almost in line with the June forecasts, and rebound sharply to 4.3 percent in 2017 before returning to 3.1 percent in 2018. Agricultural value added would increase by 14.7 percent in 2017, before decreasing by 1 percent in 2018, while nonagricultural activities are expected to improve in the medium term, with 3.0 percent and 3.6 percent higher GDP in 2017 and 2018.

Under these conditions, core inflation is expected to trend upward, rising from 0.8 percent in 2016 to 1.4 percent in 2017 and 1.6 percent in 2018. Taking into account the other CPI components, particularly volatile food products whose prices are expected to decline sharply in 2017, inflation would fall from 1.6 percent in 2016 to 0.6 percent in 2017, before accelerating to 1.3 percent in 2018.

Several risks surround the central scenario of growth forecast, with an overall equilibrated risk balance. The stronger growth in the euro area as a result of further monetary easing, the mitigated risks associated with Eurosceptic policies, added to a less pronounced impact of the Brexit, could all have a positive impact on national growth. On the other hand, geopolitical tensions, uncertainties surrounding the policies of the US administration, financial turbulences which could arise from a more rapid normalization of the Fed's monetary policy, as well as the risks inherent to financial fragilities, notably in China and certain European countries, could have negative effects on foreign demand to Morocco.

With respect to inflation forecasts, higher-than-expected increases in international prices for oil or staple food products may lead to an upward pressure on inflation.

1.INTERNATIONAL DEVELOPMENTS

In the second quarter, global economy trended positively, particularly in advanced economies. Economic activity speeded up in the United States, the euro area and Japan, while it slowed down in the United Kingdom. However, in emerging and developing countries, national accounts of the second quarter indicate a stagnant growth in China and India, a stronger economic activity in Russia, and a GDP increase in Brazil, the first since the second quarter of 2014. In the labor market, unemployment rose slightly in August in the United States, as job creation dropped from the previous month, and stabilized in July in the euro area.

In August, financial markets witnessed an almost overall easing of sovereign yields and an appreciation of the euro vis-à-vis the other main currencies. On the other hand, commodity prices, particularly energy prices, trended upward, driven mainly by uncertainties surrounding supply. As a result, inflation accelerated, mainly in the United States and the euro area. On the whole, these developments indicate subdued inflationary pressures of external origin in the coming quarters.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, growth rose in the second quarter by 2.2 percent year-on-year after 2 percent a quarter earlier, particularly due to improved household consumption, non-residential investment and exports. Similarly, growth increased in the euro area from 2 percent to 2.3 percent, with respective increases from 1.9 percent to 2.1 percent in Germany, 1.1 percent to 1.8 percent in France, 1.3 percent to 1.5 percent in Italy and from 3 percent to 3.1 percent in Spain.

In the same vein, growth in Japan, which reached 1.4 percent in the first quarter, strengthened to 1.6 percent year-on-year, largely owing to higher household consumption.

On the other hand, growth in the United Kingdom slowed to 1.7 percent in the second quarter against 2 percent the previous quarter, due to persisting uncertainties surrounding the Brexit and the risks of inflationary pressures.

Table 1.1: YoY change in quarterly growth

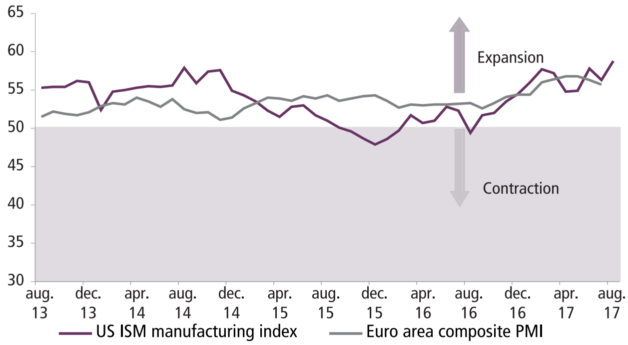
	2015		2016				2017	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Advanced economies								
United States	**2.4**	**2.0**	**1.4**	**1.2**	**1.5**	**1.8**	**2.0**	**2.2**
Euro area	**1.9**	**1.9**	**1.7**	**1.7**	**1.7**	**1.9**	**2.0**	**2.3**
France	0.8	1.0	1.2	1.2	0.9	1.2	1.1	1.8
Germany	1.8	1.3	1.8	1.9	1.9	1.9	1.9	2.1
Italy	0.7	1.0	1.1	0.8	1.0	1.2	1.3	1.5
Spain	3.4	3.6	3.4	3.4	3.2	3.0	3.0	3.1
United Kingdom	**1.9**	**1.7**	**1.6**	**1.7**	**2.0**	**1.9**	**2.0**	**1.7**
Japan	**2.0**	**1.1**	**0.5**	**0.9**	**1.0**	**1.7**	**1.4**	**1.6**
Emerging economies								
China	**6.9**	**6.8**	**6.7**	**6.7**	**6.7**	**6.8**	**6.9**	**6.9**
India	**8.2**	**7.3**	**8.7**	**7.6**	**6.8**	**6.7**	**5.6**	**5.6**
Brazil	**-4.5**	**-5.8**	**-5.4**	**-3.6**	**-2.9**	**-2.5**	**-0.4**	**0.3**
Turkey	**5.8**	**7.5**	**4.8**	**4.9**	**-0.8**	**4.2**	**5.2**	**5.1**
Russia	**-2.7**	**-3.2**	**-0.4**	**-0.5**	**-0.4**	**0.3**	**0.5**	**2.5**

Source : Thomson Reuters Eikon.

In emerging and developing countries, growth stagnated in China in the second quarter to 6.9 percent year-on-year. Similarly, in India, growth stood at 5.6 percent, still due to the demonetization process. For the other emerging countries, Brazil recorded its first growth increase since the second quarter of 2014, reaching 0.3 percent, after -0.4 percent the previous quarter. In Russia, the positive trend was confirmed in the second quarter as growth rose to 2.5 percent, from 0.5 percent a quarter earlier.

With respect to high-frequency indicators, the US manufacturing ISM index was up from 56.3 points to 58.8 points in August. For the euro area, data available for the composite PMI index show a drop to 55.7 points in July after 56.3 points the previous month.

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



Source : Thomson Reuters Eikon.

1.1.2 Labor market

In the United States, unemployment rate rose slightly in August to stand at 4.4 percent, with 156,000 new jobs created, as against 189,000 in July. In the euro area, it stabilized at 9.1 percent in July, covering a drop from 3.8 percent to 3.7 percent in Germany, stagnation at 17.1 percent in Spain and a rise from 9.6 percent to 9.8 percent in France and from 11.2 percent to 11.3 percent in Italy. In the United Kingdom, figures for May indicate that unemployment rate has stagnated at 4.4 percent.

Table 1.2: Change in unemployment rate (%)

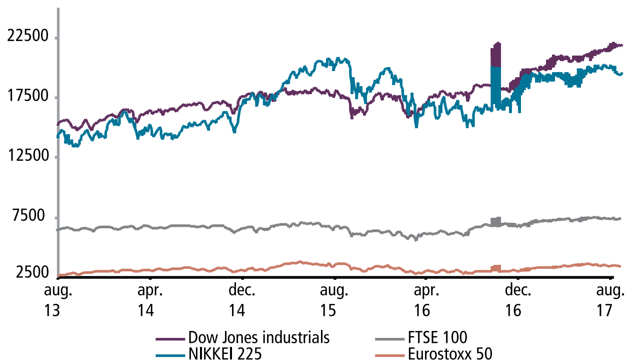
	2015	2016	2017		
			june	july	august
United States	**5.3**	**4.9**	**4.4**	**4.3**	**4.4**
Euro area	**10.9**	**10**	**9.1**	**9.1**	**n.a**
France	10.4	10.1	9.6	9.8	n.a
Italy	11.9	11.7	11.2	11.3	n.a
Germany	4.6	4.1	3.8	3.7	n.a
Spain	22.1	19.6	17.1	17.1	n.a
United Kingdom	**5.3**	**4.8**	**n.a**	**n.a**	**n.a**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

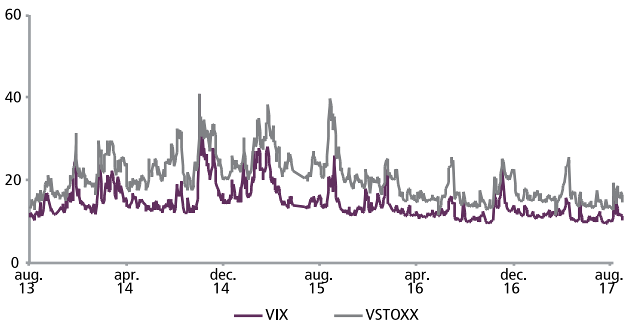
Major stock markets indexes of advanced economies recorded, between July and August, a 1.6 percent increase for the Dow Jones and a 0.2 percent rise for the FTSE 100, as against a 1.9 percent decrease for the NIKKEI 225 and a 0.9 percent drop for the Eurostoxx. On the other hand, volatility rose in August, as the VIX rose from 10.3 to 11.9 basis points and the VSTOXX grew from 14 to 15.6 basis points.

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 by 2.8 percent, particularly reflecting increases in the indexes of China, Turkey, and India, by 6 percent, 4.9 percent and 1.4 percent respectively.

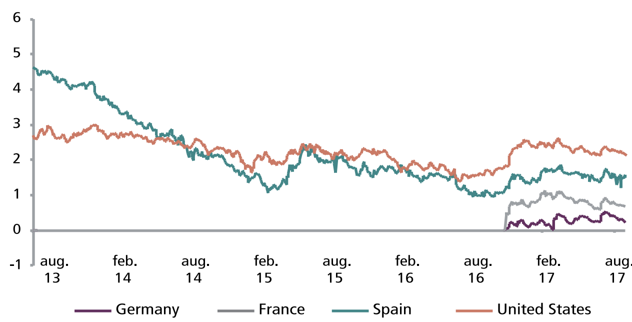
As concerns bond markets, the 10-year yield rate declined overall between July and August in advanced economies. Hence, it decreased from 0.5 percent to 0.3

percent in Germany, from 0.8 percent to 0.7 percent in France, from 1.6 percent to 1.5 percent in Spain and from 2.2 percent to 2 percent in Italy, while it fell from 5.3 percent to 5.4 percent for Greece. On the other hand, rates for the US Treasury bills declined from 2.3 percent to 2.2 percent.

With regard to the major emerging economies, the 10-year yield rate decreased from 10 percent to 9.8 percent for Brazil, while it rose slightly from 3.6 percent to 3.7 percent for China. It stabilized at 10.4 percent and 6.5 percent respectively for Turkey and India.

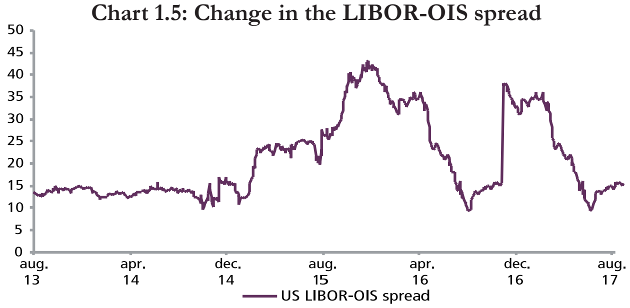
On the money market, the 3-month Euribor stagnated between July and August at -0.33 percent and the 3-month Libor stood at 1.3 percent, while the Libor-OIS dollar spread increased from 14.2 to 15.2 basis points. With regard to bank credit, its yearly change rate in the US recorded, between July and August, a slight decrease from 3.6 percent to 3.5 percent and fell, in the euro area, from 2.3 percent to 2.2 percent between June and July.

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



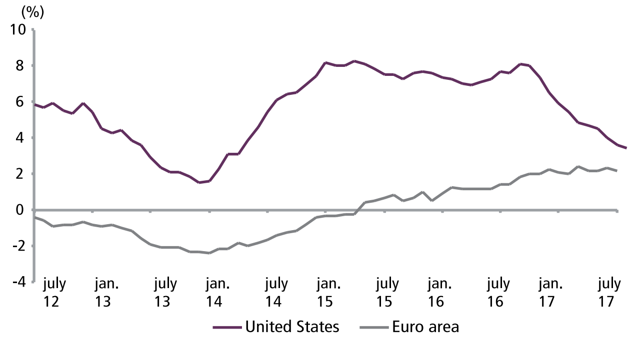
Source: Thomson Reuters Eikon.

Chart 1.5: Change in the LIBOR-OIS spread



Source: Thomson Reuters Eikon.

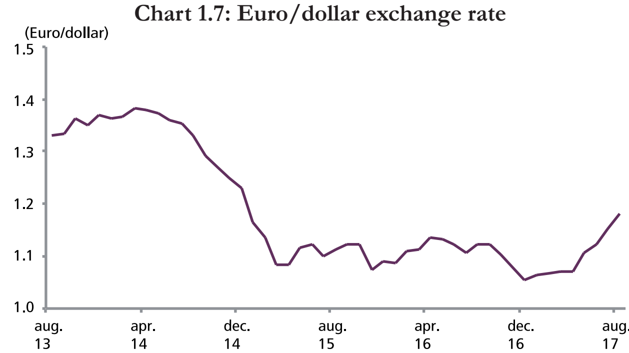
Chart 1.6: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

On the exchange markets, the euro rose by 2.5 percent against the dollar between July and August, standing at $1.18. Similarly, it appreciated by 2.9 percent against the pound sterling and 0.1 percent against the Japanese yen. As for the currencies of the main emerging countries, the Brazilian real, the Turkish lira and the Chinese yuan appreciated against the dollar by 1.5 percent and the Indian rupee rose by 0.7 percent.

Chart 1.7: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

In this context, central banks of the main advanced countries kept their rates unchanged. The FED decided at its September meeting to maintain the target range of its policy rate between 1 percent and 1.25 percent, taking into account current and expected labor market conditions and inflation. The Fed pointed out that the monetary policy stance remains accommodative, thus fostering further improvement of the labor market conditions and a sustained return of inflation to its target. It also announced that the standardization program raised in its June 2017 meeting will start in October.

Similarly, the ECB decided on 7 September to keep the policy rate unchanged at 0 percent, indicating that it expects the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases. With regard to unconventional monetary policy measures, the ECB confirmed that the net asset purchases, at the current monthly pace of €60 billion, are intended to run until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. Besides, the ECB stated that if the outlook becomes less favorable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, the Governing Council stands ready to increase the program in terms of size and/or duration.

On the other hand, the Bank of England decided on 14 September to keep its key rate unchanged at 0.25 percent. It also decided to maintain the stock of sterling non-financial investment-grade corporate bond purchases at £10 billion, and that of UK government bond purchases at £435 billion.

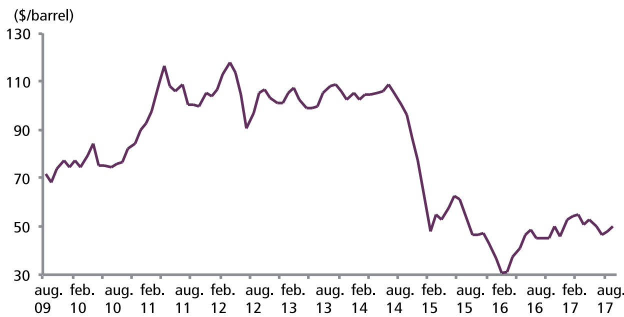
In emerging countries, the Central Bank of Brazil decided on September 6 to reduce its key rate by 1 percentage point to 8.25 percent, while stating that all the indicators of economic activity reveal a gradual recovery of the Brazilian economy. Similarly, the Reserve Bank of India decided, on August 2, to lower its rate from 6.25 percent to 6 percent. Moreover, the Central Bank of Russia decided on 15 September to reduce its key rate by 50 basis points to 8.50 percent, reporting that inflation is close to the target level of 4 percent and that the economy is pursuing its recovery.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

The sharp decline of oil stocks in the United States, following the Harvey hurricane which affected oil infrastructure, added to the 9-month extension1of OPEC and non-member countries agreement to cut the oil supply, raised the price of oil2 to an average of $ 50.1 per barrel in August, up 4.6 percent from July and 10.7 percent year-on-year.

Chart 1.8: World price of Brent oil in dollar

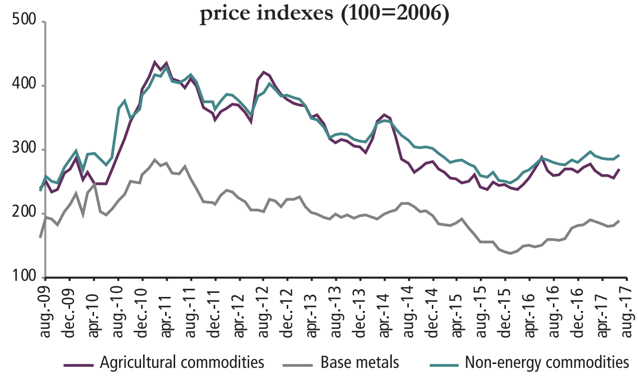


Source : Thomson Reuters Eikon.

1.3.2 Non-energy commodity prices

Price rise also affected non-energy products, as the Dow Jones-UBS index strengthened in August by 4.3 percent year-on-year. This change reflects, on the one hand, a strong increase of 28.3 percent in base metal prices and, on the other hand, a 1.7 percent decrease in the price index for agricultural products.

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

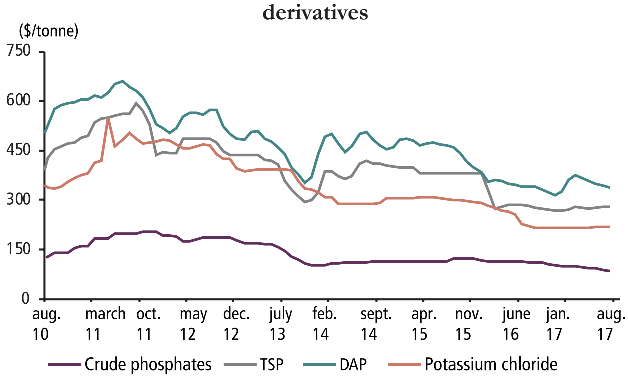


Source : Thomson Reuters Eikon.

1 As of July 2017.
2 Average price of the Brent of the UK, of Dubai Fateh, and of West Texas Intermediate (WTI).

In the global market for phosphates and derivatives, prices fell 2.3 percent to $86 per tonne between July and August for crude oil, by by 1.5 percent to $ 338 per tonne for DAP and by 0.5 percent to $217 per tonne for Potassium Chloride. In contrast, Urea increased by 7.6 percent to $199 per tonne, while the price of the TSP stagnated at $280 per tonne. Year-on-year, prices declined 22.5 percent for Crude Phosphate, 1.4 percent for Potassium Chloride, 1.1 percent for TSP and 0.6 percent for DAP. On the other hand, the price of Urea rose by 9.3 percent. As for prices of Durum wheat, although up 14.7 percent year-on-year, they dropped by 15.5 percent on a month-on-month basis.

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

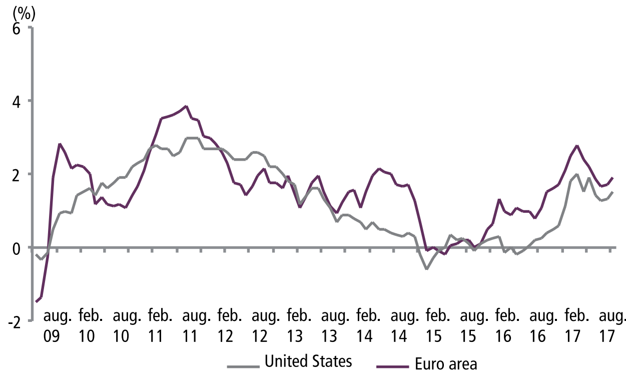


Source: World Bank.

1.3.3 Inflation in the world

In the euro area, the inflation rate rose from 1.3 percent to 1.5 percent in August, as a result of the increases from 1.5 percent to 1.8 percent in Germany, from 0.8 percent to 1 percent in France, by 1.7 percent to 2 percent in Spain and from 1.2 percent to 1.4 percent in Italy. In the other major advanced economies, inflation was up in the United States and the United Kingdom to 1.9 percent and 2.9 percent respectively in August. In Japan, the latest available data show a slight increase in inflation in July at 0.5 percent. In the main emerging countries, price rise speeded up in August to 1.8 percent in China and 3.4 percent in India, while it fell to 3.3 percent in Russia and 2.5 percent in Brazil.

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



Source : Eurostat and BLS.

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

	2015	2016	2016/2017 june	2016/2017 july	2016/2017 august
United States	**0.1**	**1.3**	**1.6**	**1.7**	**1.9**
Euro area	**0.0**	**0.2**	**1.3**	**1.3**	**1.5**
Germany	0.1	0.4	1.5	1.5	1.8
France	0.1	0.3	0.8	0.8	1.0
Spain	-0.5	-0.2	1.6	1.7	2.0
Italy	0.1	-0.1	1.2	1.2	1.4
United Kingdom	**0.1**	**0.6**	**2.6**	**2.6**	**2.9**
Japan	**0.8**	**-0.1**	**0.3**	**0.5**	**n.d.**

Source : Thomson Reuters Eikon and IMF.

2. EXTERNAL ACCOUNTS

At the end of the first half of 2017, exports growth rate strengthened by 7 percent, mainly due to the good performance of sales in the sectors of "Agriculture and agri-food" and "phosphates and derivatives". As for imports, they grew by 7.4 percent, mainly driven by higher energy bills. As a result, the trade balance rose from 6.9 billion to 93.8 billion, thus reducing the coverage rate to 57 percent. Transfers from Moroccan expatriates and travel receipts almost stabilized at their 2016 level. At the financial level, taking into account an FDI inflow of 17.5 billion Dirhams and the outflows in Moroccan investments abroad, reaching 5.9 billion Dirhams, net international reserves contracted significantly at the end of June to 205.7 billion, equivalent to 5 months and 9 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

Exports improvement in the first six months of 2017 is largely attributable to a 9.6 percent increase in sales in agriculture and agri-food sectors. Besides, sales of phosphates and derivatives rose by 8.4 percent, to reach 21.3 billion. By product, exports of phosphate derivatives grew by 7.6 percent as against 11.9 percent for crude phosphate exports, essentially due to the higher quantities shipped.

Sales in the automotive and in the textile and leather sectors were recorded a slight surge, reaching 2.3 percent and 2.1 percent, respectively.

Table 2.1: Change in exports

Sectors/ Segments	june-17	june-16	Change	
			Value	In %
Exports (FOB)	**124 093**	**115 974**	**8 119**	**7.0**
Automobile	29 771	29 110	661	2.3
Agriculture and Agribusiness	28 435	25 949	2 486	9.6
Phosphates and derivatives	21 302	19 647	1 655	8.4
Textile and leather	18 772	18 392	380	2.1
Aeronautics	5 073	4 556	517	11.3
Electronics	4 658	4 388	270	6.2
Pharmaceutics	599	557	42	7.5
Others	15 483	13 375	2 108	15.8

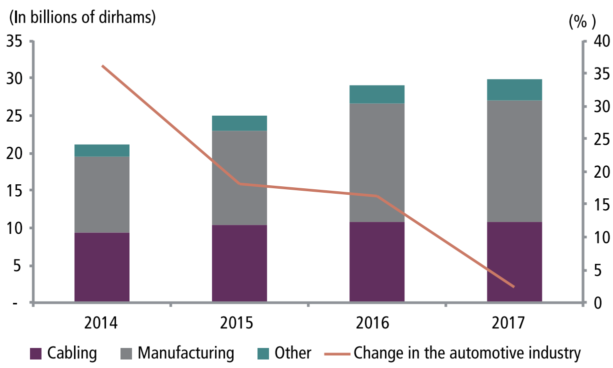
Source: Foreign Exchange Office.

Table 2.2: Change in the exports of phosphates and derivatives (YoY, in %)

	june 2017/june 2016		
	Value	Quantity	Price
Crude phosphates	11.9	41.9	-21.1
Natural and chemical fertilizers	22.2	30.9	-6.6
Phosphoric acid	-15.5	-2.2	-13.6

Source: Foreign Exchange Office.

Chart 2.1: Breakdown of automotive industry's exports between 2014 and 2017, at end of june



Source: Foreign Exchange Office.

2.1.2 Imports

Higher imports mainly reflect a 36.2 percent increase in the energy bill to 33.6 billion, as they grew by 47 percent for gas oil and fuel oil and by 28.1 percent for petroleum gas, mainly due to the price rise.

Capital goods acquisitions, which were up 13 percent in 2016, increased by 5.8 percent to 57.8 billion, including a 35.5 percent rise in the purchases of machinery and various apparatus. For other imports, consumer goods increased by 2.5 percent and semi-finished products by 2.2 percent, while food purchases remained virtually stable at 23.3 billion, mainly resulting from the decline recorded in the purchases of wheat and the increase of those of sugar and corn.

Thus, the trade deficit amounted to 93.8 billion dirhams, 8 percent or 6.9 billion higher year-on-year, and the coverage rate dropped from 57.2 percent to 57 percent at the end of June 2017.

Table 2.3 : Change in imports

Products group	june 2017	june 2016	Change	
			Value	In %
Imports (CIF)	**217 859**	**202 803**	**15 056**	**7.4**
Energy products	33 578	24 657	8 921	36.2
Equipment goods	57 808	54 636	3 172	5.8
Raw products	10 041	9 240	801	8.7
Finished consumer goods	44 506	43 437	1 069	2.5
Semi- finished products	48 575	47 525	1 050	2.2
Food products	23 269	23 285	-16	-0.1

Source: Foreign Exchange Office.

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

	june 2017/june 2016		
	Value	Quantity	Price
Wheat	-16.3	-26.3	13.6
Gas oils and fuel oils	47.0	10.5	33.0
Petroleum gaz and other fuel	28.1	-1.6	30.3
Crude and unrefined sulfur	-12.6	1.4	-13.8

Source: Foreign Exchange Office.

2.2 Other components of the current account

Concerning the balance of services, travel receipts virtually stabilized at 26.3 billion, while their expenditures grew 20.1 percent to 7.8 billion. In the transport services, revenues and expenditure increased by 6.1 percent and by 19.6 percent respectively. Overall, the balance of services resulted in a surplus of 27 billion dirhams, down 7.1 percent compared to the same half of 2016.

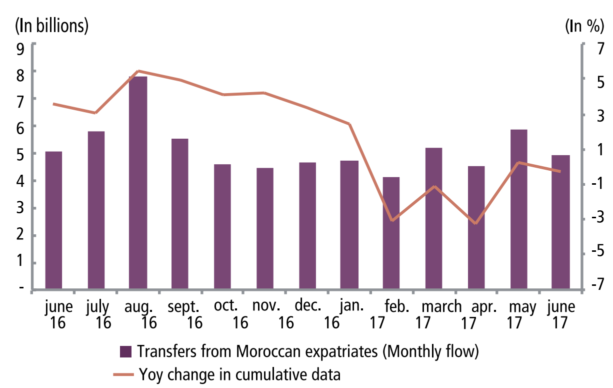
Expatriates remittances, which rose 4.7 percent in the first six months of 2016, stabilized at 29.3 billion dirhams.

Table 2.5: Change in the balance of services

(In millions of dirhams)	june 2017	june 2016	Change	
			Value	In %
Imports	**44 012**	**41 107**	**2 905**	**7.1**
Transport services	18 228	15 246	2 982	19.6
Travel	7 847	6 534	1 313	20.1
Exports	**71 008**	**70 161**	**847**	**1.2**
Transport services	13 215	12 450	765	6.1
Travel	26 327	26 468	-141	-0.5
Balance	**26 996**	**29 054**	**-2 058**	**-7.1**

Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

2.3 Financial account

FDI Net inflows increased by 2.4 billion dirhams, mainly as a result of the $2.5 billion-lower disinvestments. Moroccan investments abroad improved by 5.7 billion, owing to their 5.9 billion dirham-higher investments abroad. Given these developments and those of other financial transactions, net international reserves declined by 14.7 percent year-on-year to 205.7 billion dirhams, equivalent to 5 months and 9 days of imports of goods and services.

Data at end-August indicate a 0.6 percent decline in imports of capital goods and a trade deficit of 4 percent, instead of 8 percent at the end of June. Travel receipts were up 4.9 percent, while expatriates remittances' increase was limited to 2.7 percent. Taking into account an FDI net inflow of 17.7 billion dirhams and banks purchase of foreign currencies for their hedging purposes, outstanding net international reserves stood at 217.3 billion dirhams, covering 5 months and 16 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

During the second quarter of 2017, monetary conditions eased down as a result of real effective exchange rate depreciation and lending rates decrease. Consequently, growth rate of credit to the non-financial sector continued to improve, particularly reflecting a more rapid lending to private enterprises. As for other money supply counterparts, net international reserves declined, marking a break with the upward trend observed since June 2013, and net claims on central government increased almost at the same rate as in the previous quarter. Overall, money supply growth pace slowed from 6 percent in Q1-2017 to 5.3 percent in Q2-2017 and the monetary gap remained negative.

On the asset markets, real estate prices in the second quarter declined by 1.3 percent quarter-on-quarter. This drop, the first since the Q3-2015, affected all asset classes. Besides, transactions increased by 0.8 percent, mainly due to higher apartment sales. On the stock market, after declining by 2.3 percent in the first quarter, MASI grew by 5.6 percent in the second quarter, bringing its performance from the beginning of the year to 3.2 percent. Transactions, on the other hand, reached an average of $ 14.5 billion in the first two quarters of 2017, higher than the $ 9.9 billion reported in the same period of the previous year.

Overall, recent developments in monetary and financial conditions do not suggest any inflationary pressures.

3.1 Monetary conditions

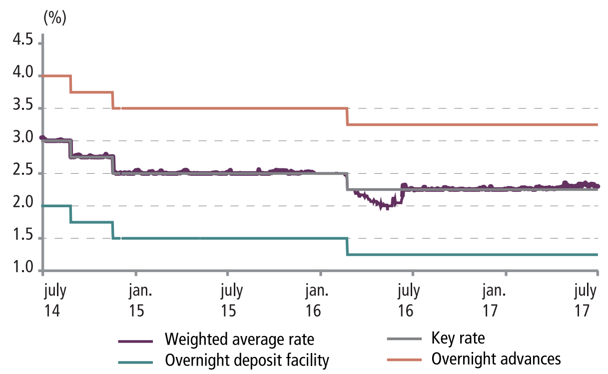
3.1.1 Bank liquidity and interest rates

During the second quarter of 2017, banks' liquidity needs grew to 34.9 billion Dirhams in average, mainly due to lower foreign exchange reserves. Hence, Bank Al-Maghrib raised its injections to 36.3 billion, including 30.1 billion in 7-day advances and 4.5 billion in secured loans, granted as part of the VSMEs financing support program.

The latest data available for July and August indicate that liquidity deficit has widened to reach an average of 68.5 billion.

Against this background, the interbank rate increased slightly to 2.29 percent in the second quarter and to 2.31 percent on average in July and August. Treasury bills were issued in the second quarter at slightly lower rates for short and medium maturities. In the secondary market, the same trend was observed for short and medium-term maturities, whereas long-term rates trended upward. In July, rates recorded a slight increase overall.

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

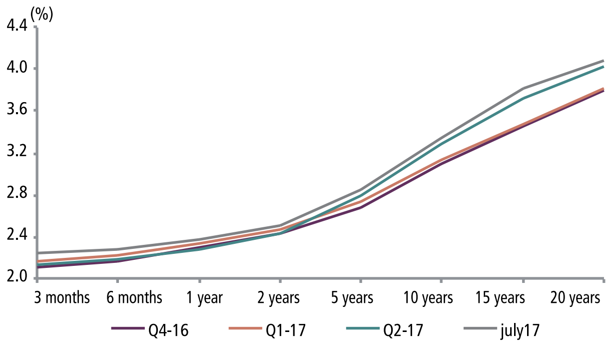


Source : BAM.

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

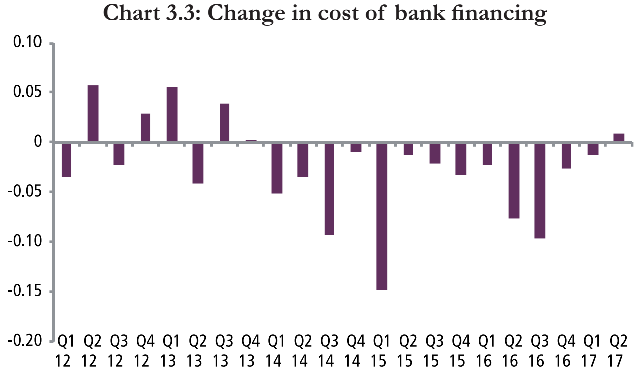
	2015		2016				2017		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	july
52 weeks	2.60	2.60	2.57	1.93	2.33	2.30	2.32	2.26	-
2 years	2.74	2.80	2 .63	2.05	2.48	2.44	2.52	2.41	2.50
5 years	3.17	3.14	2.92	2.30	2.71	2.69	2.83	2.78	2.84
10 years	3.39	3.61	3.48	2.87	3.22	3.08	3.27	3.27	-
15 years	4.06	4.05	3.77	3.22	-	-	3.87	3.87	3.88

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



In the other markets, rates payable on certificates of deposit issued did not vary significantly from the previous quarter. In fact, one-year deposit rates decreased by 10 basis points in the second quarter to 3.10 percent, while those for 6-month deposits fell by 5 points to 2.80 percent. Under these conditions, banks financing cost1 remains close to its level observed during the last two quarters.

Chart 3.3: Change in cost of bank financing



With regard to lending rates, the weighted average rate in Q2-2017 dropped by 22 basis points to reach 5.26 percent. This change mainly reflects the 24-point drop in rates on loans to companies, and the 25-point decrease in cash advances. As for loans to individuals, their rates fell by 12 percentage points, further to lower rates on housing loans.

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

Table 3.2 : Change in lending rates

	2015		2016				2017	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Overall rate	**5.67**	**5.49**	**5.55**	**5.25**	**5.08**	**5.17**	**5.48**	**5.26**
Enterprises	**5.60**	**5.42**	**5.44**	**5.15**	**4.98**	**5.08**	**5.41**	**5.17**
Cash advances	5.61	5.44	5.38	5.11	4.94	5.19	5.44	5.19
Equipment loans	5.34	4.74	5.50	4.94	4.87	4.40	4.76	4.87
Real estate loans	6.31	6.28	6.33	6.10	5.73	5.69	5.86	5.78
Personal loans	**6.11**	**6.14**	**6.02**	**5.72**	**5.78**	**5.71**	**5.88**	**5.76**
Real estate loans	5.19	5.17	5.00	4.96	4.94	4.83	4.88	4.75
Consumer loans	7.08	7.12	6.91	6.63	6.64	6.64	6.71	6.67
Individual entrepreneurs	**8.33**	**8.45**	**7.93**	**7.54**	**6.89**	**7.44**	**8.08**	**7.82**

Source : BAM.

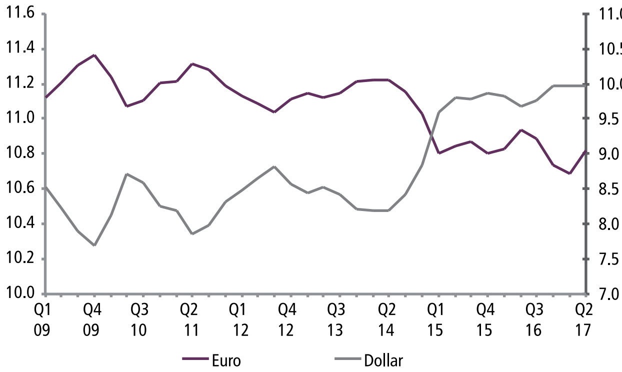
Table 3.3: Deposit rates

	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
6 months	3.64	3.60	3.56	3.46	3.31	3.18	2.94	2.90	2.86	2.80
12 months	3.85	3.83	3.74	3.78	3.67	3.55	3.33	3.30	3.20	3.10

3.1.2 Exchange rate

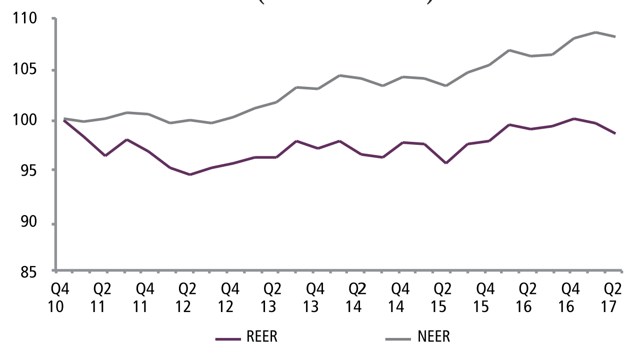
During the second quarter of 2017, the euro appreciated by 3.3 percent against the US dollar, standing at 1.10. Thus, the Dirham depreciated by 1.29 percent against the euro and appreciated by 1.97 percent against the US dollar. Compared to the currencies of the main emerging countries, the national currency appreciated 4.24 percent vis-à-vis the Brazilian real and by 1.52 percent against the Chinese yuan. On the other hand, it depreciated by 1.91 percent against the Indian rupee and 1.34 percent against the Turkish lira. Consequently, the effective exchange rate fell by 0.4 percent in nominal terms and by 1.1 percent in real terms, due to a generally lower inflation in Morocco, compared to partner and competing countries.

Chart 3.4: Change in the exchange rate of the dirham



Source : BAM.

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



Sources : BAM and IMF calculations.

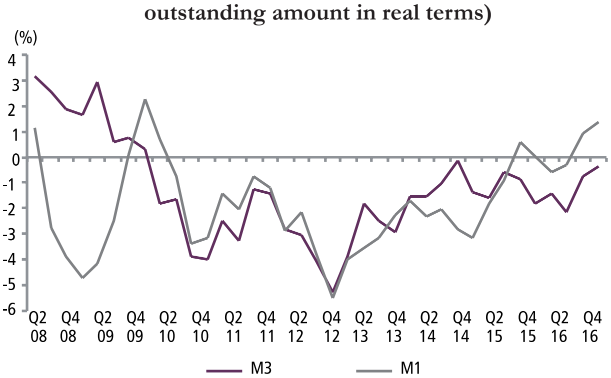
On the foreign exchange market, banks sales to customers increased by 17.1 percent for spot transactions and by 87 percent for forward transactions to reach 27.5 billion and 13 billion respectively. At the same time, spot purchases increased by 6.8 percent to 22.7 billion while forward purchases rose by 18 percent to 4.6 billion. Bank operations with Bank Al-Maghrib, on average, amounted to 14.9 billion dirhams, as against $1.8 billion in the first quarter. Under these conditions, banks' net foreign exchange position stood at 1.6 billion at the end of June, compared to -6.5 billion at end-March. It has improved significantly in recent months to 3.5 billion at the end of July and 6.9 billion at the end of August.

3.1.3 Monetary position

The annual growth rate of money supply fell from 6 percent in the first quarter to 5.3 percent in the second quarter. Analysis of the M3 components shows that demand deposits were down from 8.2 percent to 7.6 percent, reflecting a deceleration in demand deposits of the public sector from 45.2 percent to 32.9 percent and a drop from 6.8 percent to 5.8 percent in those of private enterprises, while rates payable on households demand deposits remained almost stable at 6.9 percent. Similarly, the growth rate of money market fund shares/units decreased from 16.5 percent to 2.3 percent and that of foreign exchange deposits declined from 9.5 percent to 1.2 percent. Term deposits, on the other hand, fell by 7.3 percent after 9.1 percent, due to the slower declines from 40.5 percent to 3.8 percent in those of public enterprises and from 22 percent to 16.8 percent in those of private enterprises. As for the currency in circulation, its growth accelerated from 5.7 percent to 6.6 percent.

By counterparts, the evolution of M3 reflects a 6.3 percent decline in net international reserves after a 6.9 percent increase in the previous quarter. On the other hand, the growth rate of bank credit accelerated from 4.2 percent to 5.5 percent while that of net claims on central government remained virtually unchanged at 10.1 percent.

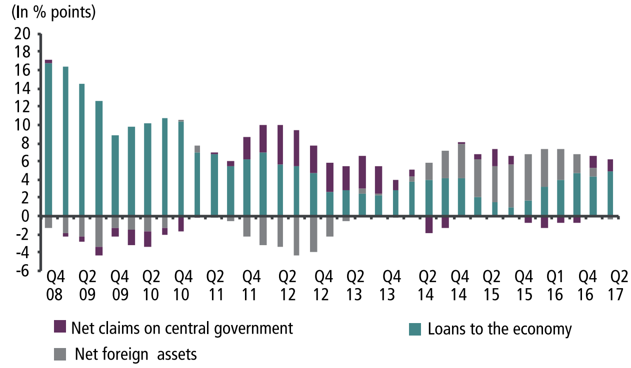
Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



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.

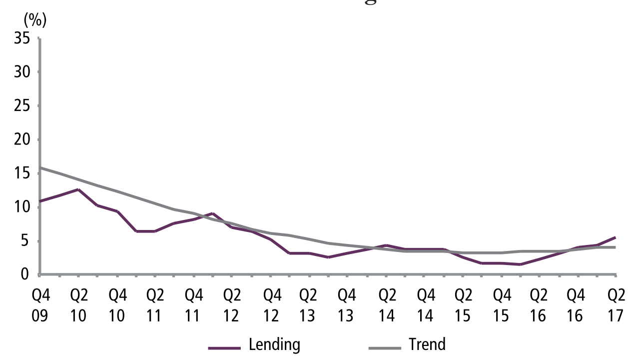
Source : BAM.

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



Source : BAM.

Chart 3.8: YoY change in credit



Source : BAM.

With regard to loans to nonfinancial sector in particular, its pace accelerated from 3 percent in the first quarter to 3.6 percent in the second quarter, due to more rapid growth of loans to private companies as well as to individual entrepreneurs.

These developments occurred in a context where conditions of granting loans to nonfinancial agents improved. According to Bank Al-Maghrib's survey on loan granting conditions, conducted in the second quarter of 2017, this easing has probably resulted from banks competition and would have occasioned lower interest rates and less guarantee requirements. Demand would have been stagnant compared to the previous quarter.

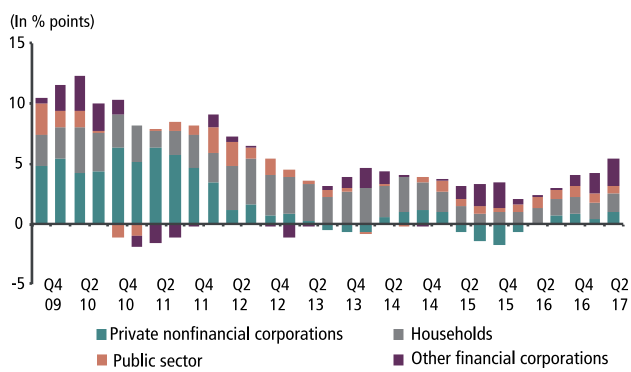
As a result, outstanding loans to private enterprises increased by 2.6 percent, as against 0.9 percent, reflecting a more rapid growth rate of equipment loans from 2.3 percent to 4.7 and a slower decrease of treasury facilities from 4.7 percent to 0.2 percent, while the growth rate of loans for property development slowed down from 4 percent to 2.8 percent. Similarly, loans granted to individual entrepreneurs continued to improve, and rose 5.6 percent versus 5 percent in the first quarter of 2017. This development includes a slower decrease of loans for property development, from 10.7 percent to 6.9 percent, and a deceleration from 44 percent to 30.1 percent in equipment loans.

As concerns loans to public companies, their growth rate fell from 12.6 percent to 7.7 percent, as a result of the downturn from 8.2 percent to 6.8 percent for equipment loans and from 29.6 percent to 5.9 percent for cash advances.

By sector, improvement of loans granted to businesses mainly reflects a 0.6 percent increase in loans to "Manufacturing industries" and a 3.9 percent rise in loans to the "Electricity, gas and water" sector, after their respective decreases by 2.2 percent and 1.2 percent. Similarly, loans to «Transport and Communications" and "Trade, automotive and Household Goods repair" sectors increased by 10 percent and 5 percent, respectively, against 5 percent and 2.1 percent quarterly.

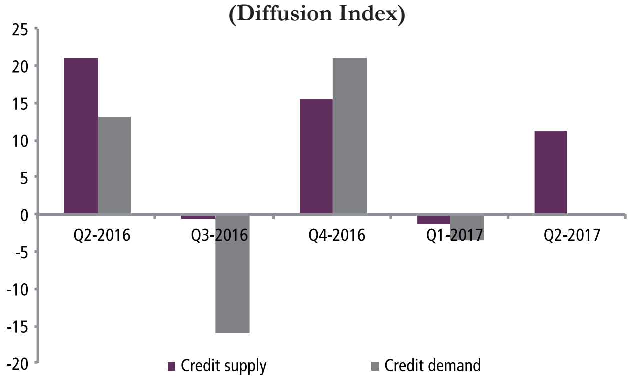
As for loans to individuals, their growth pace remained virtually unchanged at 4 percent. In fact, housing loans have particularly stabilized at 4.6 percent while consumer loans decelerated from 4.6 percent to 3.6 percent.

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



As for nonperforming loans, their rise was limited to 3.3 percent instead of 6.9 percent the previous quarter, reflecting a 1.9 percent decrease of those granted to private nonfinancial companies, after their 7.2 percent rise, while those of households increased by 11.3 percent as against 5.2 percent. As a result, the ratio of nonperforming loans to bank loans declined from 7.8 percent to 7.6 percent.

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



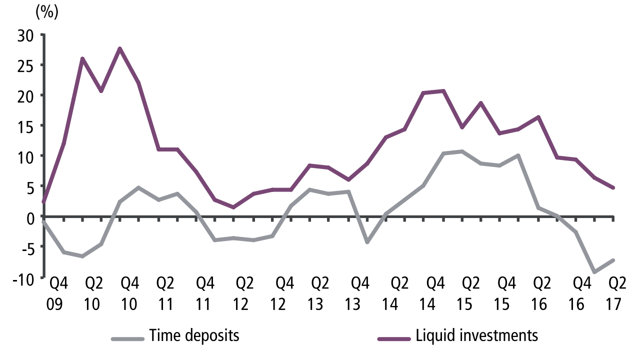
The latest available data for July 2017 indicate a further improvement in bank credit, up 5.8 percent after 5.5 percent in the second quarter. Loans to the nonfinancial sector accelerated to 4.3 percent as a result of increases by 5.1 percent in loans to businesses and by 4.2 percent in loans to individuals.

Loans granted to the nonfinancial sector by other financial corporations, not included in the monetary position2, progressed by 5.3 percent after 7.6 percent in the first three months of 2017. This change reflects slower paces of loans distributed by finance companies from 6.4 percent to 5.1 percent and of loans granted by offshore banks from 20.7 percent to 10 percent.

Growth rate of liquid investment aggregates rose from 6.3 percent to 4.6 percent in the second quarter, mainly as a result of the deceleration, from 5.3 percent to 4 percent, in the growth rate of T-bonds. Similarly, bond UCITS securities slowed down from 2.7 percent to 1.1 percent and those of equity and diversified UCITS dropped from 40.7 percent to 33.9 percent.

2 Loans granted by financing companies, offshore banks and microcredit associations.

Chart 3.11: YoY change in liquid investments and time deposits



3.2 Asset prices

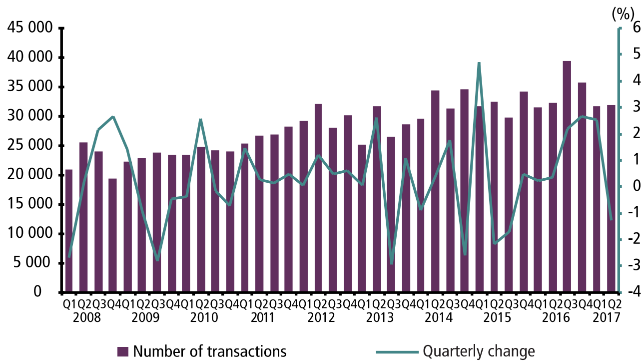
3.2.1 Real estate assets

In the second quarter, the REPI broke with its upward trend started since the second quarter of 2015, and fell 1.3 percent quarter to quarter. This decline affected all assets classes, as decrease rates reached 0.5 percent for apartments, 0.8 percent for land and 4.7 percent for commercial premises.

Under these conditions, the number of transactions rose by 0.8 percent after the declines recorded in the previous two quarters. This increase reflects the 4.9 percent rise in apartment sales. On the other hand, the number of transactions on land and commercial premises decreased anew with 5.7 percent and 11.2 percent respectively.

Except for Marrakesh and Casablanca, where prices were virtually stagnant, the price index fell in most other major cities, with rates ranging from 2.7 percent in Agadir to 4.2 percent in Rabat. As for the number of transactions, it has experienced differentiated trends from one city to another, with increases ranging from 4 percent in Casablanca to 21.5 percent in Rabat, and decreases varying between 6.4 percent in Fez and 12 percent in El Jadida.

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



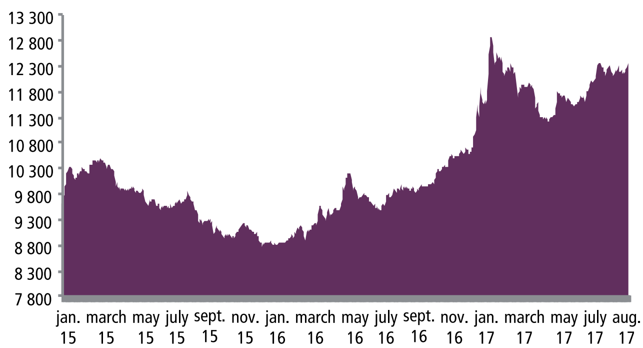
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

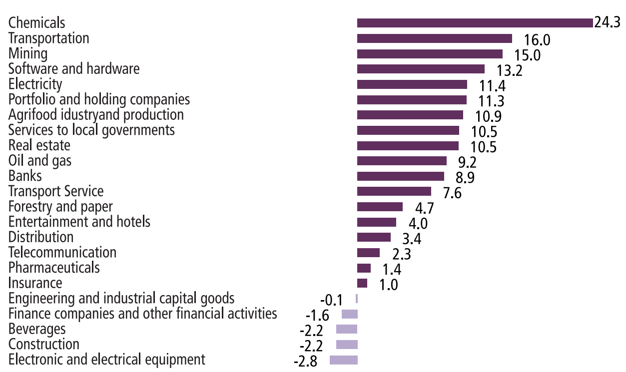
After the 2.3 percent decline in the first quarter of 2017, MASI rebounded by 5.6 percent in the second quarter of the year.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Contribution of sectoral indexes in Q2-2017 (in %)



Source : Casablanca Stock Exchange.

This performance is mainly attributable to the 8.9 percent increase in the banking sector index, after its 5.1 percent decline a quarter earlier. For the other main sectors, the indexes increased by 10.9 percent for the "agri-food" industry, by 10.5 percent for the "real estate", by 2.3 percent for "telecommunications" while they decreased by 2.2 percent for "buildings and building materials".

The volume of transactions reached an average of $14.5 billion in the first two quarters of 2017, higher than the $ 9.9 billion reported in the same period of the previous year. More particularly, the volume of transactions in the central market reached 11 billion in the first half of 2017 against 7.9 billion in the first two quarters of 2016.

Against this background, market capitalization stood at 605.4 billion dirhams, up 5.4 percent from the first quarter and 3.8 percent from end-2016.

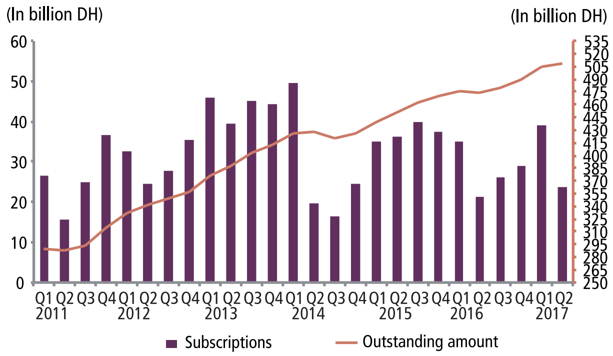
Recent data at the end of August indicate a 1.6 percent rise in the MASI and an average transaction volume of 4 billion between July and August.

3.2.2.2 Treasury bonds

Treasury issues in the domestic market reached $ 23.9 billion in the second quarter of 2017, as against $ 39 billion in the first quarter. They concerned, at 77 percent, average maturities and were carried out at slightly lower rates.

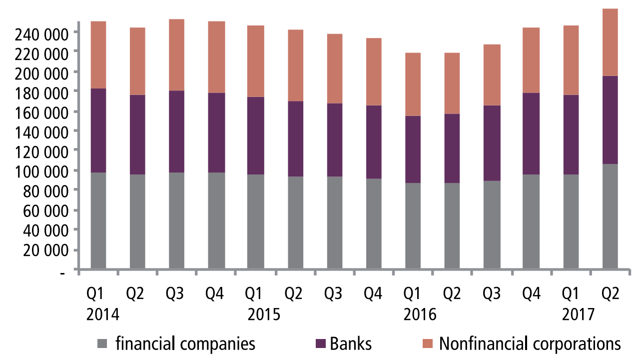
In July, Treasury issues stood at 6.5 billion and concerned, at 95 percent, average maturities. Taking into account a repayment amount of 5.9 billion dirhams, outstanding treasury bills amounted to 509.8 billion at the end of July, up 4 percent compared to the end of December.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

Chart 3.16: Change in outstanding private debt per issuer (In billions of dirhams)



Sources : Maroclear and BAM calculations.

3.2.2.3 Negotiable debt securities

In the private debt market, issues amounted to 24.9 billion dirhams after 12.8 billion in the first quarter of 2017 and were largely issued as certificates of deposit. The latter were issued at 13.1 billion against 2.1 billion for the bills of financing companies. These issues were carried out with slightly lower rates.

With regard to the nonfinancial companies, their issues were limited to 4.3 billion dirhams after 6.5 billion in the first quarter, of which 2.2 billion were issued on the T-bills market. These emissions were made with overall slightly lower rates.

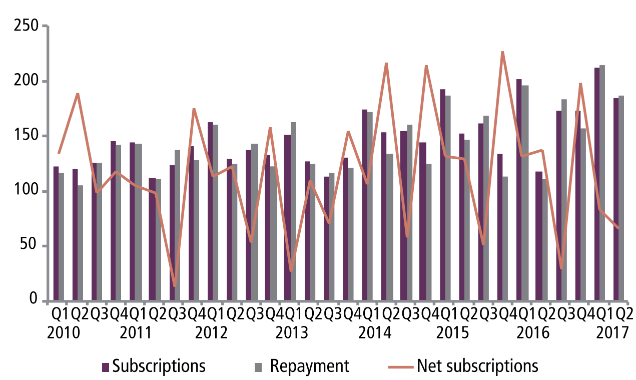
In July 2017, issues of private debt securities concerned negotiable debt securities at 3.1 billion, of which 2.5 billion as certificates of deposit. They were carried out mainly on average maturities at slightly lower levels compared to the previous month. T-bills issued reached 625 million, whereas no bond issue was carried out.

Taking account of repayments, the outstanding amount of private debt, 63.4 percent of which was made of bonds, stood at 171.3 billion in July, up 6 percent compared to end-December 2016.

3.2.2.4 Mutual fund shares/units

In Q2-2017, subscriptions to mutual fund shares/units totaled 183.9 billion dirhams and redemptions reached 185.4 billion Euros, equaling a net outflow of 4.6 billion euros. Taking into account a 3 percent appreciation in the performance index, net assets of mutual funds amounted to 386 billion dirhams at the end of August, up 2.8 percent compared to the end of December. Net assets of Equity UCITS increased by 30.8 percent, as against 2.5 percent for short-term mutual funds shares/units and 2.3 percent for medium and long-term ones. On the other hand, money market fund assets decreased by 12 percent.

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



Source : Moroccan Stock Market Authority.

4. FISCAL POLICY STANCE

For the first seven months of 2017, budget execution was broadly in line with the Finance Act project, though at different levels according to headings. Expenditure on investment and domestic debt interest has been relatively rapid, while execution was rather slow for other goods and services. On the revenue side, tax revenues have been virtually in line, driven by the performance of corporate tax, which offset the low income of domestic VAT and Customs duties, while non-tax revenues were down, impacted by lower GCC donations.

Compared to the first seven months of 2016, budget execution continues to show a generally favorable trend, as the deficit decreased by 8.3 billion to 18.3 billion. This development is the result of higher revenues compared to expenses, as well as improved positive balance of the Treasury special accounts.

Regular resources increased by 4.7 percent, owing to improved tax receipts and lower non-tax revenues. Direct taxes rose by 10.5 percent, mainly reflecting higher CT revenues. Besides, income from indirect taxes also increased, albeit at a slower pace, thanks to the positive development of the VAT revenue. On the other hand, overall expenditure grew by 0.4 percent, due to higher subsidy costs and transfers to local authorities, as well as a to declining investment, expenditure on goods and services and debt interests. For its part, the balance of special Treasury accounts was positive at 6 billion, thus recording an improvement of 2.6 billion.

Given the 5.9 billion reduction in payment arrears, cash deficit stood at24.2 billion, down 1.4 percent from the same period in 2016. This gap, as well as the negative external net flow of 5 billion, was covered by domestic resources amounting to 29.2 billion. As a result, direct public debt outstanding amount would have increased by 2 percent from its level at the end of December 2016. As for financing costs on the Treasury bill market, weighted average rates recorded a slight increase on average during the first seven months of 2017 compared to the same period of 2016.

4.1 Current revenues

At the end of July 2017, current revenues improved by 4.7 percent to 144.8 billion, as non-tax revenues declined by 18.7 percent to 10.4 billion and tax revenues rose by 7.1 percent to 132.9 billion. The latter was mainly impacted by higher receipts of direct taxes and VAT.

Thus, proceeds from direct taxes increased by 10.5 percent to 55.6 billion, mainly due to the 18.8 percent rise in CT receipts to 30.4 billion. IT revenues increased by 1.8 percent to 23.9 billion, despite the decline in IT proceeds from real estate profits by 6.7 percent to 2.4 billion and in those from IT on salaries paid by the Personnel Expenditures Department by 8.1 percent to 4.8 billion.

On the other hand, indirect taxes increased by 6.1 percent to 61.8 billion, mainly reflecting the 6.8 percent rise in VAT receipts to 46.6 billion. Domestic VAT proceeds grew by 10.6 percent to 16.9 billion, taking into account the repayment of 4 billion, as against 5 billion at the end of July 2016. Similarly, import VAT revenues improved by 4.8 percent to 29.6 billion, considering the rise in VAT by 22.6 percent on energy products and by 2.3 percent on other products.

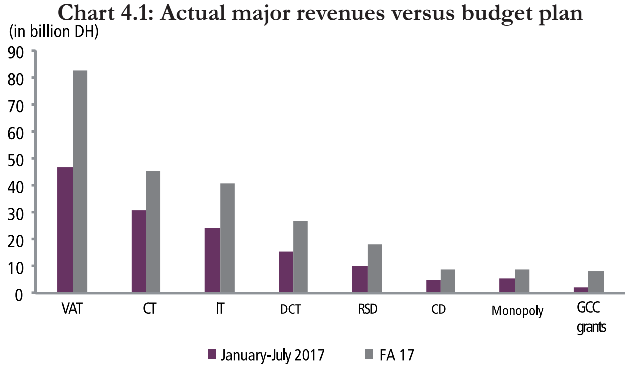
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. july 2016	Jan. july 2017	Change in %	FA 2017	Achievements against the FA (%)
Current revenues	**138.3**	**144.8**	**4.7**	**251.4**	**57.6**
Tax revenues	**124.1**	**132.9**	**7.1**	**225.8**	**58.8**
- Direct taxes	50.3	55.6	10.5	89.4	62.2
Including CT	25.6	30.4	18.8	45.6	66.8
I.T	23.5	23.9	1.8	40.9	58.5
- Indirect taxes	58.3	61.8	6.1	109.4	56.5
VAT*	43.6	46.6	6.8	82.8	56.2
DCT	14.7	15.3	3.9	26.6	57.4
- Customs duties	5.4	5.1	-6.2	8.9	56.9
- Registration and stamp duties	10.1	10.3	2.5	18.1	57.3
Nontax revenues	**12.8**	**10.4**	**-18.7**	**22.3**	**46.7**
- Monopoles	5.3	5.2	-3.7	9.1	56.8
- Other receipts	7.4	5.3	-29.4	13.2	39.7
Including GCC grants	2.6	1.9	-25.2	8.0	24.1
TSA receipts	**1.4**	**1.6**	**10.5**	**3.3**	**47.3**

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

DCT generated 5.3 billion in total, up 3.9 percent. This is mainly due to the 4.5 percent to a 9 billion increase in revenues of DCT on energy products and 1.8 percent to 5.4 billion in DCT on tobacco revenues. For their part, revenues from customs duties fell 6.2 percent to 5.1 billion, while registration and stamp duties provided revenues amounting to 10.3 billion, up 2.5 percent.

Chart 4.1: Actual major revenues versus budget plan



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.
Note :
-TVA : Value added tax
- IR : Income tax
- DET : Registration and stamp duties
- IS : Corporate tax
- TIC : Domestic consumption tax
- DD : Customs duties

Non-tax revenues stood at 10.4 billion, down 18.7 percent. This change is due to the decline observed in percent in GCC grants by 25.2 to 1.9 billion, while they were forecasted to reach 8 billion in the finance bill, in debt expenses mitigation revenues by 78.8 percent to 368 million and in monopoly revenues by 3.7 percent to 5.2 billion. The latter mainly derive from Maroc Telecom at 1.4 billion, the OCP at 1.3 billion, the ANCFCC at one billion and Bank Al-Maghrib at 386 million.

4.2 Public expenditure

Overall spending rose slightly by 0.4 percent to 169.1 billion dirhams, including a 1.4-percent increase of ordinary expenses to 134.4 billion and a 3-percent decline in investments to 34.6 billion. Goods and services expenditure fell by 0.9 percent to 93.4 billion, following a 0.2 percent drop in payrolls to 61.5 billion and a 2.4 percent drop in other goods and services to 31.9 billion. The latter covers a 7.5-percent increase in transfers to the Moroccan Pension Fund to 7.2 billion dirhams, as payments to various public institutions and to the special accounts of the Treasury have declined by 10.4 percent and 50 percent, respectively.

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

	Jan. july 2016	Jan. july 2017	Change In %	FA 2017	Achievements against the FA (%)
Overall spending	**168.3**	**169.1**	**0.4**	**290.4**	**58.2**
Current spending	**132.6**	**134.4**	**1.4**	**234.8**	**57.3**
Goods and services	94.3	93.4	-0.9	167.8	55.6
Staff	61.6	61.5	-0.2	106.7	57.6
Other goods and services	32.7	31.9	-2.4	61.1	52.2
Debt interest	18.7	17.8	-4.6	27.5	64.9
Subsidy costs	6.6	9.2	40.7	14.7	63.1
Transfers to LA	13.1	14.0	6.8	24.9	56.2
Investment	**35.7**	**34.6**	**-3.0**	**55.6**	**62.3**

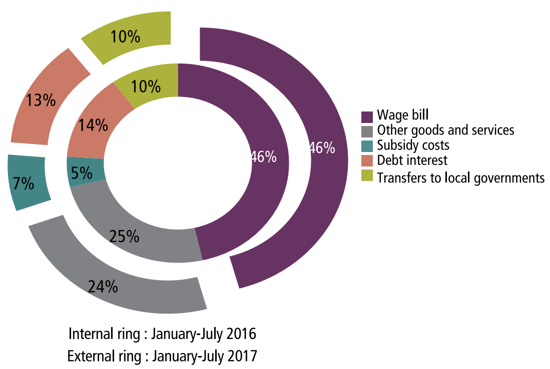
*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Chart 4.2: Actual expenses versus budget plan

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

Interest payments on debt fell by 4.6 percent to 17.8 billion, following the decrease by 4.8 percent to15.7 billion in interests on domestic debt and by 2.9 percent to 2.1 billion in interests on foreign debt.

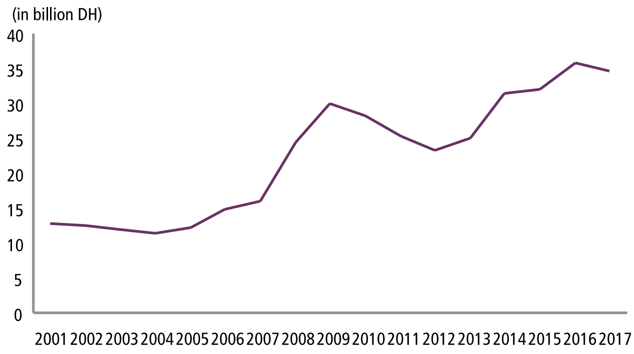
Chart 4.3: Structure of current spending



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

On the contrary, subsidy costs grew by 40.7 percent to reach 9.2 billion. According to data from the Subsidy Fund, 5.8 billion was allocated in the first seven months of 2017to the butane gas subsidy, up 59.4 percent. This increase is largely due to higher global gas prices, but also to a slight appreciation, by 1.6 percent, of the dirham against the dollar to 9.9 dirhams.

Chart 4.4: Investment spending, January July total



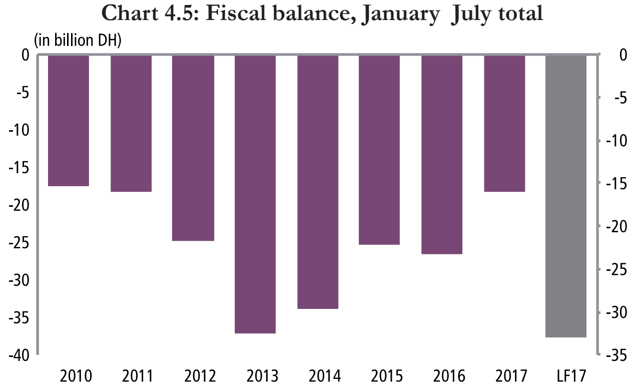
Source : Ministry of Economy and Finance (TEFD).

Investment spending fell by 3 percent to 34.6 billion, equaling 62.3 percent of the execution rate of the Finance Act programming. This drop has resulted from the decrease by 3.2 percent in Ministries' spending to 20.5 billion and by 6 percent in common expenses to 13.4 billion, including 11.3 billion for transfers to the special treasury accounts, compared to 12.1 billion at the end of July 2016.

4.3 Deficit and Treasury financing

The accumulated fiscal deficit at end-July 2017 stood at 18.3 billion, down 8.3 billion, of which 2.6 billion was generated by the improvement of the positive balance of the Treasury special accounts, which amounted to 6 billion. The Treasury reduced its stock of arrears of payment by 5.9 billion, thus slightly decreasing the cash deficit by 335 million dirhams to stand at 24.2 billion.

Chart 4.5: Fiscal balance, January July total



Source : Ministry of Economy and Finance (TEFD).

Net external financing flow was negative by 5 billion, after its positive flow of 3.1 billion in 2016. This need was covered, as well as the financing requirement, by net domestic resources of 29.2 billion, up 7.8 billion from the same period in 2016. In addition to the domestic debt of 18.2 billion, as against 6.1 billion at the end of July 2016, the Treasury benefited from own resources of 10.9 billion instead of 15.3 billion a year earlier.

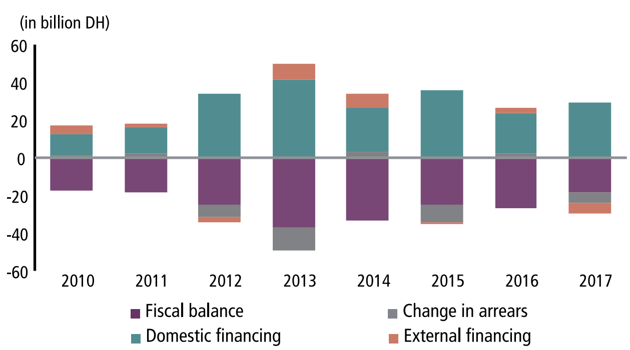
Table 4.3: Deficit financing (in billions of dirhams)

	Jan. july 2016	Jan. july 2017	FA 2017	Absolute gap FA/Jan. july 2017
Current balance	**5.7**	**10.4**	**16.6**	**6.2**
Balance of TSA	3.4	6.0	6.0	0.0
Primary balance	-7.9	-0.4	-5.5	-5.0
Fiscal balance	**-26.6**	**-18.3**	**-33.0**	**-14.7**
Change in arrears	2.1	-5.9	0.0	
Financing requirements	**-24.5**	**-24.2**	**-33.0**	**-8.8**
Domestic financing	21.4	29.2	20.5	-8.7
External financing	3.1	-5.0	12.5	17.5

Source : Ministry of Economy and Finance (TEFD).

The use of auctions market concerned 19.7 billion against 2.6 billion a year earlier. Net subscriptions include 8.9 billion in 5-year bills, 7.7 billion in 52-week bills, 4.5 billion in 10-year bills and 4.3 billion in 2-year bills. At the same time, net repayments concerned the 26-week bonds for 5.7 billion and 15-year bills for 1.4 billion.

Chart 4.6: Fiscal balance and financing , January July total*



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

As regards the Treasury's financing conditions on the auctions market, weighted average rates (WAR) of maturities issued from January to July 2017 increased by 9 basis points to 3.06 percent on average. In fact, WARs on bonds at 52 weeks, 5 years and 15 years rose 11 bps, 15 bps and 32 bps respectively, while rates on 30-year issues fell by 14 bps to 4.45 percent.

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

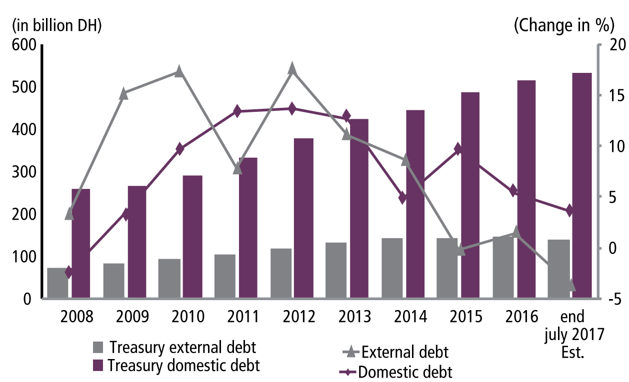
	2012	2013	2014	2015	2016	At end july 2017 Est*
Treasury external debt	**116.9**	**129.8**	**141.1**	**140.8**	**142.8**	**137.8**
Change in %	17.4	11.1	8.7	-0.2	1.4	-3.5
Treasury domestic debt	**376.8**	**424.5**	**445.5**	**488.4**	**514.6**	**532.8**
Change in %	13.7	12.6	5.0	9.6	5.4	3.5
Outstanding direct debt	**493.7**	**554.3**	**586.6**	**629.2**	**657.4**	**670.6**
Change in %	14.6	12.3	5.8	7.3	4.5	2.0

Source : Ministry of Economy and Finance (TEFD).

Concerning debt at end-july 2017, estimates are based on the flows of domestic and external financing.

Outstanding direct public debt would have increased by 2 percent at the end of July 2017 compared to the end of December 2016. This development includes a 3.5 percent rise in its domestic component and a 3.5 percent drop in its external one.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

According to national accounts data, growth accelerated to 3.8 percent in the first quarter after 1.6 percent in the same period last year, driven by domestic demand, while the contribution of net exports was negative.

Taking into account recent developments, growth would have reached 4.9 percent in Q2 and 4.4 percent in Q3. Non-agricultural GDP would have risen 3.5 percent in the second quarter and 2.8 percent in the third quarter. As for agricultural value added, it has probably grown by 15.7 percent and 13.9 percent respectively, driven in particular by the 186 percent increase in the cereal harvest compared to the previous year.

Concerning labor market, 74 thousand jobs, of which 52 thousand in agriculture, were created in the second quarter. Unemployment rate rose slightly, from 9.1 percent to 9.3 percent at the national level and from 13.4 percent to 14 percent in urban areas. As regards labor costs, the latest available data for the second quarter show a year-on-year increase in the private sector wage index by 3.4 percent after 2.7 percent in nominal terms and by 3.1 percent after 0.8 percent in real terms.

Against this backdrop, the output gap would have remained close to zero in the second and third quarters of 2017.

5.1 Domestic demand

5.1.1 Consumption

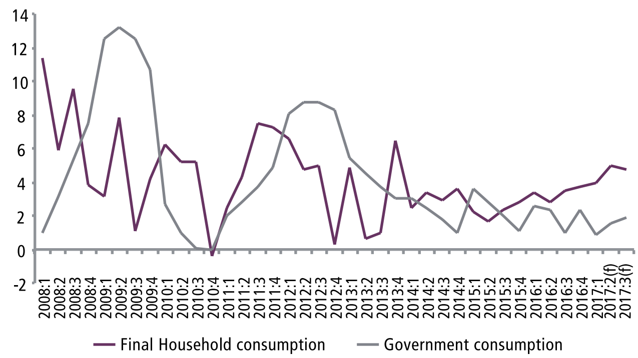
According to national accounts data for the first quarter, final household consumption was up 4 percent as against 3.4 percent in the same period of the previous year. Its contribution to growth rose from 2 percentage points to 2.4 points.

Recent trends in economic indicators suggest a 4.9 percent improvement in household final consumption expenditure, reflecting higher agricultural revenues and a creation of 74 thousand jobs, of which 52 thousand in agriculture. Results of the household business survey support this trend, as the household confidence index improved markedly in the second quarter of 2017.

In the third quarter, household consumption is expected to grow at the same pace as the previous quarter, mainly as a result of higher imports of consumer goods.

On the other hand, final consumption of general government decreased from 2.6 percent to 0.9 percent. In the second quarter, it would have risen by 1.5 percent, due to higher subsidy costs and transfers to local authorities. This trend is forecasted to continue in the third quarter, therefore resulting in a positive contribution to growth.

Chart 5.1: Expenses of domestic final consumption (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

Investment grew by 9.1 percent in the first quarter of 2017, as against 7.4 percent in the previous year, thus contributing to growth by 2.6 percentage points.

In the second quarter, investment would have decelerated from 8.5 percent to 5.2 percent between 2016 and 2017. This slowdown, confirmed by a 3.7 percent drop in imports of equipment goods, is also attributable to the weak performance of the construction sector, impacted by lower demand for residential property.

Moreover, results of the Bank Al-Maghrib business survey in the industry for the second quarter indicate that the business climate was deemed normal and that more than half of the manufacturers see investment spending as stagnating.

5.2 External demand

In the first quarter of 2017, net exports of goods and services contributed negatively to growth by 1.4 percentage points instead of a negative participation, by 3 percentage points, a year earlier. Imports of goods and services in real terms slowed from 12.5 percent to 7 percent and exports decelerated from 6.3 percent to 4.6 percent.

In the second quarter, exports of goods and services are expected to accelerate, impacted by the recovery in sales of phosphates and derivatives, as well as by the higher demand to agri-food industry. Imports would have decreased due to the slowdown in purchases of equipment goods and, to a lesser extent, to lower energy bill.

Under these conditions, GDP growth would have hovered around 4.9 percent in the second quarter and 4.4 percent in the third quarter.

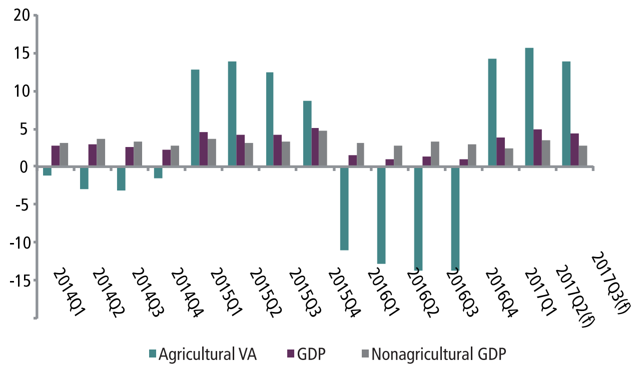
5.3 Aggregate supply

Economic growth reached 3.8 percent in the first quarter as against 1.6 percent a year earlier, reflecting an increase by 14.2 percent in agricultural value added and by 2.5 percent in non-agricultural GDP.

Growth would have accelerated anew to 4.9 percent in the second quarter. Indeed, agricultural value added has probably increased by 15.7 percent, sustained in particular by the 186 percent increase in the cereal harvest from the previous season.

Similarly, the pace of non-agricultural activities would have accelerated to 3.4 percent against 1.7 percent in the same period of the previous year. Given higher taxes on the products nets of subsidies, non-agricultural growth would have gone from 2.8 percent to 3.5 percent.

Chart 5.2: GDP per component (chained prices, change in %)

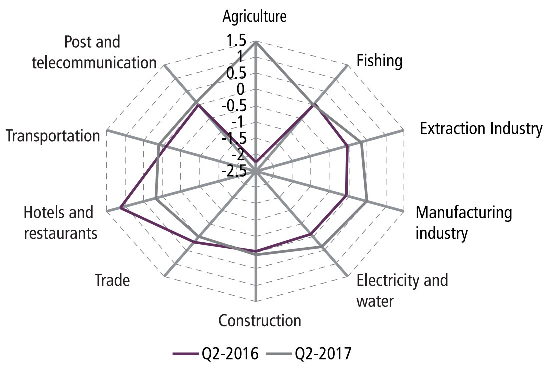


Sources: HCP data, and BAM forecasts.

At the secondary sector level, activity would have rebounded by 23.2 percent in the mining sector, after its 1.1 percent decline a year earlier, reflecting improved foreign demand for crude phosphate and its derivatives. Similarly, processing industries would have grown by 3.5 percent after their 0.2 percent decline, particularly due to the good performance of agri-food and phosphate derivatives industries. In the electricity and water sector, value added would have increased by 4.8 percent after its 0.7 percent drop.

On the other hand, construction would have continued to weaken, with a 0.8 percent decline in value added after a 1.5 percent increase, as reflected by the more rapid drop in cement sales from 4.7 percent in the first quarter to 13.7 percent in the second. However, the 42 percent rise in sales in July has offset this drop to 4 percent at the end of July.

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



Sources: HCP data, and BAM forecasts.

In the tertiary sector, value added would have increased by 9.5 percent in "hotels and restaurants", particularly impacted by the 18.2 percent improvement in overnight stays, while "transport services" may have accelerated by 4.1 percent. On the other hand, activity would have recorded a slight slowdown to 4 percent as regards trade and by 3.2 percent for posts and telecommunications.

GDP growth in the third quarter is expected to reach 4.4 percent, with a 13.9 percent increase in agricultural value added and a slight slowdown to 2.8 percent in non-agricultural activities, mainly reflecting a weaker construction activity and slower mining, electricity, tourism and transport services.

5.4 Labor market and output capacity[1]

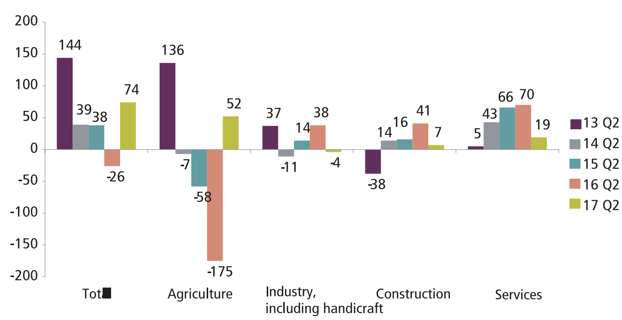
5.4.1 Activity and employment

In the second quarter, labor force aged 15 and over increased by 0.9 percent to 12.08 million. This development took place in both urban and rural areas, with growth rates of 0.8 percent and 1 percent, respectively. Taking into account a 1.7 percent increase in the working-age population, the participation rate fell by 0.4 percentage points to 47.3 percent at the national level, by 0.7 points to 42.3 percent in cities while it rose by 0.4 points to 56 percent in rural areas.

Moreover, after it suffered a loss of 26 thousand jobs a year ago, national economy created 74 thousand jobs, of which 62 thousand in rural areas. Employed labor force increased by 0.7 percent and employment rate declined by 0.5 percentage points to 42.9 percent. By area of residence, this rate fell by 0.8 points to 36.4 percent in urban areas, while it rose by 0.5 percentage points to 54.2 percent in rural areas.

By sectors, 52,000 jobs were created in agriculture owing to the very good cereal harvest, while job creation was limited to 22,000 jobs in the nonagricultural sector, including 19,000 in services and 7,000 in construction, while industry lost 4,000 jobs.

Chart 5.4: Job creation by sector (in thousands)



Source : HCP.

5.4.2 Unemployment and underemployment

Unemployed labor force increased by 3.1 percent to stand at 1.12 million. Taking into account labor force evolution, unemployment rate increased from 9.1 percent to 9.3 percent at the national level and from 13.4 percent to 14 percent in urban areas, while it fell from 3.5 percent to 3.2 percent in rural areas. For young people aged 15 to 24 in particular, this rate continued to increase, reaching 23.5 percent nationwide and 40.3 percent in cities.

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.

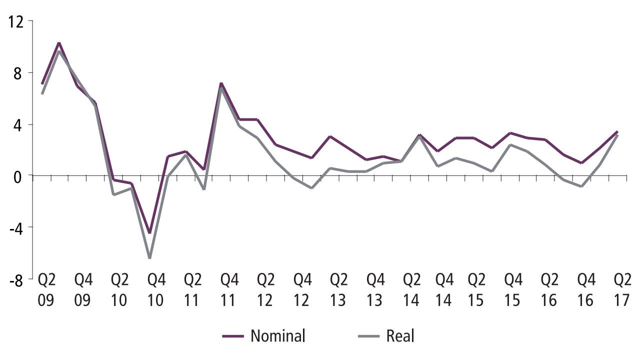
Unemployment rate increase was accompanied by a slight increase in underemployment, from 9.8 percent to 9.9 percent at the national level, from 9 percent to 9.1 percent in urban areas and from 10.7 percent to 10.8 percent in rural areas[2].

5.4.3 Productivity and wages

After a 0.5 percent decline a year earlier, apparent labor productivity in nonagricultural activities[3] improved by 3 percent in the second quarter. This is due to the more rapid nonagricultural growth to 3.3 percent and to the slower rise of nonagricultural employment to 0.3 percent.

As for wage costs, the latest data from the CNSS for the second quarter reveal that the average wage index was up 3.4 percent after 2.7 percent in nominal terms and 3.1 percent after 0, 8 percent in real terms.

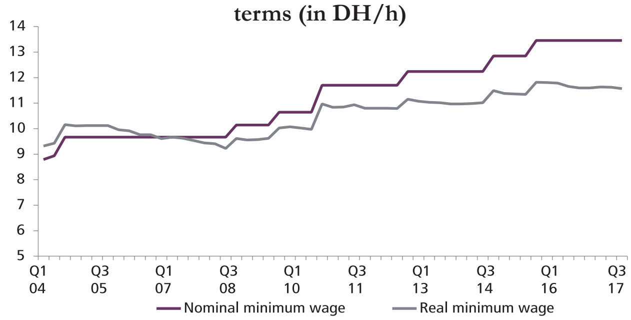
Chart 5.5: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

Besides, the minimum wage stood, in Q2- 2017, at 13.46 dirhams per hour in nominal terms. Given a 0.3 percent increase in the Consumer Price Index, real GDP fell by 0.3 percent year-on-year and is expected to decline by 0.2 percent in the third 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.

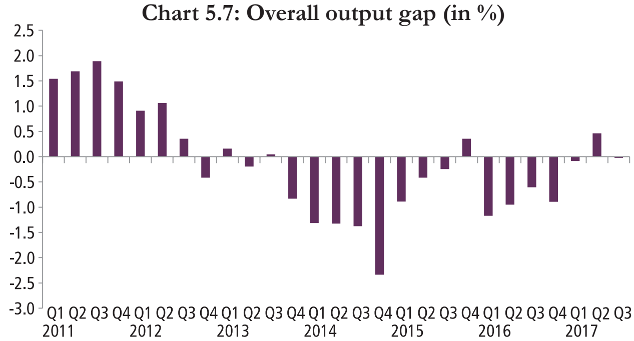
Table 5.1 : Labor market main indicators

		Q2 2016	Q2 2017
Participation rate (%)		**47.7**	**47.3**
Urban		43.0	42.3
Rural		55.6	56.0
Unemployment rate (%)		**9.1**	**9.3**
Youth aged between 15 and 24 years old		23.2	23.5
Urban		13.4	14.0
Youth aged between 15 and 24 years old		39.2	40.3
Rural		3.5	3.2
Job creation (in thousands)		**-26**	**74**
Urban		38	12
Rural		-64	62
Sectors			
- Agriculture		-175	52
-Industry including handicrafts		38	-4
- Construction		41	7
- Services		70	19
Nonagricultural apparent productivity (change in %)		**-0.5**	**3.0**
Average wage index (change in %)	**Nominal**	**2.7**	**3.4**
	Real	**0.8**	**3.1**

Sources: HPC; CNSS and BAM calculations.

Overall, the output gap is expected to remain close to zero in the second and third quarters of 2017, according to Bank Al-Maghrib forecasts.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates based on HCP data.

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

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

6. RECENT INFLATION TRENDS

In line with the forecasts published in the latest Monetary Policy Report, inflation, measured by the change in the Consumer Price Index, marked a sharp deceleration from 1.3 percent in the first quarter of 2017 to 0.3 percent in the second quarter. The low level of inflation continued during the following two months, with -0.1 percent in July and 0.3 percent in August, due to the persistently low prices of volatile food products and, to a lesser extent, to the slower increase of fuel and lubricant prices. On the other hand, inflation of regulated products rose from 0.6 percent in the second quarter to an average of 1 percent in July and August, mainly due to the revision of tobacco prices.

Excluding these products, core inflation fell from 1.5 percent to 1.2 percent, driven mainly by changes in food prices.

Inflation is forecasted to stand at 0.3 percent in the third quarter, as the slower decrease expected in volatile food prices and the more rapid increase in regulated tariffs would offset the effects of the sluggish rise of fuel and lubricant prices and the slowdown of core inflation.

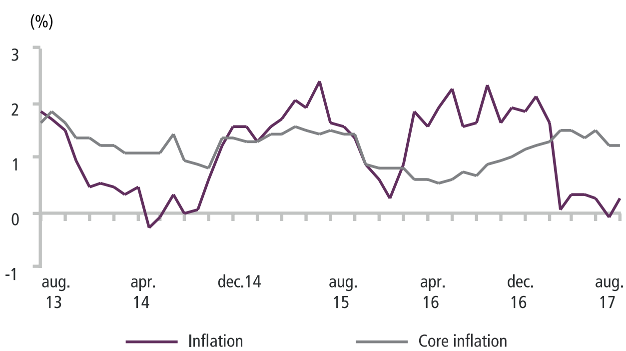
6.1. Inflation trends

Inflation rose from -0.1percent in July and to 0.3percent in August, as against 0.3percent on average in the second quarter of 2017. This recent acceleration is attributable to the lower volatile food prices and, to a lesser extent, higher fuel and lubricant prices. Growth rate of regulated products tariffs was virtually unchanged and core inflation remained at the same level recorded in the previous month.

The decline in volatile food prices fell from 7.5 percent to 6.2 percent, mainly as a result of higher prices of fresh vegetables and the slower decrease in the prices of fresh fruit. Meanwhile, fuel prices rose by 6.6 percent, after 0.4 percent, in line with the change in international oil prices.

On the other hand, tariffs for regulated products and services rose at a pace of 1percent on average between July and August, compared to 0.6percent in the second quarter, as a result of changes in tobacco prices as part of their approval in July. Excluding these products, core inflation fell from 1.5 percent in the second quarter to 1.2 percent in July and August, mainly as a result of the slower rise in the prices of some 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 (%)		
	june 17	july 17	aug. 17	june 17	july 17	aug. 17
Headline inflation	**0.3**	**-0.5**	**0.3**	**0.3**	**-0.1**	**0.3**
- Volatile food products	1.5	-3.5	2.0	-5.7	-7.5	-6.2
- Fuels and lubricants	-1.0	-2.6	2.3	1.3	0.4	6.6
- Administered goods	0.0	0.3	0.1	0.6	0.9	1.0
Core inflation	**0.4**	**0.1**	**-0.2**	**1.5**	**1.2**	**1.2**
- Food products	0.3	-0.1	-0.2	2.0	1.5	1.3
- Clothing and footwear	0.4	0.0	-0.1	1.6	1.5	1.5
- Housing, water, gas, electricity and other fuels*	0.2	0.1	0.2	1.1	1.1	1.2
- Furnishings, household equipment and routine house maintenance	0.1	0.1	0.1	0.5	0.5	0.6
- Health*	0.3	-0.2	-0.2	2.8	2.6	2.3
- Transportation*	-0.1	0.1	0.1	-0.7	-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	0.3	0.3	0.2
- Education	0.0	0.0	0.0	2.9	2.9	2.9
- Restaurants and hotels	0.2	0.0	0.5	3.2	2.9	3.1
- Miscellaneous goods and services	0.1	-0.1	0.1	0.9	0.7	0.8

* Excluding administered goods.

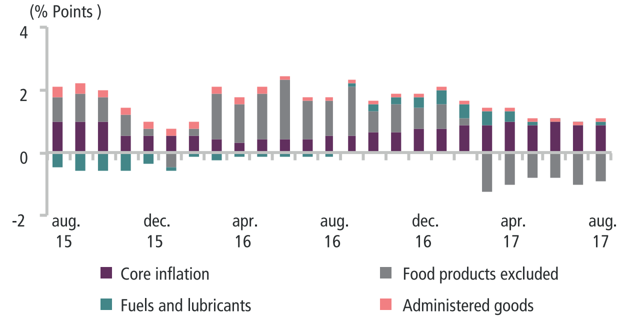
Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

Volatile food prices continued to decline for the sixth month running, and reached 6.2percent in August after 7.5 percent in July and 6.1 percent in the second quarter of 2017. These declines reflect not only a base effect due to the relatively high level of these prices one year earlier, but also a better supply of some of these products. The easing in the decline observed in August mainly reveals the slower decrease of prices from 15.6 percent to 9.4 percent for fresh fruits, 18.9 percent to 12.9 percent for eggs and from 5.8 percent to 3.3 percent for fresh fish. It also reflects the 2.8percent increase, as against 0.8percent, in the prices of fresh vegetables.

Volatile food prices contributed negatively to inflation by 0.9 percentage points instead of 1.1 percentage points in July and 0.9 points on average in the second quarter of 2017.

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

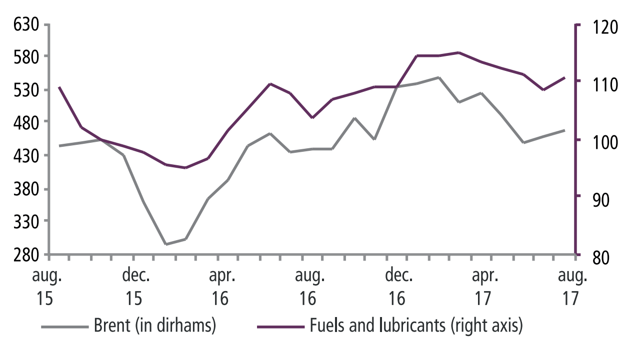


Sources: HCP, and BAM calculations.

Prices for fuels and lubricants grew at a slower pace from 6.3 percent in the second quarter to 0.4 percent in July before falling back to 6.6 percent in August. This change reveals the effect of the rapid growth of Brent price from 8 percent to 11.3 percent, which more than offset the appreciation of the dirham exchange rate against the dollar.

On the other hand, tariffs of regulated products increased by 1 percent on average between July and August, as against 0.6 percent in the second quarter, mainly due to the 2.1 percent increase in tobacco prices following the changes which occurred as part of their approval process in July.

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

After falling to 1.5percent in the second quarter, core inflation stood at 1.2percent in July and August, reflecting the deceleration in non-tradable goods inflation and, to a lesser extent, exchangeable goods.

Inflation of non-tradable goods was 1.6percent in July and August, compared to 2percent in the second quarter, mainly due to the slowdown from 2.4percent to 1.4percent on average of the price of "fresh meat". Its contribution to underlying inflation was limited to 0.7 percentage points, compared with an average of 0.9 percentage points in the second quarter.

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

Sources: HCP, and BAM calculations.

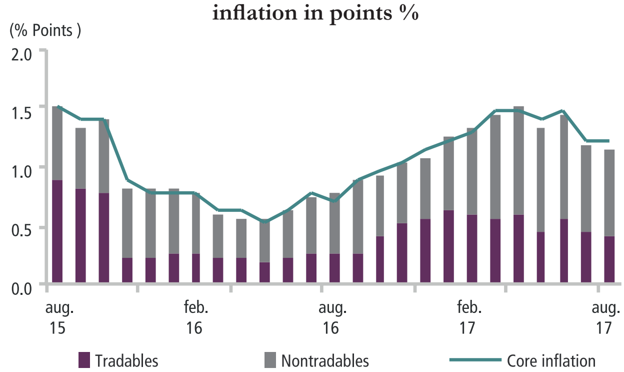
At the same time, inflation in tradable goods fell to 0.8 percent in July and August after 0.9 percent in the second quarter, mainly as a result of a 0.6 percent decrease, as against 0.2 percent, in the prices for "cereal products", and the 7.7percent to 4.3percent slowdown in the price of "legumes". Its contribution to underlying inflation thus stood at 0.4 percentage points compared to 0.5 percentage points in the previous quarter.

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

(In %)	Monthly change (%)			YoY change (%)		
	june 17	july 17	aug. 17	june 17	july 17	aug. 17
Tradables	0.2	-0.1	-0.1	1.0	0.8	0.8
Nontradables	0.4	-0.1	0.1	2.0	1.6	1.6
Core inflation	0.4	0.1	-0.2	1.5	1.2	1.2

Sources: HCP, and BAM calculations.

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



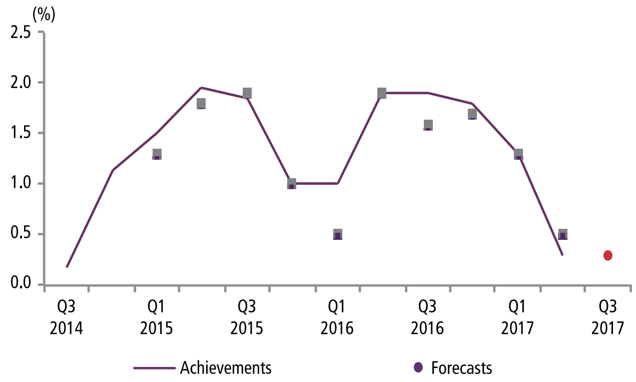
Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

Inflation is expected to remain around 0.3percent in the third quarter. This trend reflects a slower pace of volatile food prices decrease, following the dissipation of the effects of last year's increases and recent price developments in certain products, notably fresh fruits. Regulated products price increase is expected to reach 0.9 percent in the third quarter compared with 0.6 percent a quarter earlier, assuming that no further adjustments are made to the prices of these products.

The growth pace of fuel and lubricant prices is expected to decelerate again, in line with developments forecasted for international oil prices. Excluding these products, core inflation is expected to have a modest impact, falling from 1.5percent to 1.3percent.

Chart 6.6: Short-term forecasts and Achievements inflation



Source: BAM.

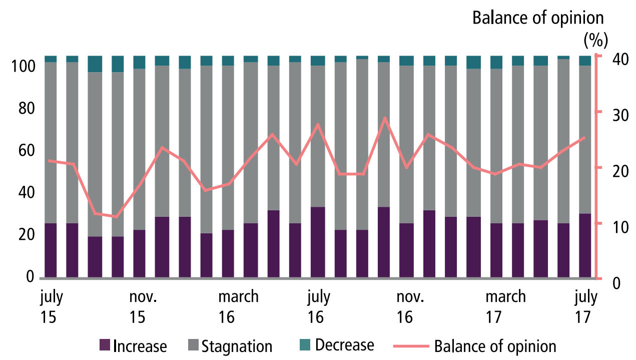
Chart 6.8: Inflation expectations by financial experts*

Source: BAM's quarterly survey on inflation expectations.
* From the second quarter of 2016, the anticipation horizon increased from 6 to 8 quarters.

6.3. Inflation expectations

Based on Bank Al-Maghrib business survey for July, inflation would remain stable over the next three months according to 66 percent of manufacturers, while 30 percent expect that inflation would rise and 5 percent forecast its deceleration.

Chart 6.7: Three-month inflation expectations by corporate managers

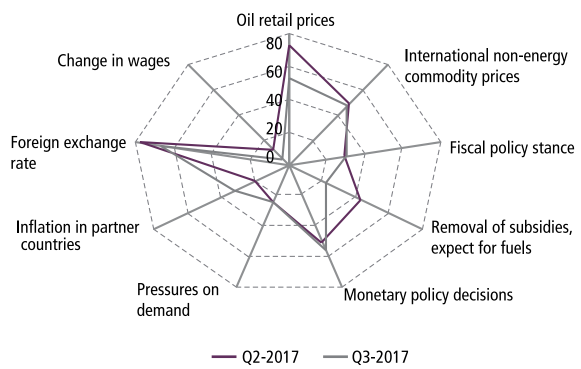


Source: BAM's monthly business survey.

Moreover, the results of the Bank Al Maghrib survey of inflation expectations, carried out on a quarterly basis by experts from the financial sector, indicate that inflation is expected to reach 1.8percent in third quarter, unchanged from of the second quarter of 2017.

In this respect, experts agree that the changes in the exchange rate, monetary policy decisions and pump prices have a key role with regard to the future trend of inflation during this period.

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

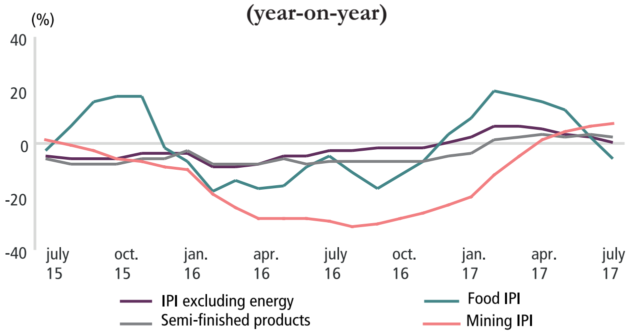


Source: BAM's quarterly survey on inflation expectations.

6.4. Import and producer prices

The slowdown in the pace of non-energy import prices observed in the second quarter continued in July. Thus, prices of imported products rose only 0.2 percent instead of 5.1 percent in the first quarter and 3.7 percent in the second. This deceleration includes a decline in import prices for food products, after their rise in the second quarter, their deceleration for semi-finished products and the acceleration in the import price index for mining products. Indeed, after rising by 10.2percent in the second quarter, imported food prices fell by 5.7percent due to lower prices for major products, except for coffee and milk which increased by 4.5 percent and 9.3 percent respectively.

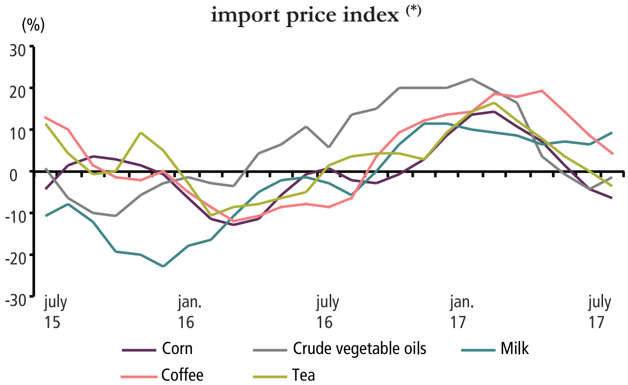
Chart 6.10: Change in the main import prices indexes (year-on-year)



Sources: Foreign Exchange Office, and BAM calculations.

Meanwhile, import prices of semi-finished products grew 2.5 percent after their 3.2 percent increase, mainly due to the slower rise in prices for «artificial plastic materials» by 5.7 percent to 4.7 percent. Import prices for mining products were up 7.8 percent from 4.3 percent in the second quarter, reflecting a slower increase in import prices of «Iron and steel in blooms and sketches», from 10.1 percent to 4 percent.

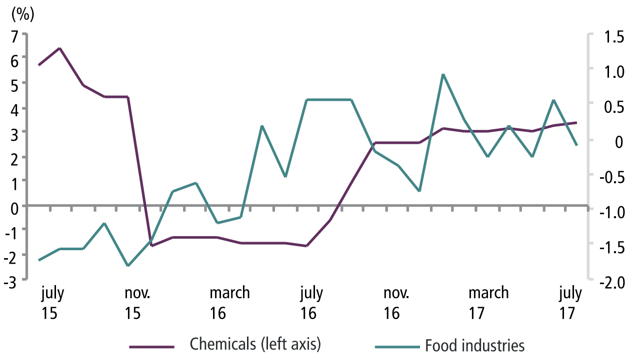
Chart 6.11: Change in the major components of the food import price index (*)



(*) Excluding wheat and sugar prices
Sources: Foreign Exchange Office, and BAM calculations.

Output prices for manufacturing industries, excluding petroleum refining, rose 0.8 percent year-on-year, after 0.7 percent in the second quarter. This increase particularly reflects the 3.4 percent increase in producer prices for the «chemical industry» and 2.9 percent in the «metal products manufacturing» sector. On the other hand, producer prices of the food industry fell by 0.1percent and those of the «textile manufacturing» industry by 1.4 percent.

Chart 6.12: YoY change in industrial producer price indexes



Sources : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Global economic strengthening is becoming more entrenched and is forecasted to continue both in advanced and emerging economies. However, the outlook remains surrounded by significant uncertainties, largely due to the orientation of the new US administration policy, the renewed geopolitical tensions and the vulnerability of the European and Chinese financial systems. On the other hand, risks as to the modalities of Brexit and Eurosceptic policies have diminished.

Supported by the accommodative monetary conditions, the improved situation of the labor market and the strengthened confidence of economic operators, economic recovery in the euro area and the United States is expected to strengthen in the medium term. Emerging economies, on the other hand, would benefit from improved activity in advanced economies and from the commodity prices upward trend. More particularly, Russia and Brazil are expected to emerge from recessions, while in China, the anticipated deceleration in growth would be limited by fiscal support measures.

In commodity markets, food prices are expected to rise over the forecast horizon at a faster-than-expected pace in June. Also, world oil prices would increase in 2017 as a result of the improved global economic outlook and of the extended reduction of supply by oil-producing countries, despite the slight downward revision compared to last year. Under these conditions, and taking into account the stronger domestic demand, inflation in the United States and the euro area should gradually get close to the objectives of their central banks.

At the national level, exports growth rate is expected to accelerate, sustained by the recovery in shipments of phosphate and derivatives and by improved growth in the euro area. However, sales momentum in the automotive construction sector is expected to continue at a pace much slower than in 2016. At the same time, imports growth rate is projected to decrease due to the lower growth rate of equipment purchases, while the energy bill is expected to increase significantly.

Taking into account the downturn observed in travel receipts and expatriates remittances, and assuming annual inflows of 8 billion dirhams from GCC countries, the current account deficit is expected to ease in the medium term to hover around 4 percent in 2017 and 2018. Against this backdrop, and assuming FDI inflows of about 34 billion dirhams in 2017 and 40 billion in 2018, net international reserves are expected to reach around 230 billion dirhams by 2017 and 234 billion dirhams in 2018, thus providing coverage of 5 months and 25 days of imports of goods and services by 2018.

After a slight tightening in 2016, mainly due to the higher real effective exchange rate, monetary conditions are expected to ease in 2017 as a result of the continued accommodative monetary policy and of real effective exchange rate depreciation. The latter has resulted from the recent appreciation of the euro and the low inflation rate in Morocco compared to the main partners and trade competitors. Forecasts as to bank loans to the nonfinancial sector are kept unchanged compared to June, as these loans would increase by 4.5 percent in 2017 and by 5 percent in 2018.

As concerns public finances, after the budget deficit overshoot in 2016, compared with the Finance Act programming, adjustment should resume. The deficit is thus projected to fall from 4.1 percent of GDP in 2016 to 3.5 percent in 2017 and 3.2 percent in 2018, equaling downward revisions of 0.1 and 0.2 of GDP respectively from June.

Economic growth is expected to rebound sharply in 2017 and stand at 4.3 percent, after 1.2 percent in 2016. This forecast includes a 14.7 percent increase in agricultural value added and a 3 percent rise in nonagricultural GDP. This strengthening should be supported by continued strong domestic demand, driven in particular by improved revenues and, to a lesser extent, by the recovery in net exports, driven by better foreign demand and lower real effective exchange rate. In 2018, growth is projected to slow to 3.1 percent, with a 1 percent drop in agricultural value added, assuming the return of an average crop season, and further improvement in nonagricultural GDP which would increase by 3.6 percent. On the demand side, growth slowdown is mainly due to the deceleration of domestic demand, further to the decline in agricultural incomes, while net exports are expected to fall slightly, impacted by the dissipation of the REER decrease and the expected deceleration of growth in the euro area.

Against this background, core inflation should trend upward, though at a moderate level. It is thus expected to rise from 0.8 percent in 2016 to 1.4 percent in 2017 and 1.6 percent in 2018. Prices for fuels and lubricants would increase in 2017 before stabilizing in 2018, in line with the forecasts regarding world prices of oil products. Besides, taking into account the expected decline in volatile food prices in 2017, inflation is forecasted to slow from 1.6 percent in 2016 to 0.6 percent in 2017 before accelerating to 1.3 percent in 2018.

7.1 Underlying assumptions

Upturn in global growth becomes more entrenched

National accounts data for the first half of 2017 have shown better-than-expected levels in most advanced and emerging economies. Also, the positive trend of high-frequency indicators suggests that sustained economic activity will continue in the second half of the year. Hence, growth projections were revised upwards, based on more favorable prospects for both advanced and emerging economies. More particularly, growth in the United States is expected to increase from 1.6 percent in 2016 to 2.1 percent in 2017 and to 2.3 percent in 2018, benefiting mainly from strengthened domestic demand. In addition, owing to the accommodative monetary stance and the strong domestic demand, activity in the euro area would strengthen by 2 percent in 2017, after 1.7 percent in 2016, and then fall to 1.5 percent in 2018, with the Brexit getting close. In emerging economies, growth is expected to benefit from improved activity in advanced economies and the upturn of commodity prices upward trend. Russia and Brazil would emerge from recession, while fiscal support measures would limit growth deceleration projected in China.

However, the outlook remains fraught with significant risks mainly due to the renewed political uncertainties and fragilities of the financial system in China and in some European countries.

Given these conditions, foreign demand to Morocco is expected to improve in the medium term, at a faster-than-expected pace in June.

Chart 7.1: Growth in the euro area

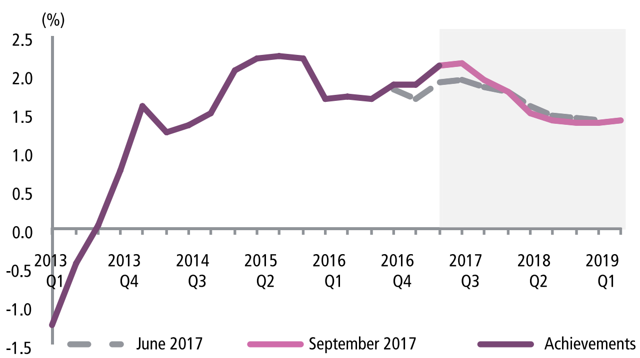
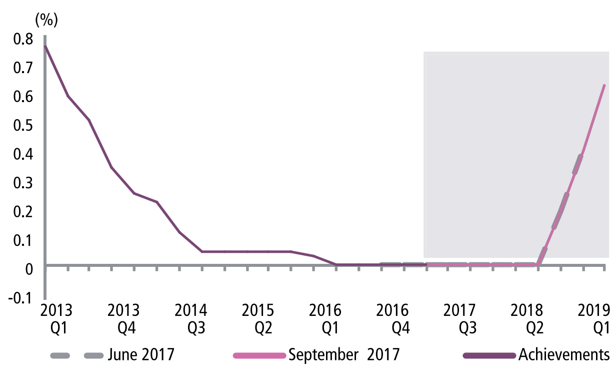


Chart 7.2: ECB policy rate



Source: GPM[1] forecasts of August 2017.

Appreciation of the euro owing to the ECB's continued accommodative monetary policy stance

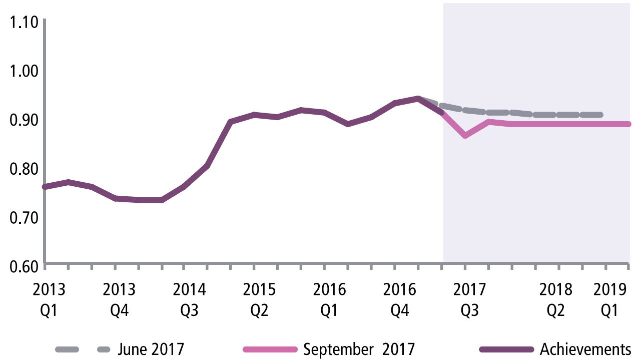
The continued economic recovery in the United States should prompt the FED to pursue normalization of federal funds rates, with an expected rise in December 2017 and a resumption of increases as of June 2018. In addition, the FED will resort to normalizing its unconventional monetary policy by gradually reducing the size of its balance

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.

sheet in October 2017. At the same time, the ECB is expected to maintain its asset purchase program until the end of December 2017 and its rate should remain unchanged until the fourth quarter of 2018.

As a result of the renewed confidence in the economic recovery in the euro area, the euro appreciated against the dollar from the end of June, reflecting, on the one hand, the market anticipations that the ECB would exit from its monetary easing measures and, on the other hand, the uncertainties which surround the new US administration policy. In the medium term, the euro should remain high given the improvement in the economic fundamentals of the euro area.

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of August 2017.

Downward revision of oil prices and upward revision for food prices

Oil prices in the international market would increase in 2017 as a result of the better global economic outlook and the continued reduction of supply by oil-producing countries. Nonetheless, these prices were slightly revised down from the previous year, reflecting higher US shale production and the resumption of supply from Nigeria and Libya. Average oil price is expected to increase from \$ 42.8 / bl in 2016 to \$ 50.3 / bl in 2017 and \$ 49.7 / bl in 2018, as against the \$ 51.8 / bl and \$ 50.7 \$ / bl respectively forecasted in June. With regard to fertilizers, DAP prices would increase from \$ 345 / mt in 2016 to \$ 360 / mt in 2017, while TSP and rock phosphate prices would decline to \$ 275 / mt and \$ 100 / mt. It is worth mentioning that the latest available data for the first eight months of the year generally confirm this trend, although at slightly lower-than-forecasted levels for rock phosphate and DAP. By 2018, fertilizers prices are expected to increase slightly to \$ 102 / mt for rock phosphate, \$ 366 / mt for DAP and \$ 282 / mt for TSP. On the other hand, food prices would rise over the forecast horizon, more rapidly than expected in June, mainly reflecting the anticipated negative effects of unfavorable weather conditions on world supply, particularly wheat.

Against this backdrop, and taking into account the strengthening of domestic demand, inflation in the United States and the euro area should gradually get close to the objectives of their central banks at the end of the forecast horizon. However, their convergence would be slow due to the low levels of global energy prices and the downward effects of some temporary factors.

Thus, inflation in the euro area[2] is expected to accelerate from 0.2 percent in 2016 to 1.5 percent in 2017 before rising to 1.4 percent in 2018. In the United States, inflation would rise from 1.3 percent in 2016 to 2 percent in 2017 and 1.9 percent in 2018.

Chart 7.4: Food commodity price index

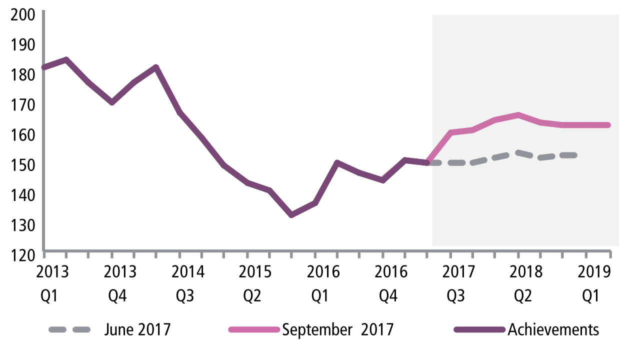


Chart 7.5: Crude oil price

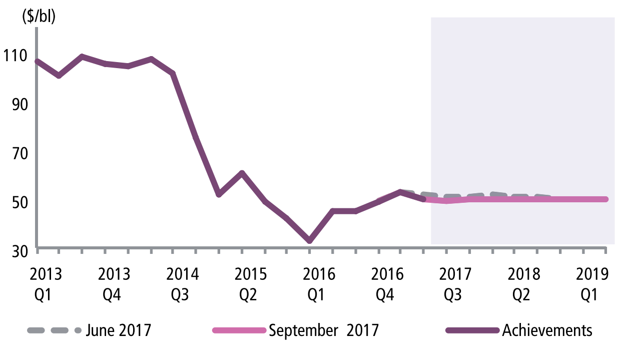


Chart 7.6: Inflation in the euro area

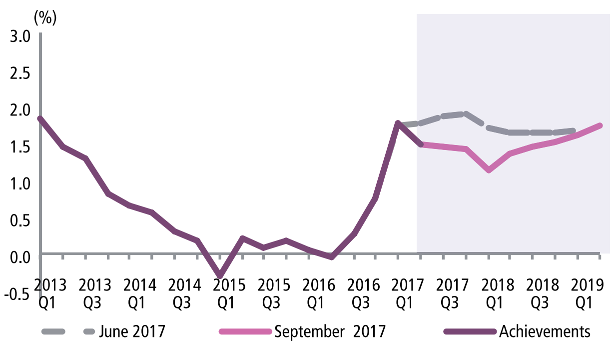
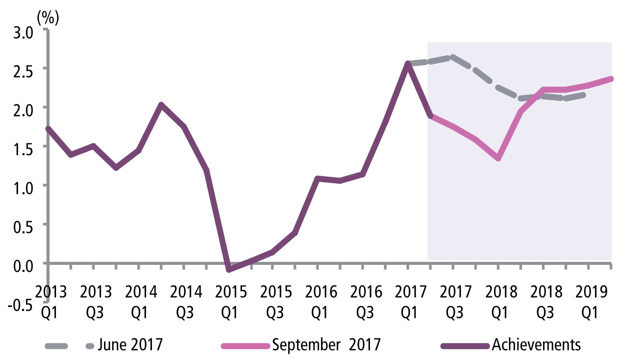


Chart 7.7: Inflation in the United states



Source: GPM forecasts of August 2017.

Resumption of budgetary adjustment

The process of fiscal adjustment is expected to resume in the medium term. The deficit is projected to fall from 4.1 percent of GDP in 2016 to 3.5 percent in 2017 and 3.2 percent in 2018. This trend implies better revenue mobilization and expenditure control over the medium term. Revenues are expected to improve significantly; hence, their forecasts were slightly revised upwards compared to the June forecasts, taking into account the high rate of corporate income tax revenues at the end of July. Such forecasts also imply an annual inflow of donations from GCC countries of DH 8 billion in 2017 and 2018.

Expenses relative to personnel and to other goods and services are expected to remain limited, while subsidy costs will increase substantially in 2017 before falling in 2018, in line with the change in world oil prices. Besides, investment, after its substantial increase in 2016, is expected to remain at a relatively high level, equaling 5.9 percent of GDP in the medium term.

2 Forecasts of the GPM network for August 2017. In its September forecasts, the ECB projected inflation to reach 1.5percent in 2017 and 1.2percent in 2018, while its non energy and food components are expected to stand at 1.1percent and 1.3percent respectively.

Cereal production of 96 million quintals for the 2016-207 crop year and good performance of other crops

According to the Ministry of Agriculture, Marine Fisheries, Rural Development and Water and Forests, cereal production for the 2016-2017 crop year amounted to 96 million quintals, up 186 percent from the previous year and 32 percent compared to the average of the past five years. This reflects favorable weather conditions with a good temporal distribution of rainfall in most cereal regions.

For other vegetable crops, production increased by 16.1 percent for citrus fruits and 3.3 percent for date palms, while it decreased by 26.6 percent for olive trees.

For the 2017-2018 crop year, cereal production is expected to reach 70 million quintals in average, assuming a continued upward trend of other crops.

7.2 Macroeconomic projections

Current account deficit to ease

The current account deficit is expected to mitigate to around 3.9 percent of GDP in 2017 and 4 percent in 2018. Imports are expected to decelerate in the medium term. In 2017, more particularly, capital goods purchases are forecasted to slow down significantly, while energy bills will rise for the first time since 2012. Exports growth rate is expected to accelerate, as the sales of phosphates and derivatives recovered and growth in the euro area improved. Automotive sector momentum is expected to continue, though at a slower pace compared to 2016. Travel receipts and transfers of expatriates are expected to remain at a level lower than 2016 but close to their 2014 and 2015 average. Improved current account also implies the entry of 8 billion dirhams as donations from the GCC partners in 2017 and 2018.

Taking into account forecasts concerning the main headings of the financial account, mainly FDI inflows, which are projected to reach around 34 billion in 2017 and 40 billion in 2018, net international reserves are expected to hover around 230 billion dirhams by 2017 and 234 billion dirhams in 2018, thus ensuring coverage of 5 months and 25 days of imports of goods and services by 2018.

Table 7.1: Main components of the balance of payments

	Achievements					Forecasts		Gap (sept./june)	
	2012	2013	2014	2015	2016	2017	2018	2017	2018
Exports of goods* (change in %)	5.8	-0.1	8.8	8.6	2.7	6.5	4.7	0.2	-0.5
Imports of goods* (change in %)	8.2	-0.8	1.1	-4.1	9.9	4.5	5.3	-1.9	0.7
Travel receipts (change in %)	-1.8	-0.4	3.0	3.1	5.0	3.5	3.7	-0.1	0.0
Expatriate remittances (change in %)	0.6	-1.5	3.7	0.3	4.0	3.0	3.7	-0.5	0.0
Current account balance (% of GDP)	**-9.5**	**-7.8**	**-5.7**	**-2.1**	**-4.4**	**-3.9**	**-4.0**	**0.7**	**0.0**
Net international reserves in months of goods and services' imports	**4.2**	**4.4**	**5.1**	**6.6**	**6.5**	**5.7**	**5.8**	**-0.3**	**-0.2**

* From Foreign trade perspective

Sources: Foreign Exchange Office and BAM forecasts.

Lower real effective exchange rate and continued improvement of bank credit

After a slight tightening in 2016, mainly due to the increase of the real effective exchange rate, monetary conditions are expected to ease in 2017 as a result of the accommodating monetary stance and the depreciation of the real effective exchange rate. The latter is due to the recent appreciation of the euro and the low level of low inflation in Morocco compared to the main competing and commercial partners. By 2018, monetary conditions should remain broadly neutral as a result of the continued accommodative monetary policy and the stable real effective exchange rate.

Following the downward revision of foreign exchange reserves and taking into account recent developments in other liquidity factors, liquidity deficit is expected to rise to 46.8 billion by the end of 2017 and to 53.9 billion by the end of 2018. As for bank loans to the nonfinancial sector, their forecasts remain unchanged from those of June, and would increase by 4.5 percent in 2017 and 5 percent in 2018. Under these conditions, M3 growth is expected to reach 3.5 percent by the end of 2017. In 2018, the anticipated improvement in foreign exchange reserves should result in a 4.9 percent surge in the money supply.

Table 7.2: Monetary aggregates and bank loans

	Achievements				Forecasts		Gap (sept./june)	
	2013	2014	2015	2016	2017	2018	2017	2018
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	3.5	4.9	-0.1	0.0
Liquidity surplus or deficit, in billion dirhams	-68.4	-40.6	-16.5	-14.7	-46.8	-53.9	-12.2	-10.4

Source : BAM.

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

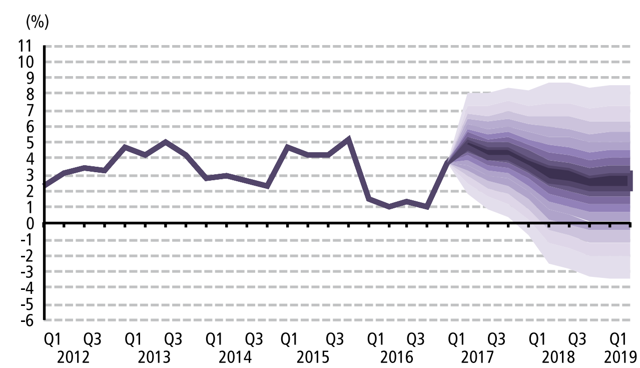
National growth forecasts for 2017 were slightly revised downward from June. Hence, GDP is expected to rebound 4.3 percent after a 1.2 percent gain a year earlier. This performance reflects a 14.7 percent increase in agricultural value added, after its decline by 12.8 percent in 2016, and its increase by 3 percent in nonagricultural GDP.

Strengthened growth is expected to be supported by continued strong domestic demand and, to a lesser extent, by improved net exports. By component, household final consumption would strengthen, driven by rising household incomes as a result of improved agricultural value added and nonagricultural activities. On the other hand, investment would maintain a sustained- though decelerating- growth pace. General government consumption is projected to maintain a moderate growth rate thanks to the efforts made to control operating expenditures. At the same time, the negative contribution of net exports of goods and services to growth in 2016 is expected to wane due to the recovery in foreign demand, the depreciation of the real effective exchange rate, and the sharp slowdown in the expansion of goods and services imports, itself driven by the rapid slowdown in the growth of capital goods purchases.

In 2018, assuming a return to an average agricultural season, agricultural value added is expected to fall by 1 percent, bringing overall growth to 3.1 percent. Nonagricultural activities should continue to improve at 3.6 percent.

This deceleration would mainly reflect the decline in domestic demand and, to a lesser extent, in net exports. Growth in household final consumption is therefore expected to slow due to a contraction of agricultural proceeds. As for investment, its growth pace, though slowing, remains relatively steady thanks to the ongoing major projects, namely the establishment of the Peugeot plant and the continued expansion of public investment. Net exports are expected to decline slightly as a result of the slower foreign demand and of the dissipated effect of the REER depreciation.

Chart 7.8: Growth outlook over the forecast horizon (Q2 2017- Q2 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 (sept./ june)	
	2012	2013	2014	2015	2016	2017	2018	2017	2018
National growth	**3.0**	**4.5**	**2.7**	**4.5**	**1.2**	**4.3**	**3.1**	**-0.1**	**0.0**
Agricultural VA	-9.1	17.2	-2.2	11.9	-12.8	14.7	-1.0	1.3	-0.1
Nonagricultural GDP	4.7	2.9	3.4	3.7	3.1	3.0	3.6	-0.3	0.0

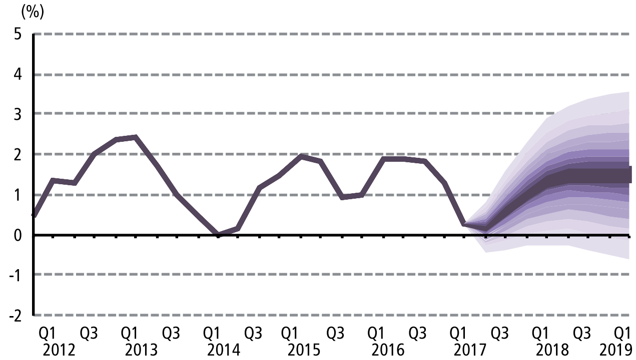
Sources: HCP data, and BAM forecasts.

Overall, after having evolved below its potential in 2016, domestic activity is expected to pick up in 2017, bringing the economic cycle back to its positive trend owing to the improvement recorded in incomes and in foreign demand as well as to the monetary policy accommodative stance.

Core inflation to rise gradually while remaining at a moderate level in the medium term

In the medium term, core inflation is expected to increase moderately from 0.8 percent in 2016 to 1.4 percent in 2017 and 1.6 percent in 2018. This is mainly due to expected consolidation of domestic demand and to rising imported inflation. However, these forecasts have been slightly revised downwards from June prospects, due to the slower increase in the price of certain food products included in core inflation.

Chart 7.9: Inflation forecast over the horizon (Q3 2017- Q2 2019)*



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

Sources: HCP data, and BAM forecasts and calculations.-

Table 7.4: inflation

	Achievements		Forecasts			Gap (sept./ june)	
	2015	2016	2017	2018	8 quarters horizon	2017	2018
Inflation	**1.6**	**1.6**	**0.6**	**1.3**	**1.1**	**-0.3**	**-0.3**
Core inflation	1.3	0.8	1.4	1.6	1.6	-0.2	-0.3

Sources: HCP data, and BAM forecasts and calculations.

Prices for fuels and lubricants are expected to rise in 2017, though at a slower-than-expected pace in June in connection with the downward revision of oil prices rise. Volatile food prices would decline in 2017 at a rate comparable to the June forecasts before stabilizing in 2018.

Overall, after 1.6 percent in 2016, inflation is projected to decelerate to 0.6 percent in 2017 before rising to 1.3 percent in 2018. Over the forecast horizon, inflation would average 1.1 percent.

Chart 7.10: Change in core inflation and output gap

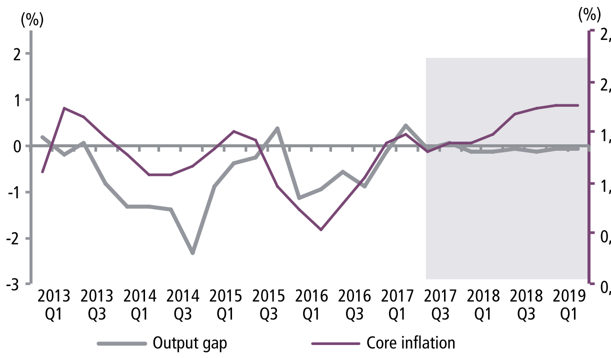
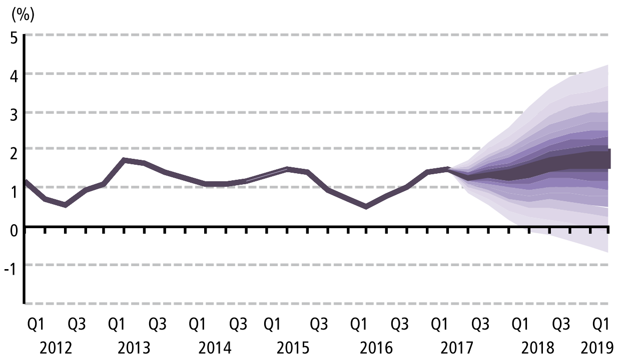


Chart 7.11: Projections of core inflation over the forecast horizon (Q3 2017- Q2 2019)*



* 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 central growth forecast scenario with a general equilibrium of the risk balance. Stronger growth in the euro area driven by further monetary easing, mitigation of the risks associated with Eurosceptic policies, added to a less pronounced effect of the Brexit, could have a positive impact on national growth. On the other hand, geopolitical tensions, uncertainties around the US government's trade policies, financial turbulence which could stem from a more rapid normalization of the Fed's monetary policy, as well as the risks associated with financial fragility in China and some European countries, all could have negative effects on foreign demand to Morocco.

With regard to inflation forecasts, several risks can impact its upward prospects. This would mainly result from the wage increase as part of the social dialogue, a higher than expected increase in international prices of basic foodstuffs and a more pronounced rise in the prices of energy products, reflecting stronger global demand and the persistent downtrend of US stocks.

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

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