BANK AL-MAGHRIB

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 19, 2017

1. The Board of Bank Al-Maghrib held its fourth quarterly meeting of the year on Tuesday, December 19.
2. At this meeting, it analyzed recent economic developments and the macroeconomic forecasts prepared by the Bank for the next two years.
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 the downward trend in inflation in the first months of the year has reversed since August, largely because of a less pronounced decrease in volatile food prices. Headline inflation is expected to reach 0.7 percent on average at year end, down from 1.6 percent in 2016, while core inflation, which measures the underlying price trend, would accelerate from 0.8 to 1.3 percent. In the medium term, inflation is projected to rise, but would remain at moderate levels. It would stand at 1.5 percent in 2018 and 1.6 percent in 2019. Core inflation, driven by stronger domestic demand and higher imported inflation, is also expected to trend upward to 1.5 percent in 2018 and 1.9 percent in 2019.
5. Internationally, the global economy continues to strengthen, supported by renewed confidence of economic units and accommodative monetary conditions in the major advanced economies. GDP growth in the euro area would rise to 2.3 percent at year end, before slowing to 1.8 percent in 2018 and 1.6 percent in 2019. In the United States, it would reach 2.2 percent in 2017 before stabilizing at 2.3 percent in 2018 and 2019. Labor market conditions continue to improve, as the unemployment rate is expected to decrease from 9.1 percent in 2017 to 8.8 percent in 2018 and then to 8.6 percent in 2019 in the euro area and stabilize at around 4.3 percent in the United States. In the major emerging economies, growth should continue to strengthen, boosted mainly by higher demand from advanced economies.
6. On the commodity market, oil prices continued to trend upward and are expected to average \$52.8/bl in 2017 as against \$42.8/bl in 2016. In the medium term, they would be relatively higher than expected in September, in connection with the improved prospects for global growth, geopolitical tensions and the renewal of the output reduction agreement. Hence, prices should be around \$57.8/bl in 2018 before declining to \$55.3/bl in 2019. Concerning phosphates and derivatives, prices of rock phosphate fell in November by 23.1 percent year on year to \$80/mt, and those of DAP and TSP increased by 14.6 percent and 3 percent to \$370/mt and \$278/mt, respectively. In the medium term, they would continue to hover around these levels, amid abundant supply.
7. Under these conditions, inflation would gradually converge towards the targets of the European Central Bank (ECB) and the U.S. Federal Reserve (Fed). In the euro area, it is projected at 1.5 percent for the whole of 2017 and around 1.2 percent in 2018 and 1.7 percent in 2019. In the United States, the consumer price index would finish the year up 2.1 percent and increase by 2.2 percent in 2018 and 2.4 percent in 2019.

8. Regarding monetary policy decisions, the ECB decided at its meeting of December 14 to maintain its policy rate unchanged at 0 percent, indicating that it expects its interest rates to remain at their present levels for an extended period of time, and well past the horizon of the asset purchase program. It confirmed that this program will continue until the end of September 2018 but its monthly pace will be reduced from €60 billion to €30 billion starting from January 2018. The Fed, at its meeting of December 13, raised the federal funds interest rate for the third time this year, to a target range of 1.25 to 1.5 percent. It reiterated that the stance of monetary policy remains accommodative, supporting strong labor market conditions and a sustained return to 2 percent inflation.

9. Nationally, growth stood at 4.2 percent in the second quarter, driven by a good crop year. Bank Al-Maghrib forecasts GDP for the whole of 2017 to grow by 4.1 percent, as agricultural value added would pick up by 14.7 percent, after declining by 12.8 percent in 2016, and nonagricultural activities' growth would improve from 2.2 to 2.7 percent. Although at a slow pace, the latter should continue recovering in the medium term, as their value added would increase by 3.4 percent in 2018 and 3.6 percent in 2019. Assuming average crop years, overall growth is projected to slow down to 3 percent in 2018 and then speed up to 3.6 percent in 2019. On the demand side, domestic demand would strengthen, particularly with a rebound in investment, while net exports' contribution to growth is expected to be slightly negative.

10. Labor market data for the third quarter show a relative improvement compared to the same quarter of 2016, with the creation of 89 thousand jobs, of which more than half in agriculture. At the same time, the market recorded a net inflow of 131 thousand job seekers, while the participation rate fell anew by 0.3 point to 45.5 percent. Consequently, unemployment rate rose slightly from 10.4 to 10.6 percent nationally, and from 14.5 to 14.9 percent in urban areas.

11. External accounts data for the first eleven months of the year reveal a more rapid growth of exports to 9.4 percent, including in particular a considerable rise in the sales of phosphates and derivatives as well as agricultural and agri-food products. Concurrently, imports rose by 6.7 percent, mainly due to a 28.6 percent increase in the energy bill. Travel receipts and expatriates' remittances were up 6.5 percent and 3.0 percent, respectively. Taking into account an inflow of GCC grants of about 8 billion dirhams, the current account deficit would reach 3.6 percent of GDP at year end, down from 4.4 percent in 2016, and foreign exchange reserves would hover around 239 billion dirhams, covering 5 months and 24 days of imports. In the medium term, exports would keep momentum, while the pace of imports would remain close to the current level. Assuming that GCC grants would reach 7 billion dirhams in 2018 and 2.5 billion dirhams in 2019, current account deficit would remain at 3.6 percent of GDP in 2018 and then improve to 3.3 percent in 2019. Under these circumstances, and assuming a continued annual FDI inflow representing around 3.5 percent of GDP, the stock of foreign exchange reserves would stabilize at a level equaling 5 months and a half of goods and services' imports.

12. Monetary conditions eased in the third quarter and are expected to remain accommodative over the medium term, with a depreciation in the real effective exchange rate. After decreasing by 22 points in the second quarter, lending rates rose by 34 points in the third quarter to 5.6 percent, mainly covering higher rates on cash advances to corporations. Bank lending to the nonfinancial sector continued improving at a moderate pace, particularly with a slight recovery of loans to private corporations. It grew by 5.2 percent as at end-October and is expected to end the year 2017 at 4.5 percent. For the next two years, and taking into account the expected improvement in nonagricultural activities and the measures undertaken by Bank Al-Maghrib, bank lending to the nonfinancial sector would grow by about 5 percent.

13. Turning to public finance, budget implementation in the first ten months of 2017 resulted in a deficit of 30.4 billion dirhams, down 5.1 billion compared to the same period of 2016. Receipts grew by 4.1 percent, mostly as corporate tax revenues rose considerably by 13.7 percent, and expenses increased by no more than 2.2 percent, despite a 31.1 percent rise in subsidy costs.

Considering these developments, fiscal deficit would reach 3.5 percent of GDP at year end. For the next two years, fiscal adjustment is projected to continue in line with the goals set by the government, as budget deficit would ease to nearly 3 percent of GDP.

14. The Bank Board agreed on the following schedule for its four meetings in 2018: March 20, June 19, September 25, and December 18.