BANK AL-MAGHRIB

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 20, 2016

1. The Board of Bank Al-Maghrib held its last quarterly meeting of the year on Tuesday, December 20.

2. Considering that inflation forecast is consistent with the objective of price stability and in view of the medium-term economic outlook, the Board judged that the current level of 2.25 percent for the key rate continues to ensure appropriate monetary conditions, and decided to keep it unchanged.

3. The Board noted that inflation fell down from 1.9 percent on average in the third quarter to 1.6 percent in October, mainly due to the slowdown in volatile food prices. It would average 1.6 percent by year end and would remain subdued in the medium term. Indeed, it is projected to edge down to 1 percent in 2017, as a result of the expected dissipation of shocks on volatile food prices, and then increase to 1.5 percent in 2018. Core inflation would trend up, from 0.8 percent in 2016 to 1.5 percent in 2017 and 1.7 percent in 2018, mostly because of the expected improvement in domestic demand.

4. Internationally, the global economic recovery continues, driven by improved activity in the major advanced economies. However, it is still sluggish and surrounded with strong uncertainties arising mainly from the conditions of the United Kingdom's exit from the European Union and the future trend of the United States trade and fiscal policies. In the euro area, growth would reach 1.6 percent in 2016, then increase to 1.8 percent in 2017 and slow down to 1.6 percent in 2018, impacted by the Brexit. In the United States, it would slow to 1.6 percent in 2016, dragged down by a higher dollar and weak investment, before rising to 2.2 percent in 2017 and then to 2.5 percent in 2018. In the labor market, conditions continued to improve in the United States, as the unemployment rate fell significantly to 4.6 percent in November and is expected to average 4.9 percent at end-2016 and to stabilize at this level in the medium term. In the euro area, unemployment continues to decline, albeit at a slow pace, and is projected at 10 percent in 2016 and to drop to 9.7 percent in 2017. In the major emerging markets, China's GDP expanded by 6.7 percent in the third quarter, amid economic rebalancing, and would continue to slow down, standing at 6.1 percent in 2018. At the same time, the contraction of activity continued to ease in Brazil and Russia which would return to growth as of 2017.

5. In commodity markets, following the Vienna agreement announced on November 30 to lower production, oil prices rose markedly and stabilized later on at $54 a barrel. They are expected to end the year 2016 at an average of $43.1 a barrel and increase to $51.6 a barrel in 2017 and $53.5 a barrel in 2018. Prices of phosphates and derivatives trended downward in the first 11 months of the year, declining by 15 percent for crude phosphates at $104 per thousand tonnes, by 19 percent for DAP at $323 per thousand tonnes and by 29 percent for TSP at $270 per thousand tonnes. In the medium term, they are expected to hover around these levels, amid output surplus and low food prices.

6. Under these conditions, inflation in advanced economies remains at low to moderate rates, but is expected to rise significantly in the medium term owing in particular to the dissipated effects of the decline in energy prices. It should hence increase in the euro area from 0.2 percent in 2016 to

1.5 percent in 2017 and 2018. In the United States, it is expected at 1.2 percent in 2016, 2.4 percent in 2017 and 2.3 percent in 2018.

7. In this context, the European Central Bank decided, at its Board meeting of December 8, to keep the policy rate unchanged at 0 percent, while reiterating that it expects its key interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases. It also announced that this program will continue until the end of December 2017, or beyond, if necessary, and that it will decrease the monthly pace of purchases from 80 to €60 billion starting from April 2017. On the other hand, the Federal Reserve decided at its meeting of December 14 to raise the target range for the federal funds rate by 0.25 percentage point to 0.5-0.75 percent and reiterated that its Federal Open Market Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate.

8. Nationally, national accounts data for the second quarter show a limited growth at 0.5 percent, covering a 10.9 percent contraction in the agricultural added value and a slowdown in nonagricultural GDP to 2.1 percent. On the demand side, this deceleration reflects steeper negative contribution of net exports and a slowdown of private consumption. Labor market in the third quarter registered a new loss of 73 thousand jobs, particularly in agriculture and industry, including crafts, and a sharp decline in the participation rate to 46.7 percent. Therefore, unemployment rate fell to 9.6 percent from 10.1 percent a year earlier. In light of these developments, Bank Al-Maghrib revised its growth outlook for 2016 down to 1.2 percent, with a 9.6 percent decline in the agricultural added value and a 2.6 percent deceleration in the nonagricultural GDP. In the medium term and assuming an average crop year in the next two years, growth is expected to accelerate to 4.2 percent in 2017 and 3.7 percent in 2018. Nonagricultural GDP would accelerate to 3.4 percent and 3.7 percent in 2017 and 2018, respectively, driven by stronger revenues, particularly from the agricultural sector, and accommodative monetary conditions.

9. Regarding external accounts, the trade balance widened by 25.3 billion dirhams at end-November, bringing the coverage ratio to 55 percent. This change is the result of a slowdown in exports, due mainly to lower sales of phosphates and derivatives, as well as an acceleration in imports, as the drop in the energy bill was less significant than the rise in capital goods purchases. For the other major components of the current account, expatriate remittances rose by 4.2 percent and travel receipts by 4.1 percent. In view of these developments and assuming an annual 8 billion dirhams inflow of grants from GCC partner countries in 2016 and 2017, the current account deficit would be slightly higher than expected in September. It would average 2.8 percent of GDP in 2016 and ease to 2.1 percent in 2017 and 2.5 percent in 2018. Assuming a continued FDI inflow at a level comparable to previous years, foreign exchange reserves would continue to expand, albeit at a less important pace than expected in September, to cover 6 months and 21 days of imports of goods and services at end-2016, 7 months at end-2017 and 7 months and 12 days at end-2018.

10. Monetary conditions in the third quarter were marked by a new drop in lending rates by 17 basis points to 5.08 percent, bringing the overall drop of these rates to 95 basis points over the last 8 quarters. Under these circumstances, loans to the nonfinancial sector continued to improve gradually, with acceleration in loans to businesses. In light of these developments, their growth rate was adjusted upward to 3.5 percent for 2016. In the medium term, its pace would further improve to reach 4 percent in 2017 and 4.5 percent in 2018, boosted by the expected rebound in nonagricultural growth and accommodative monetary conditions. The effective exchange rate registered an appreciation in real terms, which would gradually fade away in 2017 and 2018, mainly in conjunction with the expected acceleration of inflation in partner and competitor countries.

11. Concerning public finance, budget execution over the first eleven months of the year resulted in a rise by 4.9 percent in overall spending, covering in particular higher expenses on investment and goods and services and an easing by 14.3 percent in subsidy costs. At the same time, nonprivatization current revenues improved by 5.4 percent, reflecting a rise in tax revenues and grants from GCC partner countries which reached 4.5 billion dirhams. Overall, fiscal deficit slightly narrowed to 38.8 billion dirhams and would stand at around 3.5 percent of GDP for the whole of 2016. In the medium term, fiscal adjustment would continue, assuming further revenue mobilization and better control of current spending. The deficit would thus ease to 3.1 percent of GDP in 2017, as planned in the Finance Bill, and then decrease to 2.8 percent in 2018.

12. At the same meeting, the Board reviewed and adopted the Bank budget for the year 2017.

13. The Board also discussed and adopted the foreign reserves' management strategy for 2017.

14. Having reviewed the Audit Committee report, the Board approved the internal audit program for 2017.

15. Finally, the Board agreed on the following schedule for its meetings in 2017:

March 21

June 20

September 26

December 19