BANK AL-MAGHRIB

MONETARY POLICY REPORT

No. 45 / 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

بنك المغرب

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, Dcember 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.

OVERVIEW

International economic data for the third quarter of 2017 confirm that the global economy strengthened. Indeed, growth accelerated from 2.3 percent to 2.5 percent in the euro area, from 2.2 percent to 2.3 percent in the United States and from 1.5 percent to 1.7 percent in Japan. Meanwhile, it stabilized at 1.5 percent in the United Kingdom, in a context marked by the persistence of uncertainties related to the Brexit negotiations. In key emerging countries, growth slowed slightly to 6.8 percent in China and improved to 6.1 percent in India. In addition, after their exit from the crisis, the economies of Brazil and Russia continued to recover with a gradually faster growth.

In the labor markets, conditions continue to improve. The unemployment rate stood at 4.1 percent in November in the United States where 228 thousand jobs were created, and fell in the euro area to 8.8 percent in October, the lowest level since January 2009. In the euro area's main countries, it decreased by 0.1 percentage point to 9.4 percent in France and stabilized at 16.7 percent in Spain, 11.1 percent in Italy and 3.6 percent in Germany.

On the stock markets, developments between October and November trended differently in the advanced countries, with particularly increases in the Dow Jones and NIKKEI 225 and decreases in the FTSE 100 and EUROSTOXX. In emerging economies, the MSCI EM grew by 2 percent, covering increases in the China and India indexes and a decline in the Turkey stock market index. In sovereign debt markets, 10-year yields declined in France, Spain and Italy and stabilized in the United States and Germany.

In the currency markets, the euro depreciated by 0.1 percent between October and November against the dollar, fell slightly versus the Japanese yen and stagnated vis-à-vis the pound sterling. Concerning the main emerging countries' currencies, the Turkish lira depreciated significantly with a decrease of 5.4 percent against the dollar, while the Indian rupee appreciated by 0.7 percent and the Chinese yuan stagnated at 6.6 yuan/dollar. The annual rate of bank lending eased slightly from 3.2 percent in September to 3.1 percent in October in the United States and accelerated from 2.5 percent to 2.7 percent in the euro area.

On the commodity markets, oil prices continued their upward trend since July to $60 per barrel in November, up 9.2 percent from one month to the next and 27.9 percent, year on year. This change is particularly due to the market expectations to extend the production reduction agreement until December 2018 and to the geopolitical tensions. As to non-energy products, the Dow Jones-UBS Index appreciated 5.2 percent, year on year, with a significant increase of 22.1 percent in base metal prices and a 5.1 percent decline in agricultural commodity prices. Regarding phosphates and derivatives in particular, crude phosphate prices fell by 23.1 percent, while DAP and TSP prices grew by 14.6 percent and 3 percent, respectively.

Under these conditions, inflation in the euro area accelerated from 1.4 percent in October to 1.5 percent in November and from 2.0 percent to 2.2 percent in the United States.

As regards monetary policy decisions, the ECB decided on December 14, to keep its policy rate unchanged at 0 percent, while indicating that it continues to expect all of its key interest rates to remain at their present levels for an extended period of time and well past the horizon of the net asset purchases. It also reiterated that from January

2018 it intends to continue to make purchases at a monthly pace of 30 billion euros until the end of September 2018. Similarly, the FED decided on December 13 to raise, for the third time this year, the target range for the federal funds rate to [1.25 percent; 1.5 percent], in view of realized and expected labor market conditions and inflation. It reiterated that monetary policy remains accommodative, thereby supporting labor market conditions and a sustained return to 2 percent inflation.

Nationally, the external accounts data for the first eleven months of the year show a markedly faster growth of exports, which rose to 9.4 percent, with particularly increases of 12.2 percent for phosphates and derivatives, 8.5 percent for the food industry and 6.9 percent for automotive sales. At the same time, imports grew by 6.7 percent, mainly reflecting a 28.6 percent increase in the energy bill and 4.9 percent in consumer goods purchases. Capital goods imports grew by 3.4 percent after a significant rise in 2016. Against this backdrop, the trade deficit widened by 5.6 billion dirhams to 172.7 billion and the import coverage ratio improved by 1.4 percentage point to 56.4 percent. Travel receipts and remittances from Moroccan expatriates moved up 6.5 percent and 3 percent, respectively. Taking into account these developments and the inflows of 27 billion dirhams under FDI and 8 billion under GCC grants, as well as significant outflows under Moroccan direct investment abroad, mainly driven by a major acquisition transaction, net international reserves expanded to 238.4 billion dirhams at end-November, equaling 5 months and 23 days of imports of goods and services.

This trend affected bank liquidity, whose deficit moved down from 69 billion in July to 43.5 billion in November. Indeed, Bank Al-Maghrib adjusted the volume of its injections, bringing it to 43.2 billion, thus making it possible to maintain the weighted average rate on the interbank market aligned with the key rate. Under these conditions, sovereign rates did not change significantly, while lending rates were up 34 basis points in the third quarter, reflecting particularly higher rates on cash advances to businesses. Loans to the nonfinancial sector continued to improve with growth of 5.2 percent in October, from 4.3 percent in the third quarter and 3.6 percent in the second quarter.

With regard to public finances, budget execution over the first ten months of the year resulted in a fiscal deficit of 30.4 billion, down 5.1 billion from the same period of 2016. This improvement is mainly attributed to higher tax revenues, with increases of 13.7 percent in corporate tax and 6.7 percent in the VAT. At the same time, overall spending was up 2.2 percent, reflecting increases of 31.1 percent in subsidy costs to 12.8 billion, 6.7 percent in transfers to local governments and 1 percent in investment. Given the 6 billion cut in payments arrears, the cash deficit amounted to 36.3 billion. In addition to a negative net external inflow of 1.2 billion, this gap was covered by domestic resources.

In this context, encouraged by a good crop year, economic growth stood at 4.2 percent in the second quarter as against 1 percent in the same quarter of 2016. Agricultural value added rebounded 17.5 percent after a decrease by 12.8 percent, and that of nonagricultural activities stood at 2.8 percent from 1.7 percent. On the demand side, this improvement reflects faster growth of household final consumption from 2.9 percent to 4.9 percent, mainly due to improved farm incomes and labor market conditions, as well as a positive contribution of net exports to growth by 0.9 point as opposed to -3.8 point. On the other hand, the pace of investment slowed sharply to 0.9 percent from 8.5 percent and final general government consumption rose 0.6 percent from 2.4 percent.

In terms of employment, third quarter data show a slight improvement in labor market conditions. 89 thousand jobs were created, of which 47 thousand in agriculture, 20 thousand in services, 15 thousand in industry and 7 thousand in construction. At the same time, 131 thousand jobseekers entered the market and the participation rate fell by 0.3 percentage point to 45.5 percent. As a result, the unemployment rate rose slightly from 10.4 percent to 10.6 percent nationally and from 14.5 percent to 14.9 percent in urban areas.

On the real estate market, after a 1 percent drop in the second quarter, the real estate price index went up 0.6 percent in the third quarter, with urban land prices rising, apartment prices stagnating and commercial property prices decreasing. Meanwhile, transactions decreased by 1.4 percent, particularly due to a decline in apartment sales. On the stock market, trends remain positive, as the MASI rose 1 percent from 5.6 percent a quarter earlier, bringing its annual performance to 4.3 percent. Transactions amounted to 11.9 billion dirhams after an average of 14.5 billion in the first two quarters of 2017.

Inflation rose to 0.6 percent in October after a downward trend since the last quarter of 2016. This acceleration reflects slower fall in volatile food prices from 6.3 percent on average in the third quarter to 3.8 percent in October and, to a lesser extent, an acceleration from 1.2 percent to 1.3 percent in core inflation and from 4.2 percent to 5.5 percent in the growth of fuel and lubricant prices. Prices for regulated products rose 1 percent, owing to previous increases in “electricity” and “tobacco” prices.

In terms of prospects, the global economic recovery is confirmed, driven mainly by a faster-than-expected growth in advanced countries. In the euro area, after 1.8 percent in 2016, growth should end the year with a rebound to 2.3 percent, driven by strong domestic demand and favorable monetary conditions. It should slow down to 1.8 percent in 2018 and 1.6 percent in 2019, particularly due to uncertainties surrounding the Brexit terms. In the United States, the renewed optimism of the operators caused particularly by the announced tax reforms as well as the accommodating stance of the monetary policy should stimulate economic activity in the medium term. Growth is expected to accelerate from 1.6 percent in 2016 to 2.2 percent in 2017 before stabilizing at 2.3 percent in 2018 and 2019. Against this backdrop, the unemployment rate should drop significantly in the United States to end the year 2017 at 4.4 percent, as against 4.8 percent in 2016, before stablizing at 4.3 percent in 2018 and 2019. Similarly, labor market conditions in the euro area should continue to improve, as the unemployment rate would fall from 10 percent in 2016 to 9.1 percent in 2017, before standing at 8.8 percent in 2018 and 8.6 percent in 2019.

In commodity markets, taking into account the improvement in the global economic outlook, geopolitical tensions and the extension of the production reduction agreement until December 2018, oil price trends were revised upwards. Indeed, after reaching $42.8/bl in 2016, prices would end the year with an average of $52.8/bl and increase to $57.8/bl in 2018, before returning to $55.3/bl in 2019. Prices for phosphates and derivatives should remain close to their current levels in the medium term, in a context marked notably by output capacity surpluses.

Under these conditions, inflation should converge gradually towards the objectives of the ECB and the FED. In the euro area, it would be around 1.5 percent for the whole of 2017 and stand at 1.2 percent in 2018 and 1.7 percent in 2019. In the United States, it would end the year with an acceleration to 2.1 percent and rise to 2.2 percent in 2018 and 2.4 percent in 2019.

Nationally, the current account deficit in 2017 was revised downward by 0.3 point to 3.6 percent of GDP, given a significant acceleration of exports in recent months. In the medium term, export momentum is expected to continue, particularly with further expansion of phosphates and derivatives shipments and a significant increase in automotive sales in 2019, according to data announced for the start of production in the Peugeot plant. At the same time, imports would grow at a steady pace of around 5 percent, with a slowdown in energy purchases and a recovery in capital goods' imports, particularly in 2018. Travel receipts should keep their momentum and growth of remittances from Moroccan expatriates would accelerate to around 3.5 percent over the next two years. Also, taking account of GCC donations of 7 billion dirhams in 2018 and 2.5 billion in 2019, the current account would stabilize at 3.6 percent of GDP in 2018 and would ease to 3.3 percent in 2019. Assuming further FDI inflow, prospects for foreign reserves were revised upwards to 239 billion dirhams, equaling 5 months and 24 days of imports of goods and services in 2017. For the next two years, they should stabilize at the same pace as in 2017, thus covering 5 months and 15 days of imports of goods and services.

Taking into account the anticipated improvement in the trend of international reserves, the liquidity deficit should end the year at 38.8 billion dirhams and widen to 50.6 billion at the end of 2018 and to 62.7 billion at the end of 2019, impacted particularly by the upward trend of the currency in circulation. Monetary conditions should ease over the forecast horizon, due to the expected depreciation of the real effective exchange rate. Under these conditions and considering growth projections, forecasts about bank loans to the nonfinancial sector remained unchanged from the September Monetary Policy Report (MPR) at 4.5 percent at end-2017 and 5 percent in 2018 and 2019.

Regarding public finances, the budget execution for 2017 would result in a deficit of 3.5 percent of GDP. In the medium term, and assuming a continued revenue mobilization, a controlled spending and a realization of the expected GCC grant inflows, the fiscal adjustment should continue, reducing the deficit to around 3 percent.

In terms of national accounts, the forecasts were slightly adjusted compared to the September MPR, taking particularly into account a lower-than-expected performance in the second quarter. Growth in 2017 would stand at 4.1 percent, with a rebound of 14.7 percent in agricultural value added and a recovery, albeit slow, in nonagricultural activities, whose value added would accelerate from 2.2 percent to 2.7 percent. On the demand side, net exports would recover and domestic demand would strengthen due to improved household consumption, while investment should end the year under a sharp slowdown. In the medium term, assuming average crop years, growth is expected to decelerate to 3 percent in 2018 before accelerating to 3.6 percent in 2019. Although at a slow pace, nonagricultural activities would continue to improve with a growth in value added of 3.4 percent in 2018 and 3.6 percent in 2019. Domestic demand should continue to support growth, with particularly a recovery in investment, while net exports should contribute negatively to growth in 2018, which would ease in 2019, in conjunction with the planned start-up of the Peugeot plant.

Inflation forecasts were slightly adjusted compared to the September MPR, given the slow decline in volatile food prices observed in recent months, as well as the revision of assumptions about oil prices. Inflation should end the year at a relatively low level of 0.7 percent. On the other hand, its core component is expected to increase to 1.3 percent and fuel and lubricants prices would post a more-than-expected growth in September. In the medium term, inflation would return to a moderate level of 1.5 percent in 2018 and 1.6 percent in 2019. Its core component would be tilted to the downside to approximately 1.5 percent in 2018 and reach 1.9 percent in 2019, due to the acceleration of domestic demand and the increase in imported inflation. Fuel and lubricant prices should post in 2018 a smaller increase than in 2017 before declining slightly in 2019.

BAM central scenario forecasts remain surrounded by several risks, with a balance tilted downward for growth and upward for inflation. In terms of growth, geopolitical tensions in the Middle East, the political crisis in Spain and implementation of restrictive trade and immigration policies in the United States would negatively impact foreign demand to Morocco. Similarly, weather conditions are expected to impact growth in 2018. On the other hand, expansionary fiscal policy and financial deregulation in the United States could further stimulate global growth. In terms of inflation, the identified risks should lead to higher-than-expected inflation and include a larger-than-expected increase in fresh food prices, in conjunction with the delayed rainfall and a higher increase in energy prices due to geopolitical tensions.

1.INTERNATIONAL DEVELOPMENTS

The upturn in the global economy continued during the third quarter. In the major advanced economies, except for the United Kingdom, where it stagnated, growth continued to move up gradually in the United States, euro area and Japan. The improvement in economic conditions was coupled with a stagnant unemployment rate in November in the United States, in addition to a decline in job creation compared to the previous month, while this rate fell in the euro area in October. In the key emerging countries, with the exception of China where it slowed down, growth accelerated in India, Brazil and Russia. In the financial markets, sovereign yields in November eased in almost all countries, while the stock market indexes of the advanced economies showed diverging trends. International commodity prices were overall tilted to the upside, covering a rise in energy and base metal prices, and a decline in agricultural commodity prices. However, inflationary pressures remain contained especially as a result of the prudent normalization of monetary policies. Overall, these developments point to the continued moderation of external inflationary pressures over the coming quarters.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, the unemployment rate stagnated at 4.1 percent in November, with job creation declining to 228,000 jobs from 244,000 jobs in the previous month. In the euro area, the rate fell to 8.8 percent in October, the lowest level since January 2009. By country, the unemployment rate fell, month on month, in France from 9.5 percent to 9.4 percent, and stabilized at 11.1 percent in Italy, 3.6 percent in Germany and 16.7 percent in Spain. In the United Kingdom, August figures show a stagnation of this rate at 4.2 percent.

In addition, growth remained stable in the United Kingdom at 1.5 percent and strengthened in Japan from 1.5 percent to 1.7 percent, in connection with the rise in exports.

Table 1.1: YoY change in quarterly growth

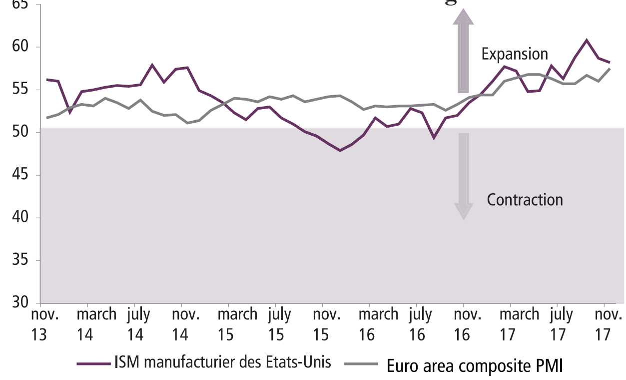
	2015	2016				2017		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced economies								
United States	2.0	1.4	1.2	1.5	1.8	2.0	2.2	2.3
Euro area	2.0	1.7	1.8	1.7	1.9	2.0	2.3	2.5
France	1.0	1.2	1.2	0.9	1.2	1.1	1.8	2.2
Germany	1.3	1.8	1.9	1.9	1.9	2.1	2.3	2.8
Italy	1.2	1.3	1	0.9	1.0	1.3	1.5	1.7
Spain	3.8	3.5	3.4	3.2	3.0	3	3.1	3.1
United Kingdom	2.1	1.9	1.8	1.8	1.7	1.8	1.5	1.5
Japan	1.1	0.4	1.0	1.0	1.7	1.4	1.5	1.7
Emerging economies								
China	6.8	6.7	6.7	6.7	6.8	6.9	6.9	6.8
India	7.3	8.7	7.6	6.8	6.7	5.6	5.6	6.1
Brazil	-5.6	-5.2	-3.4	-2.7	-2.5	0.0	0.4	1.4
Turkey	7.5	4.8	4.9	-0.8	4.2	5.2	5.1	n.a
Russia	-3.2	-0.4	-0.5	-0.4	0.3	0.5	2.5	n.a

Source : Thomson Reuters Eikon.

In the main emerging countries, growth in China slowed slightly to 6.8 percent in the third quarter, against a backdrop of increasing uncertainty about the country's financial stability (Box I.1). On the other hand, it rebounded from 5.6 percent to 6.1 percent in India and from 0.4 percent to 1.4 percent in Brazil. In Russia, the latest available data, which remain those of the second quarter, indicate a faster growth from 0.5 percent to 2.5 percent.

Concerning high-frequency indicators, the euro area composite PMI rose in November 2017 to 57.5 points from 56.0 points in the previous month, its highest level ever in the last 79 months. In contrast, in the United States, the ISM manufacturing index fell in November to 58.2 points from 58.7 points in October.

Chart 1.1: U.S ISM Manufacturing PMI



Source : Thomson Reuters Eikon.

1.1.2 Labor market

In the United States, the unemployment rate fell to 4.1 percent in October from 4.2 percent in September, with a rebound in job creations to 261,000 jobs from 18,000 jobs in the previous month. Similarly, this rate fell in the euro area to 8.8 percent in October, the lowest rate since January 2009. By country, the unemployment rate fell from one month to another in France from 9.5 percent to 9.4 percent, and stabilized at 11.1 percent in Italy, 3.6 percent in Germany and 16.7 percent in Spain. In the United Kingdom, August figures show a stagnation of this rate at 4.2 percent.

Table 1.2: Change in unemployment rate (%)

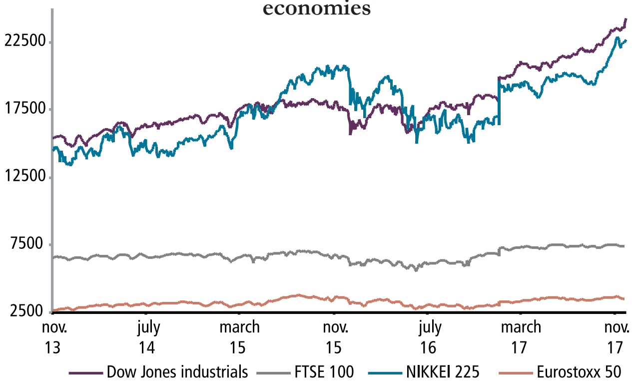
	2015	2016	2017		
			sept.	oct.	nov.
United States	**5,3**	**4,9**	**4,2**	**4,1**	**4,1**
Euro area	**10.9**	**10**	**8.9**	**8.8**	**n.a**
France	10.4	10.1	9.5	9.4	n.a
Italy	11.9	11.7	11.1	11.1	n.a
Germany	4.6	4.1	3.6	3.6	n.a
Spain	22.1	19.6	16.7	16.7	n.a
United Kingdom	**5.3**	**4.8**	**n.a**	**n.a**	**n.a**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

In the stock market, advanced economies' main indexes trended upwards between October and November in the United States and Japan and downwards in the euro area and the United Kingdom, with a slight rise in volatility.

Chart 1.2: Change in major stock market indexes of advanced economies



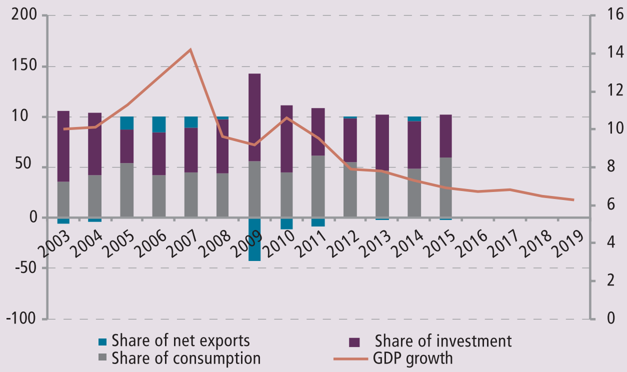
Source : Thomson Reuters Eikon.

Box 1.1 : Financial risk increase in China

After peaking at 14.2 percent in 2007, China's growth declined gradually over the last few years, reaching 6.5 percent in 2016, according to the IMF. This slowdown reflects a faltering Chinese model that relied on exports and investment. The latter has been accompanied by low productivity growth, due to a sub-optimal allocation of factors and overcapacity of investment, prompting authorities to shift toward a more sustainable model based on consumption and services.

In its 2017 Article IV Consultation Report, the IMF believes that China's recent economic performance has been accompanied by an increasingly significant rise of the financial risk. However, it points out that the country, albeit slowly, is making progress towards rebalancing its economic model. Indeed, economic slowdown has stopped since the end of 2016 and growth averaged 6.9 percent over the first three quarters of 2017. The contribution of consumption to growth reached 63.4 percent in the first half of 2017, thanks to low inflation (1.4 percent) and expansionary fiscal policy, and the growth of services outstripped that of the manufacturing sector, which accounts for 54.1 percent of GDP.

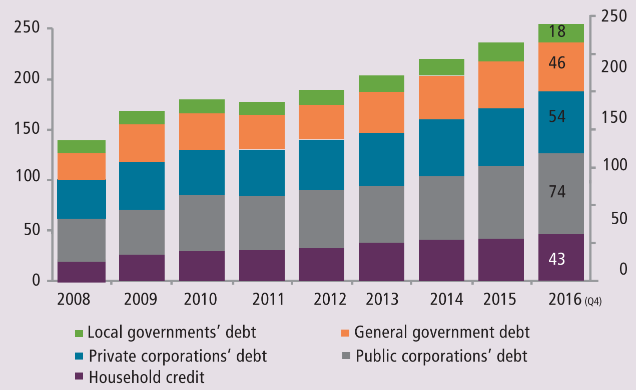
Chart B 1.1.1 : Change in GDP growth and its components



Nevertheless, many imbalances persist. Savings, considered the highest in the world in terms of value, is one of the main causes both externally and internally. First, the savings surplus, which reflects the current account surplus, is feeding global savings and, as a result, putting downward pressure on international interest rates. Internally, any additional savings that should be kept within the country are often channeled into the financial system, strengthening particularly the supply of loans.

Currently, according to the IMF, the decline in the current account surplus is continuing, but internal weaknesses are increasing. Thus, in its latest report on the Chinese Financial System Stability Assessment, the IMF is concerned about the level of indebtedness and its impact on financial stability. Indeed, credit growth exceeds that of GDP and the ratio of loans to GDP reached 235 percent in 2016. The latter, according to the Fund's estimates, could accelerate by 60 percentage points to more than 290 percent of GDP by 2022. Debt of nonfinancial enterprises stood at 165 percent of GDP in 2016, of which a significant share, i.e. 70 percent according to the OECD and 57 percent according to the IMF, is held by state-owned companies. The discrepancy in statistics is due to opaque financing methods, which have become increasingly important since 2008. In particular, shadow banking[1], which is the most widespread method of financing, accounts for 83 percent of GDP at the end of 2016[2].

Chart B 1.1.2 : Change and breakdown of bank lending (in % of GDP)

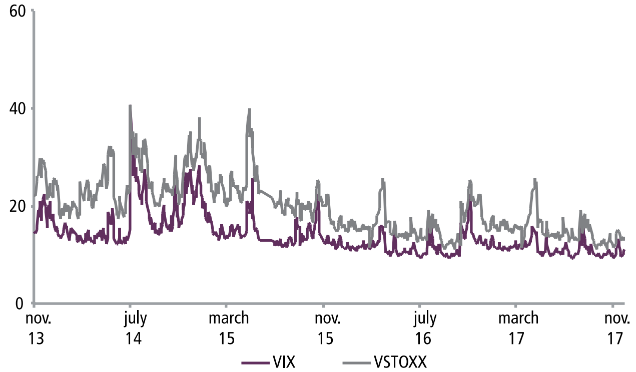


In this context, the authorities set the preservation of financial stability as a key priority. The newly established Commission on Financial Stability and Development, with its unique mandate to oversee financial stability, held its first meeting in early November. In addition, reforms have been implemented with regard to the high indebtedness, particularly that of state-owned enterprises, but the IMF believes that these reforms should accelerate further. It also believes that the reform of joint ownership is still in its initial stages and that the business and trade environment should improve further. Moreover, it notes that the barriers to entry persist and that access to resources and conduct are not always evenly ensured, alluding to the fact that state-owned businesses continue to enjoy substantial implicit support[3] (preferential access to credit, land ...). Therefore, the IMF recommends that the authorities first target "zombie" firms[4], which are a major source of vulnerability for nonfinancial corporate debt and a drop in productivity.

In total, according to the IMF, the challenge for the Chinese authorities is to arbitrate between a short term characterized by high growth and a medium term aimed at sustainable growth. It added that containing financial risks would require reducing the growth target, especially that of doubling the 2010 GDP by 2020.

(1) Shadow banking refers to all activities and actors contributing to non-bank financing of the economy.
(2) Dong J., Huang B. and Xia L. Taming China's shadow banking sector, BBVA research, August 2017.
(3) It is estimated at 3 percent of GDP according to a study by Lam and Schipe 2017.
(4) According to the Chinese State Council, a "zombie" firm is a firm which reported three successive years of loss, which is struggling to meet environmental and technological standards, which does not align to national industrial policies and which is largely dependent on the support of the state and banks to survive.

Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters Eikon.

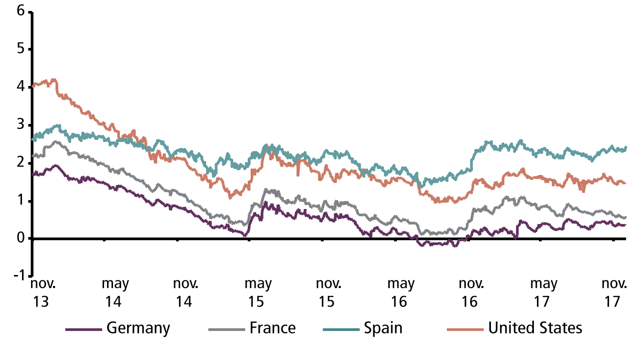
In emerging economies, the MSCI EM grew by 2 percent between October and November, covering increases in China and India and a decrease in Turkey.

In the bond markets, with the exception of Germany and the United States where they stagnated, 10-year yields fell between October and November in the main advanced economies.

In major emerging economies, 10-year yields posted increases between October and November ranging from 20 basis points in China and India to 100 basis points in Turkey.

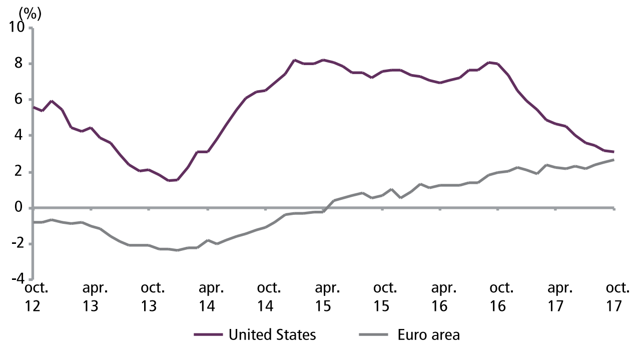
In the money markets, the 3-month Euribor stabilized between October and November at -0.33 percent, while the 3-month Libor edged up to 1.43 percent. The annual bank lending growth slightly decelerated between September and October from 3.2 percent to 3.1 percent in the United States, and accelerated from 2.5 percent to 2.7 percent in the euro area.

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



Source: Thomson Reuters Eikon.

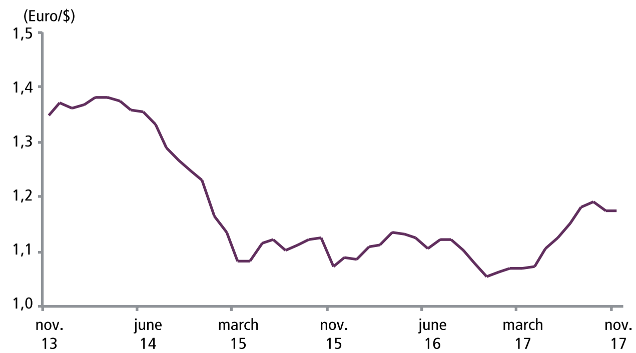
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

In the foreign exchange markets, the euro depreciated slightly by 0.1 percent against the dollar between October and November, to 1.17 dollar. Similarly, it fell slightly against the Japanese yen and stagnated vis-à-vis the pound sterling. Change in key emerging countries' currencies against the dollar was marked by a sharp depreciation of 5.4 percent of the Turkish lira, mainly due to the rising diplomatic tensions with the United States.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

Regarding monetary policy decisions, the FED decided on December 13 to raise, for the third time this year, the target range for the federal funds rate by a quarter of a percentage point to 1.25 -1.50 percent, in view of realized and expected labor market conditions and inflation. The Fed reiterated that monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

The ECB decided on December 14 to keep the policy rate at 0 percent, while indicating that it expects all its rates to remain at their present levels for an extended period of time and well past the horizon of the net asset purchases. The Bank also confirmed its intention to continue to make net asset purchases under the asset purchase program (APP) at a monthly pace of 30 billion from January 2018 until the end of September 2018 or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation aim. If the outlook becomes less favorable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, it stands ready to increase the APP in terms of size and/or duration.

Similarly, the Bank of England decided on December 14 to maintain its key rate unchanged at 0.5 percent. It also decided to keep the stock of sterling non-financial investment-grade corporate bond purchases at £10 billion, and that of UK government bond purchases at £435 billion.

Regarding emerging countries, the Central Bank of Brazil decided on December 6 to reduce its key rate by 0.5 percentage points to 7 percent, while indicating that all available economic indicators show a gradual recovery of the Brazilian economy. Similarly, the Central Bank of Russia decided on December 15 to cut its key rate by 50 basis points to 7.75 percent. The Central Bank of India decided on December 6 to maintain its rate unchanged at 6 percent.

1.3 Commodity prices and inflation

Except for agricultural products, whose prices fell slightly, commodity prices were broadly tilted to the upside in November. Indeed, the overall Dow Jones-UBS Index rose 2.8 percent, month on month, and 10.6 percent, year on year.

1.3.1 Energy commodity prices

Although international markets were particularly disrupted in November, particularly owing to speculations about a renewal of the production reduction agreement and the publication of the International Energy Agency forecasts - predicting a drop in global demand in 2018/19, oil prices continued to rise since last July, standing at their highest level for more than two years. Traded at $60 per barrel on average, prices rose by 27.9 percent, year on year, and 9.2 percent, from one month to the next. It should be noted that OPEC and some non-member countries decided to extend the production reduction agreement until December 2018. However, in view of the uncertainties surrounding supply and, to a lesser extent, demand, a review of this agreement is scheduled for next June for possible adjustments. Natural gas prices fell 1 percent between October and November to $6.02 per million BTU[1] , but were up 22.6 percent, year on year.

Chart 1.7 : Oil prices[1] in dollars

Average Brent prices of the United Kingdom, Dibai Fateh and West Texas Intermediate (WTI)
Source : Thomson Reuters Eikon.

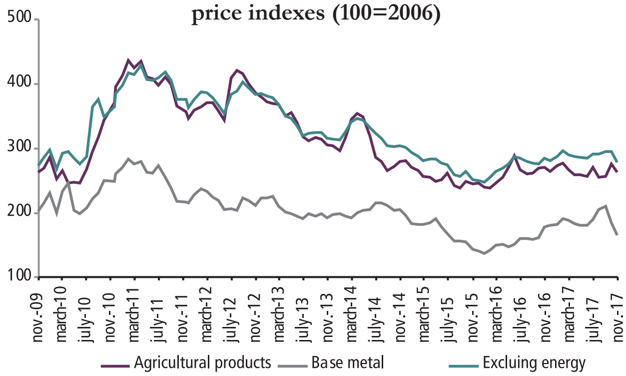
1.3.2 Non-energy commodity prices

Non-energy prices were up in November. The relevant Dow Jones-UBS index thus rose 5.2 percent, year on

1 BTU: British Thermal Unit

year, covering, on the one hand, a sharp rebound of 22.1 percent in base metal prices and, on the other hand, a decrease of 5.1 percent in the agricultural commodity price index.

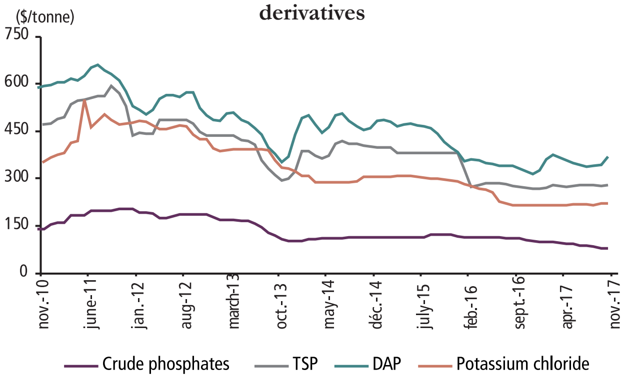
Chart 1.8: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

In the world fertilizer market, prices for crude phosphate and potassium chloride remained unchanged in November at $80 and $222, respectively. Conversely, prices of urea fell by 6.5 percent to $246, while those of DAP and TSP rose by 7.6 percent to 370 dollars and 0.7 percent to 278 dollars, respectively. On a year-on-year basis, apart from crude phosphate prices, which fell by 23.1 percent, prices rose by 3 percent for TSP, 3.3 percent for Potassium Chloride, 14.6 percent for DAP and 16.6 percent for urea. Durum wheat prices moved up 2.3 percent, from one month to the next, and 19.3 percent, year on year.

Chart 1.9: Change in the world prices of phosphate and derivatives

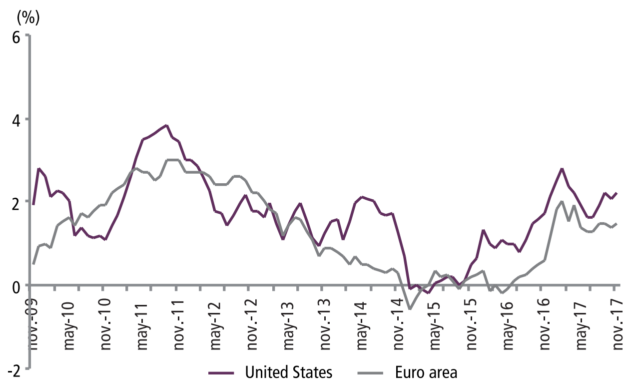


Source: World Bank.

1.3.3 Inflation in the world

According to Eurostat, inflation in the euro area stood at 1.5 percent in November, from 1.4 percent a month earlier. This change partly reflects price increases in Germany and Spain to 1.8 percent. In other countries of the area, inflation stagnated at 1.2 percent in France and 1.1 percent in Italy. In other major advanced economies, it continued to grow to 2.2 percent in the United States and 3.1 percent in the United Kingdom. In Japan, the last statistics, which are those of October, indicate lower inflation to 0.2 percent. In emerging markets, price rise accelerated to 4.9 percent in India and to a lesser extent in Brazil to 2.8 percent, while it moved down to 1.7 percent in China and 2.5 percent in Russia.

Chart 1.10: Inflation 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		
			Sept.	Oct.	Nov.
United States	**0,1**	**1,3**	**2,1**	**2,0**	**2,2**
Euro area	**0,0**	**0,2**	**1,5**	**1,4**	**1,5**
Germany	0,1	0,4	1,8	1,5	1,8
France	0,1	0,3	1,1	1,2	1,2
Spain	-0,5	-0,2	1,8	1,7	1,8
Italy	0,1	-0,1	1,3	1,1	1,1
United Kingdom	**0,1**	**0,6**	**3,0**	**3,0**	**3,1**
Japan	**0,8**	**-0,1**	**0,7**	**0,2**	**n.a**

Source : Thomson Reuters Eikon and IMF.

2. EXTERNAL ACCOUNTS

In the first nine months of 2017, exports grew by 8.8 percent, mainly due to an uptrend in sales of the agricultural and agri-food sectors as well as phosphates and derivatives. Meanwhile, imports increased by 6 percent, mainly driven by a higher energy bill. The trade balance thus widened by 3.4 billion compared to the same period of the previous year to 139.9 billion and the import coverage rate improved by 1.5 percentage point 56.2 percent.

Travel receipts and remittances from Moroccan expatriates recorded respective increases of 4.6 percent and 1.5 percent. Regarding the financial account, the net flow of foreign direct investment rose by 32 percent, due to a contraction of 51.6 percent in disposal of investments, while inflows improved by 1.7 percent. Meanwhile, the net flow of investments by Moroccans abroad increased from one year to another from 3.3 billion dirhams to 8 billion dirhams, with an increase in outflows of 5.3 billion dirhams. In total, considering the change in other components of the balance of payments, net international reserves amounted to 223.3 billion at end-September, equaling 5 months and 20 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

The improvement in exports in the first nine months of 2017 was mainly attributed to increases of 10 percent in sales of the agriculture and agri-food sectors to 38.1 billion dirhams and 10.1 percent in exports of phosphates and derivatives to 32.6 billion. By product, exports of phosphate derivatives were up 9.3 percent and those of crude phosphate rose 13.4 percent, mainly reflecting an increase in the quantities shipped, while the prices of all these products fell.

Similarly, automotive sales as well as textile and leather exports increased 4.6 percent to 41.9 billion and 6.9 percent to 28.2 billion, respectively.

Table 2.1: Change in exports

Sectors/ Segments	jan. sept.-17	jan. sept.-16	Change	
			Value	In %
Exports (FOB)	**179 365**	**164 816**	**14 549**	**8.8**
Automobile	41 921	40 088	1 833	4.6
Agriculture and Agribusiness	38 131	34 680	3 451	10.0
Phosphates and derivatives	32 648	29 666	2 982	10.1
Textile and leather	28 163	26 344	1 819	6.9
Aeronautics	7 755	6 719	1 036	15.4
Electronics	6 755	6 523	232	3.6
Pharmaceutics	857	787	70	8.9
Others	23 135	20 009	3 126	15.6

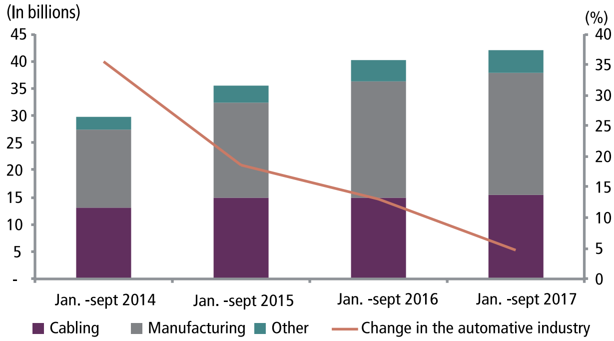
Source: Foreign Exchange Office.

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

	jan.-Sept. 2017/ jan.-sept. 2016		
	Value	Quantity	Price
Crude phosphates	13.4	41.3	-19.7
Natural and chemical fertilizers	16.5	22.2	-4.6
Phosphoric acid	-4.2	7.4	-10.8

Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

2.1.2 Imports

The increase in imports is largely attributable to a 28.4 percent rise in the energy bill to 50.5 billion dirhams, mainly driven by higher prices. Purchases of diesel and fuel oil moved up 33.7 percent and those of petroleum gas were up 25 percent.

Similarly, consumer goods purchases rose 4.4 percent to 74.8 billion and imports of semi-finished products grew 2.8 percent to 70.9 billion. Raw product imports increased by 14 percent to 15.1 billion. On the other hand, after an increase of 8.2 percent in 2016, capital goods purchases rose only 0.7 percent to 75.8 billion and food purchases decreased by 2.2 percent to 31.9 billion, mainly due to lower wheat and barley imports.

In total, the trade deficit stood at 139.9 billion dirhams, up 2.5 percent year on year or 3.4 billion, and the import coverage rate moved up from 54.7 percent to 56.2 percent at the end of September 2017.

Table 2.3 : Change in imports

Products group	jan. sept.-17	jan. sept.-16	Change	
			Value	In %
Imports (CIF)	**319 240**	**301 242**	**17 998**	**6.0**
Energy products	50 497	39 331	11 166	28.4
Equipment goods	75 802	75 271	531	0.7
Raw products	15 134	13 273	1 861	14.0
Finished consumer goods	74 772	71 599	3 173	4.4
Semi- finished products	70 951	69 046	1 905	2.8
Food products	31 979	32 699	-720	-2.2

Source: Foreign Exchange Office.

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

	jan.-sept. 2017/ jan.- sept. 2016		
	Value	Quantity	Price
Wheat	-27.1	-36.4	14.7
Gas oils and fuel oils	33.7	7.4	24.5
Petroleum gaz and other fuel	25.0	-0.4	25.5
Crude and unrefined sulfur	0.3	7.1	-6.4

Source: Foreign Exchange Office.

2.2 Other components of the current account

Concerning the balance of services, travel receipts rose by 4.6 percent to 53.7 billion and their expenses were up 18.7 percent to 13.1 billion. As to the transport services, revenues increased by 10.9 percent to 21.1 billion and expenses by 16.6 percent to 27.4 billion dirhams. Overall, the balance of services resulted in a surplus of 437 million, up 0.8 percent compared to the same period in 2016.

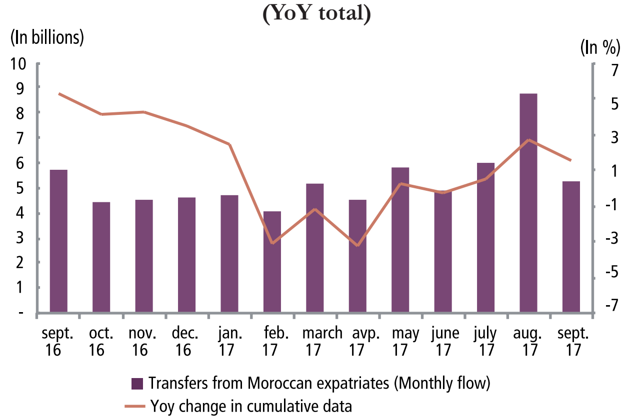
After an increase of 5.3 percent in the first nine months of 2016, remittances from Moroccan expatriates rose only 1.5 percent to 49.4 billion dirhams.

Table 2.5: Change in the balance of services

(In millions of dirhams)	jan .sept.-17	jan. sept.-16	Change	
			Value	In %
Imports	**68 029**	**62 297**	**5 732**	**9,2**
Transport services	27 447	23 537	3 910	16,6
Travel	13 103	11 039	2 064	18,7
Exports	**121 712**	**115 543**	**6 169**	**5,3**
Transport services	21 078	19 000	2 078	10,9
Travel	53 744	51 373	2 371	4,6
Balance	**53 683**	**53 246**	**437**	**0,8**

Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

2.3 Financial account

The net inflow of FDI grew by 4.7 billion dirhams, essentially reflecting a 4.3 billion drop in disinvestments. Investment flowsof Moroccans abroad increased by 4.7 billion, reflecting an increase of 5.3 billion dirhams in their investments abroad. In view of these developments and those of other financial operations, outstanding net international reserves shrank by 10.4 percent, year on year, to 223.3 billion at the end of September 2017, equaling 5 months and 20 days of imports of goods and services.

End-November data show an increase of 24.8 billion in value of imports greater than that of 19.3 billion in exports.

With the exception of food purchases, which declined, other components increased. With regard to exports, sales were up, with a 12.2 percent increase in exports of phosphates and derivatives, after a faster growth observed since August of the current year. Regarding other current account items, travel receipts and remittances from Moroccan expatriates increased at end-November by 6.5 percent and 3 percent, respectively. As to the financial account operations, the net flow of foreign direct investment rose by 14.6 percent, in conjunction with a contraction of 62.5 percent in disposal of investment. Overall, given a change in the other components of the balance of payments, net international reserves fell 3.5 percent to 238.4 billion dirhams at the end of November, equaling 5 months and 23 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

In the third quarter of 2017, monetary conditions were marked by a depreciation of the real effective exchange rate and an increase in lending rates. Credit to the nonfinancial sector continued to improve, reflecting faster loans to businesses. As to other counterparts of the money supply, net international reserves declined and net claims on the central government continued to strengthen since the beginning of the year. Overall, the money supply growth remained almost unchanged from the level observed a quarter earlier, i.e. 5.2 percent, and the monetary gap remained negative.

In the real estate market, after a 1 percent decrease in the second quarter, the real estate price index posted a quarterly increase of 0.6 percent, covering a rise in prices of urban land, a stagnation of those of apartments and a decrease in commercial property prices. Transactions dropped by 1.4 percent, reflecting particularly lower sales of apartments. On the stock market, the MASI index rose 1 percent in the third quarter, as against 5.6 percent a quarter earlier, bringing its performance since the beginning of the year to 4.3 percent. At the same time, trading volumes fell to 11.9 billion in the third quarter, from an average of 14.5 billion in the first two quarters of the year.

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

3.1 Monetary conditions

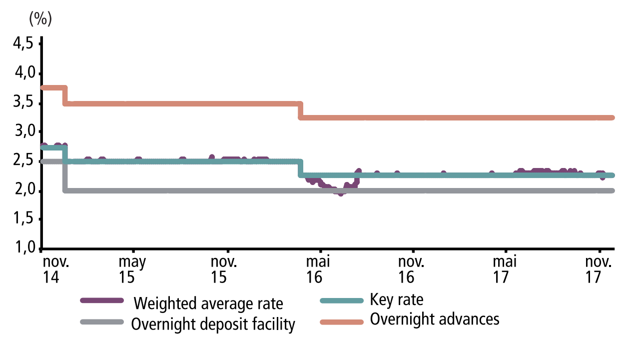
3.1.1 Bank liquidity and interest rates

During the third quarter of 2017, banks' liquidity needs increased, averaging 67.3 billion dirhams, mainly reflecting lower foreign exchange reserves and, to a lesser extent, higher currency in circulation. Thus, Bank Al-Maghrib raised the volume of its injections to 67.8 billion, of which 62.9 billion as 7-day advances and 4.5 billion as secured loans granted under the program to support the financing of VSME.

The latest data available for October and November indicate an easing in the liquidity deficit to 51.8 billion on average.

Under these conditions, the interbank rate increased slightly to 2.30 percent in the third quarter before falling to 2.27 percent on average in October and November. On the Treasury bill market, rates did not change significantly on both the primary and secondary markets.

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

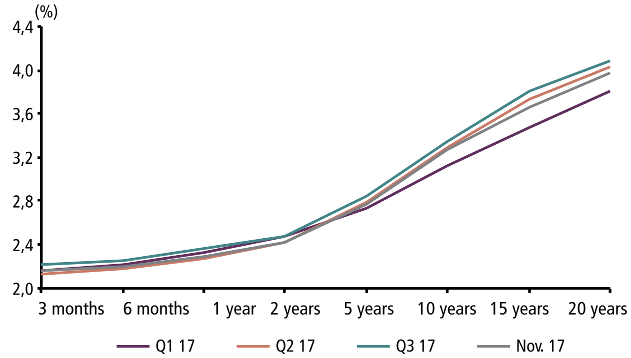


Source : BAM.

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

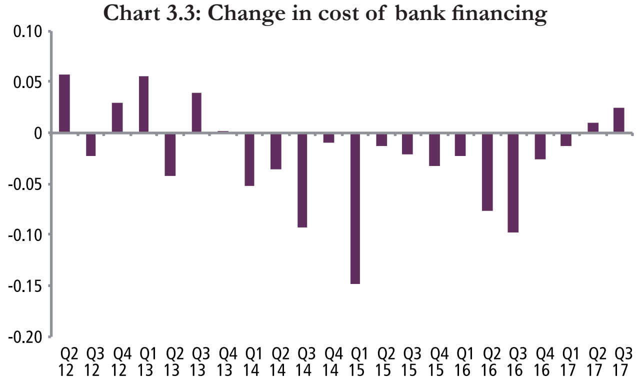
	2015	2016				2017			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	oct.
52 weeks	2.6	2.57	1.93	2.33	2.3	2.32	2.26	2.36	2.28
2 years	2.8	2 .63	2.05	2.48	2.44	2.52	2.41	2.49	2.42
5 years	3.14	2.92	2.3	2.71	2.69	2.83	2.78	2.83	2.77
10 years	3.61	3.48	2.87	3.22	3.08	3.27	3.27	3.32	3.27
15 years	4.05	3.77	3.22	-	-	3.87	3.87	3.87	3.76

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



Similarly, in other markets, rates of certificates of deposit did not change significantly in the third quarter. Deposit rates remained virtually unchanged at 2.81 percent for one-year deposits and 3.09 percent for 6-month deposits. Against this backdrop, banks' cost of financing[1] increased slightly compared to the previous quarter.

Chart 3.3: Change in cost of bank financing



In terms of lending rates, the weighted average rate rose 34 basis points in the third quarter of 2017 to 5.60 percent. This trend mainly reflects an increase of 39 basis points in rates on loans to businesses, including increases by 46 points for cash advances and 22 points for equipment loans. Conversely, rates on loans to individuals fell by 7 points, reflecting lower rates for both housing loans and consumer loans.

Table 3.2 : Change in lending rates

	2016		2017			Variation en points de pourcentage
	T3	T4	T1	T2	T3	T3-17/T2-17
Overall rate	**5.08**	**5.17**	**5.48**	**5.26**	**5.60**	**34**
Personal loans	**5.78**	**5.71**	**5.88**	**5.76**	**5.69**	**-7**
Real estate loans	4.94	4.83	4.88	4.75	4.68	**-7**
Consumer loans	6.64	6.64	6.71	6.67	6.60	**-7**
Enterprises	**4.98**	**5.08**	**5.41**	**5.17**	**5.56**	**39**
Cash advances	4.94	5.19	5.44	5.19	5.65	46
Equipment loans	4.87	4.40	4.76	4.87	5.09	22
Real estate loans	5.73	5.69	5.86	5.78	5.82	4
Individual entrepreneurs	**6.89**	**7.44**	**8.08**	**7.82**	**8.14**	**32**

Source : BAM.

Table 3.3: Deposit rates

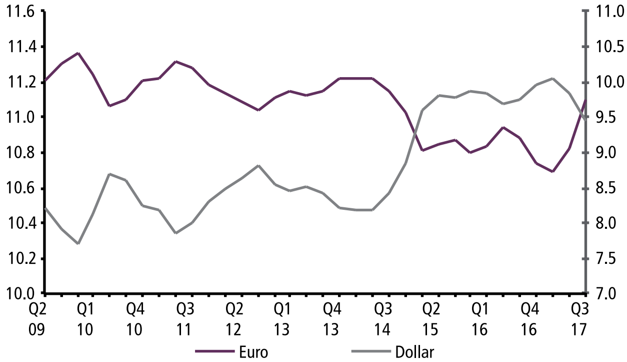
	2015				2016				2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
6 months	3.64	3.6	3.56	3.46	3.31	3.18	2.94	2.9	2.86	2.8	2.81
12 months	3.85	3.83	3.74	3.78	3.67	3.55	3.33	3.3	3.2	3.1	3.09

3.1.2 Exchange rate

In the third quarter of 2017, the euro appreciated by 7.06 percent vis-à-vis the US dollar, standing at 1.17 on average. Thus, the national currency depreciated by 2.74 percent against the euro and appreciated by 4.13 percent versus the US dollar. Compared to the currencies of some major emerging countries, the dirham appreciated by 2.50 percent against the Brazilian real and by 3.85 percent against the Indian rupee, whereas it depreciated by 4.24 percent versus the Chinese yuan. As a result, the effective exchange rate depreciated quarter on quarter by 0.4 percent in nominal terms and by 0.2 percent in real terms.

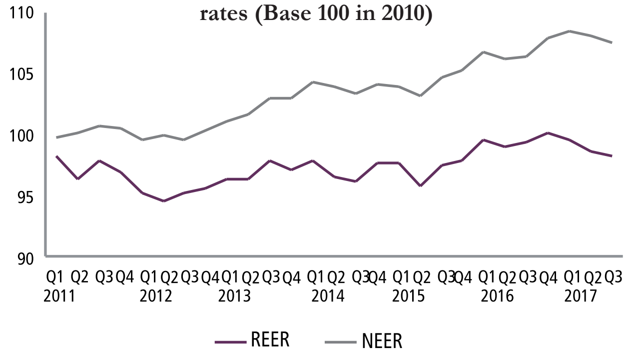
1 The cost of financing is the weighted average of the costs of banks' liabilities.

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 calculations.

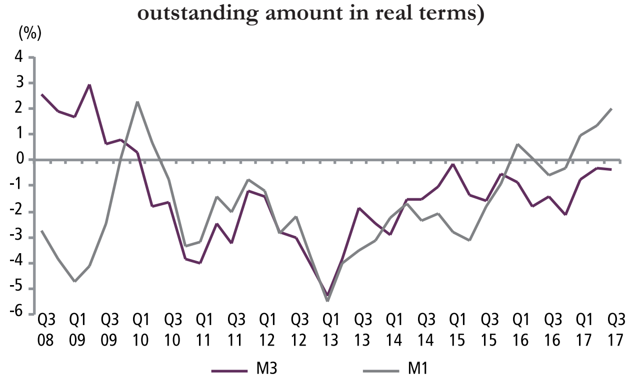
In the foreign exchange market, banks' volume of sales to customers fell by 1.7 percent in the third quarter to 27 billion dirhams for spot transactions and grew 6.7 percent to 13.9 billion dirhams for forward operations. Purchases were up 3.1 percent to 23.4 billion for spot transactions and decreased by 35.3 percent for forward purchases to 3 billion dirhams. In terms of banks' operations with Bank Al-Maghrib, purchases averaged 555 million dirhams after having reached 14.9 billion dirhams in the second quarter. Under these conditions, banks' net foreign exchange position stood at 4.7 billion at end-September, after standing at 1.6 billion at end- June.

3.1.3 Monetary position

In the third quarter of 2017, the money supply growth remained almost unchanged from the level observed in the previous quarter at 5.2 percent. Analysis of the M3 components shows a stagnant growth of banks' demand deposits at 7.6 percent, covering both an acceleration from 5.8 percent and 10.3 percent in those of private companies and deceleration from 7 percent to 6.1 percent in rates on household demand deposits and from 32.9 percent to 21.8 percent in demand deposits of the public sector. Similarly, time deposits dropped further from 7.3 percent to 7.8 percent, particularly due to decreases of 6.6 percent in household time deposits, as against 5.7 percent, and 9 percent in public sector ones, from 3.8 percent. For the other components, currency in circulation rose 7.9 percent from 6.5 percent, while money market fund shares/units and foreign currency deposits declined by 4.1 percent and 5 percent, respectively, after subsequent increases of 2.3 percent and 1.2 percent in the second quarter.

By counterparts, the change in M3 reflects an acceleration from 10.2 percent to 10.9 percent in net claims on the central government, a further decrease from 6.3 percent to 12.4 percent in net international reserves and a deceleration from 5.5 percent to 5.1 percent in bank credit.

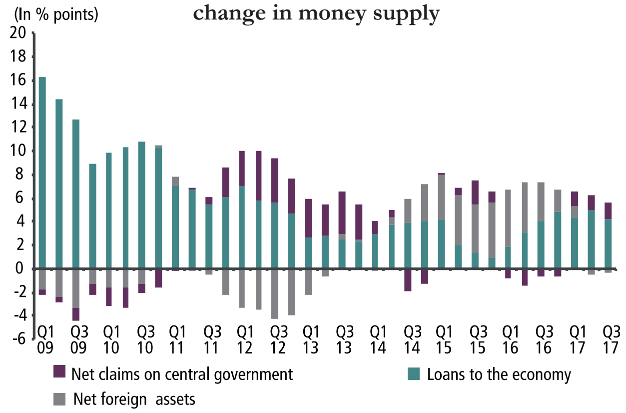
Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



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.

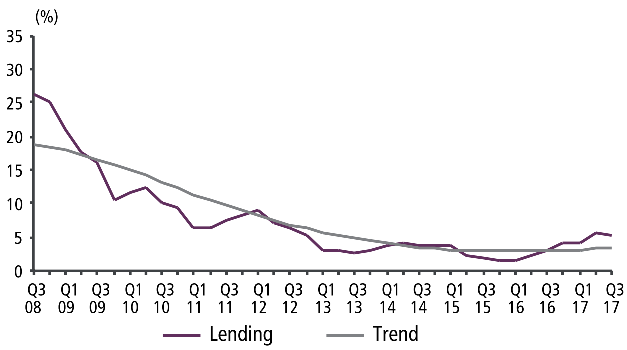
Source : BAM.

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



Source : BAM.

Chart 3.8: YoY change in credit

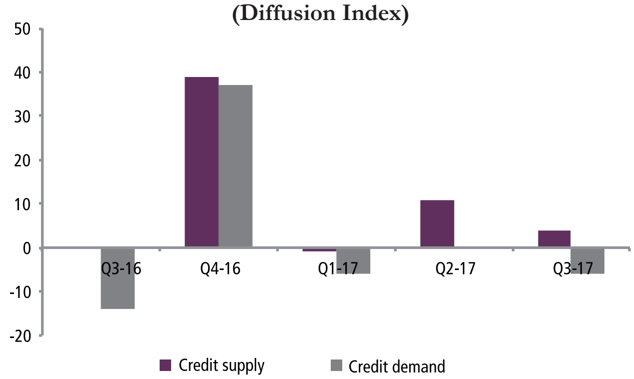


Source : BAM.

In particular, the growth of loans to the nonfinancial sector accelerated from 3.6 percent to 4.3 percent, reflecting mainly an improvement in loans to public enterprises.

These developments occurred in a context marked by improved conditions of credit supply to businesses and a tightening for individuals. According to Bank Al-Maghrib's lending conditions survey for the third quarter 2017, this loosening is attributed to bank competition and was particularly reflected in lower collateral requirements. On the other hand, demand is expected to have stagnated compared to the previous quarter.

Chart 3.9: Change in supply and demand (Diffusion Index)



Thus, outstanding loans to public businesses rose significantly by 22.5 percent, from 9.8 percent, driven by faster growth of 32 percent in equipment loans, as against 9.8 percent. However, cash advances decreased by 3.9 percent compared to a 6.2 percent increase in the previous quarter. The growth of loans to private companies almost stabilized at 2.3 percent, covering an acceleration from 3.6 percent to 5.9 percent in equipment loans and from 2.7 percent to 3.7 percent in those granted to real estate development and a further decline from 0.4 percent to 2.4 percent in cash advances. The growth of loans to individual entrepreneurs moved down from 6.3 percent to 2.4 percent, due to a slowdown from 30.9 percent to 14.9 percent in equipment loans and an 8.6 percent decline in lending to real estate developers, which is a more pronounced pace than 6.8 percent observed last quarter.

By industry, the change in loans to businesses reflects an acceleration from 5 percent to 8.3 percent in credit to "trade, automotive repairs and household goods" and a 0.8 percent increase in loans to the "hotels and restaurants" sector, as against a decline of 3.2 percent. On the other hand, loans to the "building and public works" branch slowed down from 3.8 percent to 0.4 percent and those allocated to "manufacturing industries" fell by 0.7 percent, after an increase of 0.4 percent in the previous quarter.

The growth of loans to individuals slightly accelerated from 4.2 percent to 4.6 percent. Housing loans grew by

4.9 percent, from 4.7 percent and consumer loans by 4.6 percent, as opposed to 4.4 percent.

Chart 3.10: Institutional sectors' contribution to YoY change in credit

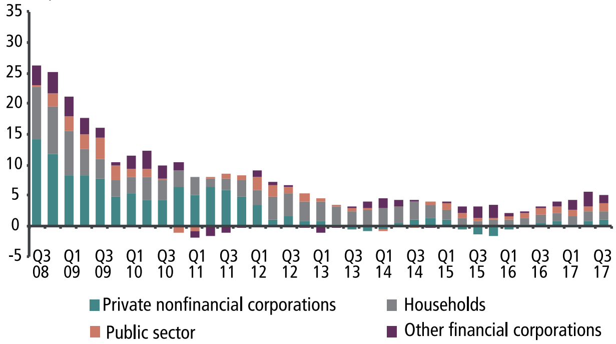
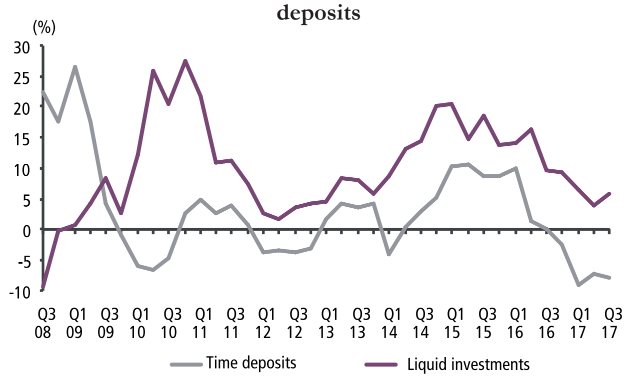


Chart 3.11: YoY change in liquid investments and time deposits



Nonperforming loans (NPL) rose by 3.2 percent, as against 3.4 percent in the previous quarter and their ratio to bank credit remained almost stable at 7.6 percent. NPL of private nonfinancial corporations fell 0.3 percent, after decreasing 1.8 percent a quarter earlier, while NPL of households grew by 10.4 percent from 11.6 percent.

The latest available data for October 2017 show a virtually stagnant growth of bank lending at 5.2 percent. Credit to the nonfinancial sector rose by 5.2 percent, as against 4.3 percent in the third quarter, mainly due to the dissipation of the decline effect observed in the same period a year earlier.

Loans granted by nonbank financial corporations to the nonfinancial sector grew by 3.5 percent, as against 5.4 percent a quarter earlier. This trend covers a 9.7 percent decline in loans granted by offshore banks after a 10 percent increase, and a rise of 5.6 percent in those given by finance companies, as opposed to 5.1 percent.

Liquid investment aggregates grew by 5.7 percent in the third quarter, from 4 percent in the second quarter, reflecting an acceleration from 1.1 percent to 6.1 percent in bond UCITS and from 33.9 percent to 47.8 percent in equity and diversified UCITS. Conversely, the annual growth of Treasury bills fell from 3.1 percent to 1.2 percent.

3.2 Asset prices

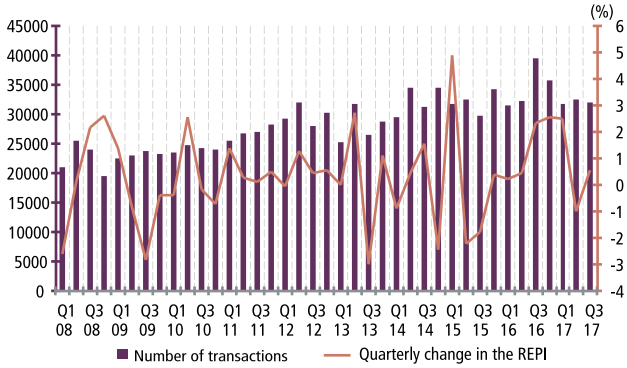
3.2.1 Real estate assets

In the third quarter of 2017, the Real Estate Price Index (REPI) rose 0.6 percent, after a 1 percent decrease a quarter earlier. This trend covers a 1.3 percent increase in urban land prices and a 0.4 percent decline in commercial property ones, while apartment prices stagnated from one quarter to the next.

At the same time, the number of transactions decreased by 1.4 percent nationally after an increase of 2.9 percent. This decline particularly affected apartments with a rate of 2.4 percent and business premises with 3.3 percent. Urban land transactions were up 3.5 percent.

In the main cities, prices rose by 3.6 percent in Rabat, 0.5 percent in Marrakech, 0.2 percent in Tangier and 0.1 percent in Casablanca. However, they decreased by 1.2 percent in Meknes and 0.4 percent in Fez. With the exception of El Jadida where they increased by 27.6 percent, transactions dropped in all other major cities with particularly rates of 32 percent in Rabat, 14.1 percent in Marrakech, 8.2 percent in Tangier, 4.6 percent in Meknes and 4.4 percent in Casablanca.

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



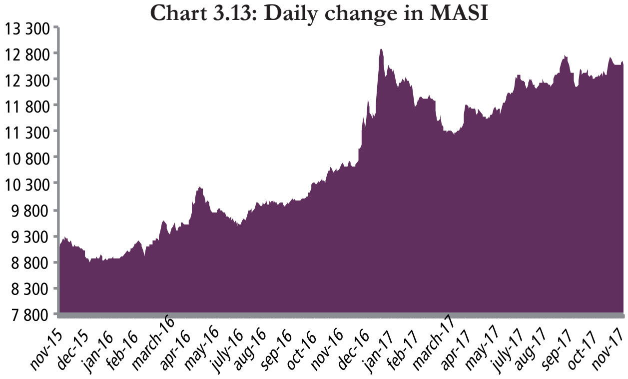
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

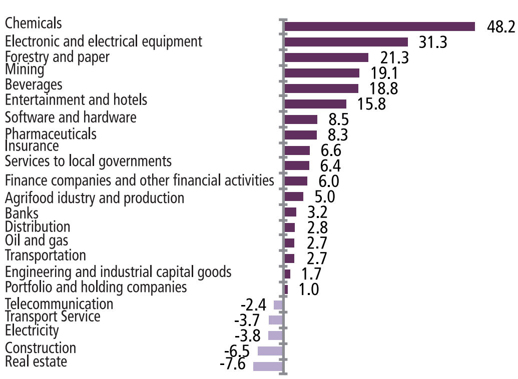
In the third quarter of the year, the MASI recorded a quarterly increase of 1 percent, after rising 5.6 percent a quarter earlier, bringing its performance since the beginning of the year to 4.3 percent.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Contribution of sectoral indexes in the third quarter 2017 (in%)



Source : Casablanca Stock Exchange.

This performance is mainly due to respective increases of 3.2 percent, 19.1 percent and 5 percent in the "banking", "mining" and "agribusiness" sector indexes. However, indexes for the other main sectors showed decreases of 2.4 percent for "telecommunications", 6.5 percent for "buildings and building materials" and 7.6 percent for "real estate".

The volume of transactions fell to 11.9 billion dirhams in the third quarter, as against 14.5 billion on average over the first two quarters and 18.2 billion dirhams on a quarterly average in 2016. Transactions remained dominated by operations on the central equity market, with a volume of 8.4 billion, from 11 billion on average over the first two quarters of the year.

Under these conditions, the market capitalization recorded a quarterly increase of 1.7 percent to 615.7 billion dirhams, from 583.4 billion dirhams in 2016.

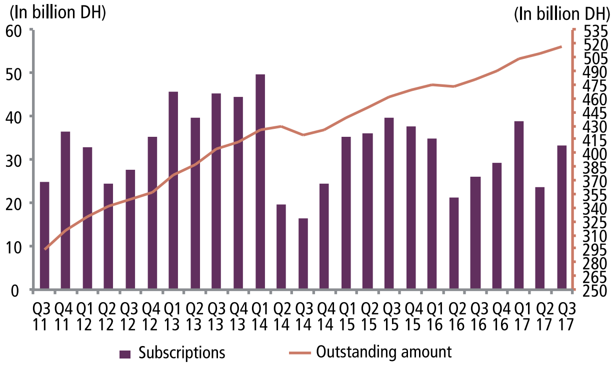
The most recent data indicate a monthly increase of 1.6 percent of the MASI at end-November and an increase in the volume of transactions to 4.5 billion from 3.2 billion in October.

3.2.2.2 Sovereign debt market

In the third quarter of 2017, Treasury issues in the domestic market amounted to 33.2 billion dirhams, up 38.8 percent on a quarterly basis. 22 percent, 56 percent and 22 percent of these issues concerned respectively long-term maturities, medium-term maturities and short-term maturities. These issues were performed at slightly higher rates.

In November, Treasury issues were limited to 2.9 billion dirhams, as against 9.7 billion on a monthly average during the first ten months of the year. A rate of 78 percent concerned long-term maturities and were issued at slightly lower rates than in October. Taking into account a repayment amount of 6.8 billion dirhams, outstanding Treasury bills reached 512.4 billion at end-November, up 4.6 percent compared to end-December 2016.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

3.2.2.3 Private debt market

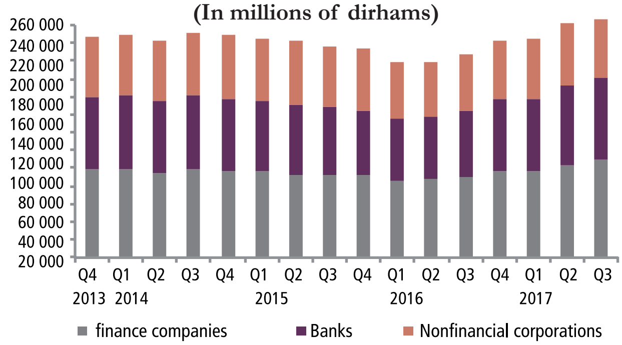
In the private debt market, issues amounted to nearly 15 billion dirhams, from 24.9 billion dirhams in the second half of the year, and 98 percent of them were performed in the market of negotiable debt securities.

Non-financial enterprises' issues amounted to 1.3 billion dirhams, as against an average of 5.4 billion dirhams in the first two quarters of the year and were performed exclusively on the commercial paper market.

Banks' issues mainly concerned short-term certificates of deposit, amounting nearly to 10.6 billion dirhams, compared to an average of 8.2 billion dirhams during the first two quarters of the year. Financing companies' issues amounted to 1.3 billion dirhams.

In November 2017, private debt issues reached 2.7 billion dirhams, of which 2.4 billion were issued by banks as certificates of deposit. Taking into account the amount of repayments, the outstanding amount of these securities stood at 173.6 billion, up 8 percent compared to December 2016.

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



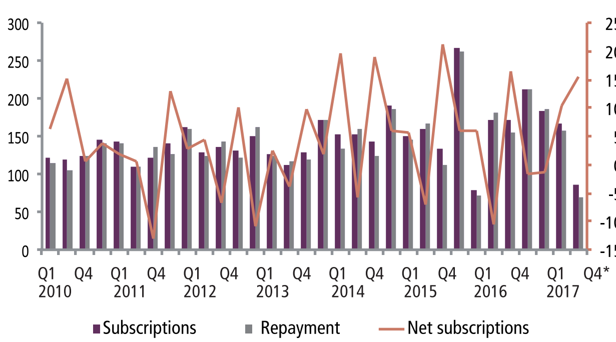
Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund shares/units[2]

In the third quarter of 2017, subscriptions to mutual fund shares/units fell to 166.9 billion dirhams and redemptions to 156.5 billion, representing a net inflow of 10.4 billion. Taking into account a quarterly appreciation of 1.3 percent in the performance index, the net assets of UCITS stood at 392.2 billion dirhams in the third quarter, up 5 percent compared to the second quarter. This increase impacted all fund categories. The net assets of equity mutual fund shares/units increased by 13 percent, as against 8.3 percent for diversified UCITS, 8.9 percent for short-term bond UCITS, 3.5 percent for medium and long-term ones and 3.6 percent for money market UCITS.

The latest available data, as at November 17, 2017, show a net inflow of 15.5 billion dirhams and a performance of 1.1 percent compared to end-September, bringing the total net assets of UCITS to 410.4 billion dirhams, up 4.6 percent compared to the third quarter.

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



Source : Moroccan Stock Market Authority.

2 Data as at November 17, 2017.

4. FISCAL POLICY STANCE

With the exception of proceeds from corporate tax and domestic consumption tax (DCT), which post higher-than-normal execution rates, tax receipts for the first ten months of 2017 were down compared to the Finance Act. Non-tax revenue remains at a very low execution rate, mainly due to limited collections of monopoly receipts and GCC grants. On the expenditure side, the pace of investment execution, interest on debt and subsidies were high, while spending on goods and services was behind scheduled levels.

year-on-year, the public finances trended positively, with an eased deficit of 5.1 billion to 30.4 billion. This change is attributed to higher revenues than expenditures, as well as an improvement of 2.3 billion in the positive balance of the Treasury special accounts to 6.3 billion. Current receipts, excluding privatization, improved by 4.1 percent, covering higher tax revenues and a reduction in non-tax receipts. Thus, direct taxes rose by 8 percent, mainly due to improved corporate income, and indirect taxes increased, but at a slower pace. Overall expenditure was up 2.2 percent, mainly owing to increases by 31.1 percent in subsidy costs and 6.7 percent in the transfers to local authorities, while the wage bill dropped slightly.

In the first ten months of 2017, the Treasury reduced the stock of its outstanding expenditures by 6 billion, bringing the cash deficit to 36.3 billion, widening by 1.5 billion compared to the same period in 2016. This gap as well as the negative external net flow of 1.2 billion was covered by domestic resources amounting to 37.6 billion. As a result, the outstanding direct public debt is expected to increase by 3.6 percent from its end-December 2016 level. As to financing costs on the Treasury bill market, weighted average rates increased slightly on average.

4.1 Current revenues

Budget execution in the first ten months of 2017 shows an improvement of 4.1 percent in current receipts, excluding privatization, to 202.3 billion dirhams, covering a 5.8 percent increase in tax revenue to 184.1 billion and a 12.3 percent drop in non-tax proceeds to 15.8 billion. The positive trend of tax receipts reflects higher corporate tax and VAT revenues and, to a lesser extent, increased DCT and income tax receipts.

Thus, direct tax revenues increased by 8 percent to 74.1 billion, mainly reflecting an increase of 13.7 percent in corporate tax proceeds to 39.6 billion. Similarly, income tax (IT) revenues stood at 32.7 billion, up 2.3 percent, albeit with decreases of 6.3 percent in IT proceeds from real estate profits to 3.3 billion and 7.3 percent in those from IT on salaries paid by the Personnel Expenditure Department to 6.9 billion.

Indirect taxes rose 5.9 percent to 89.3 billion, mainly due to a 6.7 percent increase in VAT receipts to 66.8 billion. Domestic VAT proceeds grew by 7 percent to 24.2 billion, taking into account the repayment of an amount of 5.7 billion, as against 6.7 billion at end-October 2016. Similarly, VAT import revenues improved by 6.6 percent to 42.5 billion, reflecting increases of 19.5 percent in VAT on energy products and 4.4 percent in VAT on other products.

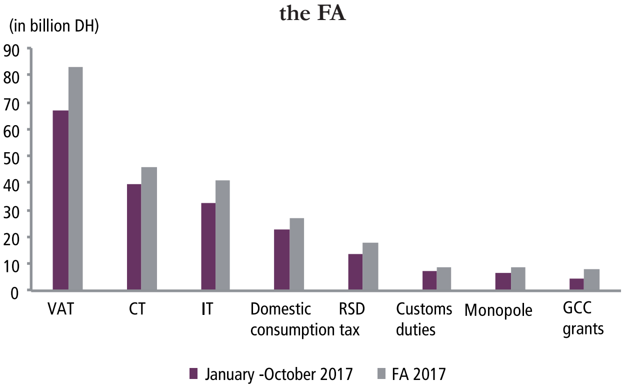
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. oct. 2016	Jan. oct. 2017	Change in %	FA 2017	Achievements against the FA (%)
Current revenues	**194.4**	**202.3**	**4.1**	**251.4**	**80.5**
Tax revenues	**174.1**	**184.1**	**5.8**	**225.8**	**81.5**
- Direct taxes	68.6	74.1	8.0	89.4	82.9
Including CT	34.8	39.6	13.7	45.6	86.9
I.T	32.0	32.7	2.3	40.9	80.0
- Indirect taxes	84.3	89.3	5.9	109.4	81.6
VAT*	62.6	66.8	6.7	82.8	80.6
DCT	21.8	22.6	3.6	26.6	84.8
- Customs duties	7.6	7.2	-6.4	8.9	80.1
- Registration and stamp duties	13.5	13.6	0.5	18.1	75.1
Nontax revenues	**18.0**	**15.8**	**-12.3**	**22.3**	**70.9**
- Monopoles	7.2	6.8	-6.1	9.1	74.9
- Other receipts	10.8	9.0	-16.4	13.2	68.1
Including GCC grants	3.3	4.6	40.3	8.0	57.4
TSA receipts	**2.3**	**2.4**	**3.4**	**3.3**	**73.0**

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

DCT receipts totaled 22.6 billion, up 3.6 percent. DCT on energy products rose 2.2 percent to 13 billion dirhams and on tobacco products rose 4.9 percent to 8.2 billion. However, customs revenue declined 6.4 percent to 7.2 billion, while registration and stamp duties improved 0.5 percent to 13.6 billion.

Chart 4.1: Performances of the major revenues compared to the FA



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.
Note :
-VAT : Value added tax
- CT : Corporate tax
- IT : Income tax
- DCT : Domestic consumption tax
- RSD : Registration and stamp duties
- CD : Customs duties

Non-tax revenues stood at 15.8 billion, down 12.3 percent. This change covers a 40.3 percent increase in GCC grants to 4.6 billion, compared to a forecast of 8 billion in the finance law, and a 6.1 percent decline in monopoly revenues to 6.8 billion. The latter comes mainly from the National Land Registry and Mapping Agency at 1.5 billion, Maroc Telecom at 1.4 billion, OCP at 1.3 billion and Bank Al-Maghrib at 488 million.

4.2 Public expenditure

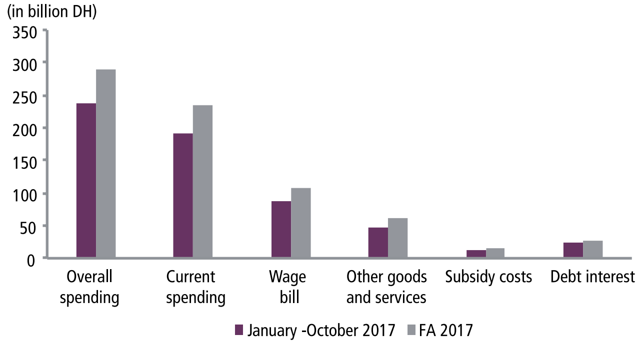
At the end of October 2017, overall spending amounted to 238.9 billion, up 2.2 percent compared to the end of October 2016. This trend reflects increases of 2.5 percent in current expenses to 191.1 billion and 1 percent in capital expenditure to 47.8 billion. Spending on goods and services rose by 0.1 percent to 133.2 billion, covering a 0.5 percent decline in personnel costs to 87.3 billion and an increase of 1.4 percent in spending on other goods and services to 46 billion. The latter covers transfers of 10.5 billion to the Moroccan Pension Fund, showing a stability compared to 2016, an increase of 3.2 percent to 15.9 billion in transfers to various public institutions and a decrease of 31.7 percent to 2.8 billion in payments to the Treasury special accounts.

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

	Jan. oct. 2016	Jan. oct. 2017	Change In %	FA 2017	Performances compared the FA (%)
Overall spending	**233.8**	**238.9**	**2.2**	**290.4**	**82.3**
Current spending	**186.5**	**191.1**	**2.5**	**234.8**	**81.4**
Goods and services	133.1	133.2	0.1	167.8	79.4
Staff	87.7	87.3	-0.5	106.7	81.8
Other goods and services	45.3	46.0	1.4	61.1	75.2
Debt interest	24.9	25.0	0.6	27.5	91.1
Subsidy costs	9.8	12.8	31.1	14.7	87.6
Transfers to LA	18.8	20.0	6.7	24.9	80.6
Investment	**47.3**	**47.8**	**1.0**	**55.6**	**86.0**

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

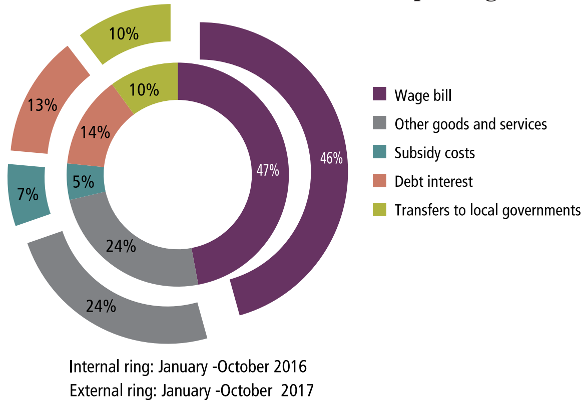
Chart 4.2: spending execution compared to the FA



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

In addition, debt interest charges, executed at a rate of 91.1 percent, moved up 0.6 percent to 25 billion, following a 0.8 percent increase in interest on domestic debt to 21.9 billion, while interest on external debt eased by 0.4 percent to 3.1 billion.

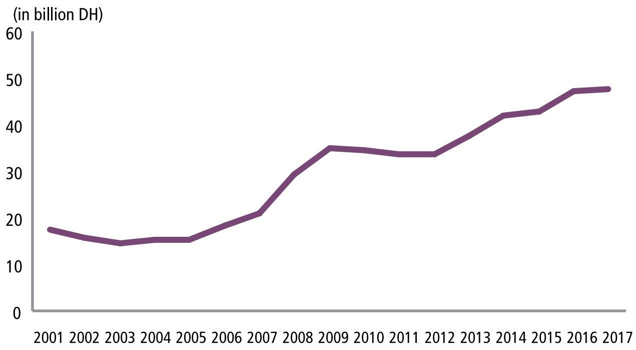
Chart 4.3: Structure of current spending



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

Subsidy costs increased by 31.1 percent to 12.8 billion. According to data from the Moroccan Subsidy Fund, this increase is largely due to a rebound of 49.9 percent in butane gas subsidies to 8.1 billion. In addition to a 2.8 percent increase in the quantities of gas consumed, this trend is attributable to higher gas prices on international markets, which rose from $303.9 per tonne on average during the first ten months of 2016 to $416.8 per tonne on average for the same period of 2017, up 37.2 percent.

Chart 4.4: Investment spending, January - October total



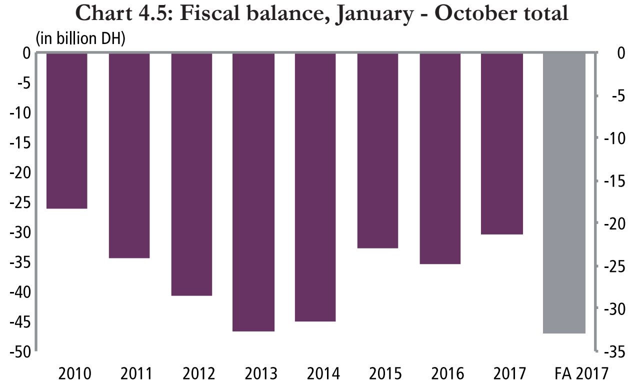
Source : Ministry of Economy and Finance (TEFD).

Up 1 percent, capital expenditures amounted to 47.8 billion, i.e. an execution rate of 86 percent compared to the finance law. This trend covers a 7.9 percent increase in spending of ministries to 30.1 billion and a 5 percent decrease in common expenses to 17.1 billion. On a monthly basis, the October 2017 flow was up 58.8 percent, compared to the October 2016 flow.

4.3 Treasury deficit and financing

Considering changes in revenues, expenses and the Treasury special accounts balance, which rose by 57.6 percent to 6.3 billion, the budget deficit eased by 5.1 billion to 30.4 billion at the end of October 2017. The Treasury reduced its stock of outstanding expenditure by 6 billion, thus bringing the cash deficit to 36.3 billion, widening by 4.4 percent from the end of October 2016.

Chart 4.5: Fiscal balance, January - October total



Source : Ministry of Economy and Finance (TEFD).

The net external financing flow was negative at 1.2 billion, as against a net inflow of 2.4 billion in 2016.

This need as well as the financing requirements were covered by domestic resources, amounting to 37.6 billion, up 5.8 billion compared with the same period of 2016. In addition to the use of domestic debt amounting to 24.9 billion, from 16.2 billion at the end of October 2016, the Treasury benefited from its own resources of 12.7 billion, as against 15.6 billion a year earlier

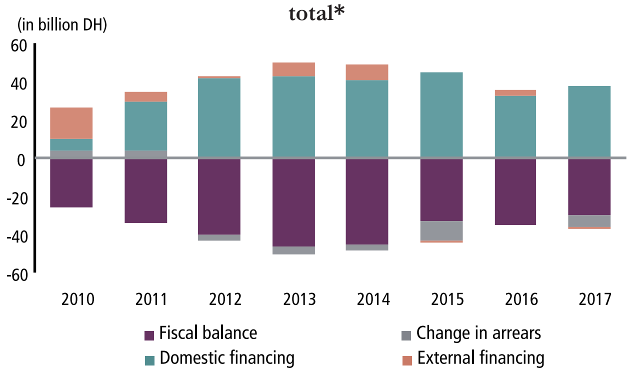
Table 4.3: Absolute gap FA (in billions of dirhams)

	Jan. oct. 2016	Jan. oct. 2017	FA 2017	Absolute gap FA/Jan. Oct. 2017
Current balance	**7.9**	**11.2**	**16.6**	**5.4**
Balance of TSA	4.0	6.3	6.0	-0.3
Primary balance	-10.6	-5.3	-5.5	-0.2
Fiscal balance	**-35.4**	**-30.4**	**-33.0**	**-2.6**
Change in arrears	0.6	-6.0	0.0	
Financing requirements	**-34.8**	**-36.3**	**-33.0**	**3.4**
Domestic financing	31.8	37.6	20.5	-17.1
External financing	2.4	-1.2	12.5	13.7
Privatisation	0.6	0.0	0.0	0.0

Source : Ministry of Economy and Finance (TEFD).

The use of the auctions market concerned 26.3 billion, as against 12.2 billion a year ago. Net subscriptions concerned 5-year and 52-week bills amounting to 10.6 billion for each maturity, 10-year bills for 6.9 billion and 15-year bills for 3.1 billion. At the same time, net repayments concerned 26-week bills for 5.9 billion and 2-year bills for 1.5 billion.

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



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

The Treasury's financing conditions on the auction market remain broadly favorable, as the weighted average rate of maturities from January to October 2017 only increased by 7 basis points (bps) to 3.06 percent. The largest increase involved 15-year bond issue rates at 30 bps, followed by 5-year bills and 10-year bonds at 13 bps and 12 bps, respectively. On the other hand, the 30-year issue rates fell by 16 bps.

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

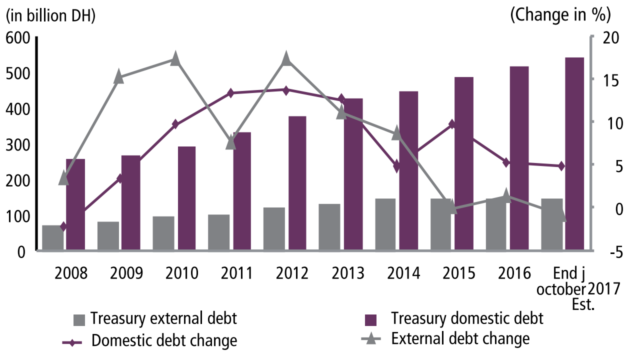
	2012	2013	2014	2015	2016	At end oct. 2017 Est*
Treasury external debt	**116.9**	**129.8**	**141.1**	**140.8**	**142.8**	**141.6**
Change in %	17.4	11.1	8.7	-0.2	1.4	-0.9
Treasury domestic debt	**376.8**	**424.5**	**445.5**	**488.4**	**514.6**	**539.5**
Change in %	13.7	12.6	5.0	9.6	5.4	4.8
Outstanding direct debt	**493.7**	**554.3**	**586.6**	**629.2**	**657.4**	**681.0**
Change in %	14.6	12.3	5.8	7.3	4.5	3.6

Source : Ministry of Economy and Finance (TEFD).

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

Outstanding public debt is expected to have increased by 3.6 percent two months before the end of the 2017 financial year compared to its level at the end of December 2016. This trend covers a rise of 4.8 percent in its domestic component and a 0.9 percent decline in its external component.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

The latest national accounts data point to an acceleration in domestic growth to 4.2 percent in the second quarter, up from 1 percent in the same period of the previous year, with a positive contribution of domestic demand by 3.3 percentage points and net exports by 0.9 points. In view of the latest available infra-annual data, growth would have accelerated to 4.1 percent in the second half of the year, after 1.2 percent a year earlier, with a 13.5 percent rebound in the agricultural value added, after a 13.7 percent decline, and a 3 percent increase in nonagricultural GDP compared with 3.1 percent earlier.

In the labor market, the national economy created, between the third quarters of 2016 and 2017, 89 thousand jobs of which 47 thousands in agriculture. Taking into account a net inflow of 131 thousand new job seekers, the unemployment rate increased slightly from 10.4 to 10.6 percent nationally and from 14.5 to 14.9 percent in the urban areas. Regarding labor costs, data for the third quarter show that the private sector wage index rose year-on-year by 3.2 percent in nominal terms, up from 1.6 percent a year ago, and 3 percent in real terms after a decrease of 0.3 percent.

Under these conditions, GDP is expected to grow at around its potential in the second half of 2017.

5.1 Domestic demand

5.1.1 Consumption

In the second quarter of 2017, household final consumption increased by 4.9 percent from 2.9 percent in the same period last year, thereby contributing 2.8 percentage points to growth instead of 1.6 points.

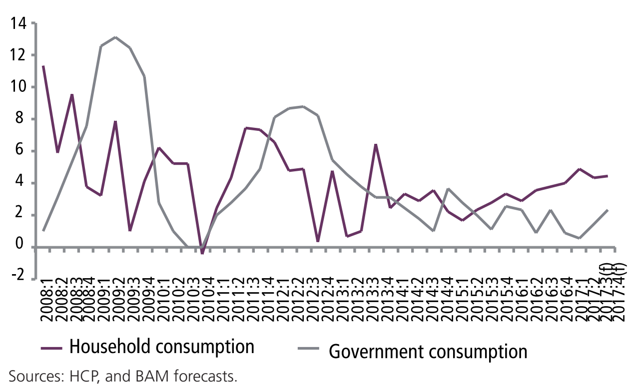
Available indicators show that this acceleration should continue in the second half, with an increase of 4.4 percent up from 3.6 percent a year earlier. It would be supported by the improvement in farm incomes and conditions in the labor market which in the third quarter saw a net creation of 89 thousand jobs after losing 73 thousand jobs the previous year.

These developments are consistent with the results of the household survey conducted by the HCP which show an improvement in the household confidence index by 85.5 points as against 73.8 points in the same quarter of last year.

However, the growth rate of consumer credit remained moderate, standing as at end-September at 4.5 percent as against 5.4 percent a year earlier.

General government final consumption slowed down from 2.4 to 0.6 percent. Its contribution to growth decreased from 0.5 percentage point to 0.1 percentage point. In the second half of the year, it would increase by 1.9 percent. Operating expenses would have increased by 4.7 percent, reflecting a rise in both staff costs and other goods and services. The contribution of general government consumption to growth should remain positive.

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



Sources: HCP, and BAM forecasts.

5.1.2 Investment

Investment slowed down from 8.5 to 0.9 percent in the second quarter of 2017. Its contribution to growth thus decreased from 2.7 percentage points to 0.3 percentage point.

The latest available data show a sharp deceleration of capital goods' imports and a weak performance of the construction sector. At the same time, real estate transactions declined by 18.7 percent. Property prices rose by 4.7 percent, covering increases of 5.9 percent in urban land prices, 5.1 percent for commercial property and 4 percent for residential property.

In contrast, the monetary situation as at end-September shows an increase of 12.3 percent in equipment loans and 1.1 percent in property development loans. On the other hand, the results of Bank Al-Maghrib's quarterly business survey, for the third quarter, indicate that the business climate was considered normal by two-thirds of manufacturers, and that investment spending is stagnating according to half of them.

Taking these developments into account, the deceleration of investment should persist in the second half of the year, with an expected decline of 1 percent.

5.2 Foreign demand

In the second quarter of 2017, net exports of goods and services contributed 0.9 percentage point to growth, as against a negative contribution of 3.8 points a year earlier. Exports of goods and services increased by 6 percent, compared with 4.5 percent, while imports slowed down from 12.6 to 2.7 percent.

In the second half of the year, exports are expected to accelerate, driven by higher sales of phosphates and derivatives as well as agricultural and agri-food products in addition to stronger economic activity in the main partner countries. Imports would slow down due to the decline in non-energy and food products' imports as well as the sharp deceleration in capital goods' purchases.

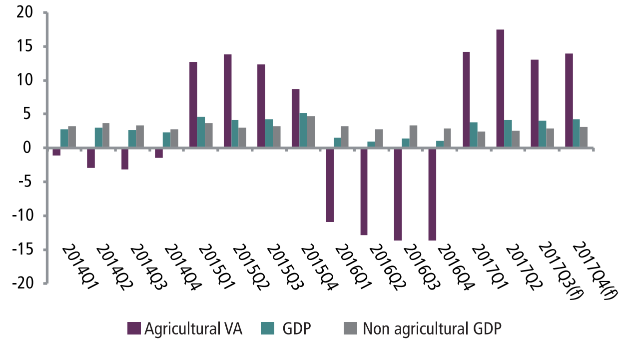
In this context, GDP is set to grow by 4.1 percent in the second half of the year, after expanding by 4.2 percent in the second quarter.

5.3 Supply

GDP growth is expected to reach 4.1 percent in the second half of the year, as against 1.2 percent in the same period of the previous year. The agricultural value added would increase by 13.5 percent, after declining 13.7 percent, as a result of a good cereal harvest of 95.6 million quintals.

Similarly, the growth of nonagricultural activities would accelerate from 2.4 to 2.9 percent, while nonagricultural GDP growth would reach 3 percent versus 3.1 percent.

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

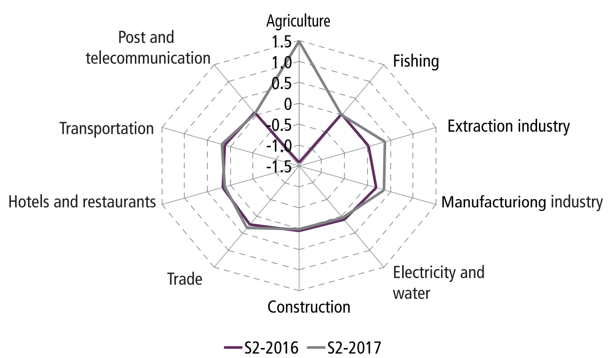


Sources: HCP data, and BAM forecasts.

In the secondary sector, activity would continue to expand in the mining sector, growing by 17.9 percent in the second half of the year compared to 1 percent a year earlier, reflecting a steady improvement in external demand for phosphates and derivatives. It would also increase from 1.2 to 2.1 percent in the manufacturing industries. The value added of the "electricity and water" sector would slow down from 4.8 to 2 percent, in connection with the deceleration in electricity production.

Growth in the construction sector would remain weak, reaching 0.3 percent compared with 1.2 percent , despite a relative improvement in cement sales and the outstanding amount of loans to the sector during the third quarter.

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



Sources: HCP data, and BAM forecasts.

As regards tertiary activities, the trade sector and transport services would grow more rapidly by 4.3 percent and 4.6 percent, respectively, while the "hotels and restaurants" and the "posts and telecommunications" sectors would slow to 5.5 percent and 2.4 percent, respectively.

For 2017 as a whole, GDP would increase markedly to 4.1 percent, after 1.2 percent in 2016, mainly driven by a 14.7 percent increase in the agricultural value added and a slight acceleration from 2.2 to 2.7 percent in nonagricultural activities. Taking into account a noticeable slowdown in taxes net of subsidies, nonagricultural GDP is expected to decelerate from 3.1 to 2.7 percent.

5.4 Labor market and output capacity[1]

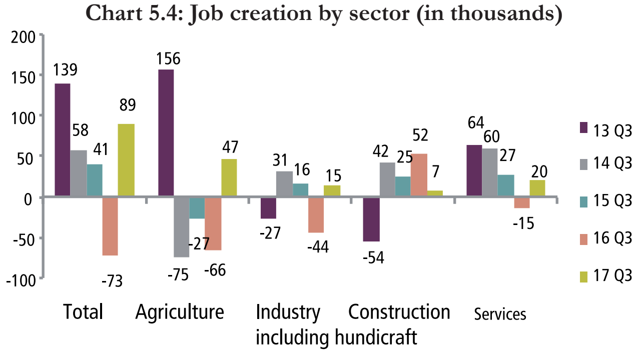
5.4.1 Activity and employment

In the third quarter of 2017, the labor force aged 15 years and above increased by 1.1 percent to 11.64 million people, up 1 percent in urban areas and 1.3 percent in rural ones. Taking into account a 1.7 percent increase in the working-age population, the participation rate fell by 0.3 point to 45.5 percent nationally. It decreased by 0.7 point to 41.5 percent in cities and increased by 0.4 point to 52.4 percent in rural areas.

After losing 73 thousand jobs a year ago, the national economy created 89 thousand jobs, of which 60 thousand in rural areas. The employed labor force thus increased by 0.9 percent, while the employment rate fell by 0.3 point to 40.7 percent, down 0.8 point to 35.3 percent in cities and up 0.4 point to 50 percent in rural areas.

At the sectoral level, the improvement in employment is mainly due to the creation of 47 thousand jobs in the agricultural sector, notably thanks to a good cereal harvest. In nonagricultural activities, 42 thousand jobs were created, of which 20 thousand in the services, 15 thousand in industry including crafts, and 7 thousand in the construction sector.

Chart 5.4: Job creation by sector (in thousands)



Source : HCP.

5.4.2 Unemployment and underemployment

Under these conditions, the unemployed labor force grew by 3.5 percent to 1.24 million people. Taking into account the change in the labor force, the unemployment rate edged up from 10.4 to 10.6 percent at the national level, with an increase from 14.5

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

to 14.9 percent in urban areas and stagnation at 4.6 percent in rural areas. The unemployment rate among young people aged 15 to 24 reached 29.3 percent at the national level and 45.2 percent in the cities.

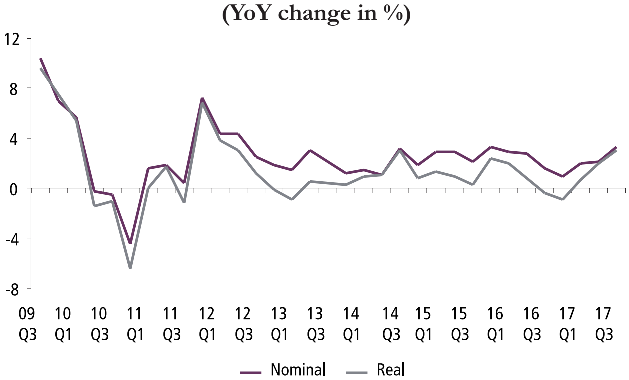
The worsening of the unemployment rate was accompanied by a further increase in underemployment[2], which rose from 9.7 to 9.9 percent nationally, from 8.2 to 8.3 percent in urban areas and from 11.5 to 11.8 percent in rural areas.

5.4.3 Productivity and wages

Apparent labor productivity in nonagricultural activities slowed down slightly, rising 2.4 percent as against 2.1 percent. This reflects a growth from 2.3 to 2.8 percent in the nonagricultural value added and by 0.7 percent after a decline of 0.1 percent in nonagricultural employment.

The average wage, calculated on the basis of CNSS data, increased in the third quarter by 3.2 percent in nominal terms and by 3 percent in real terms.

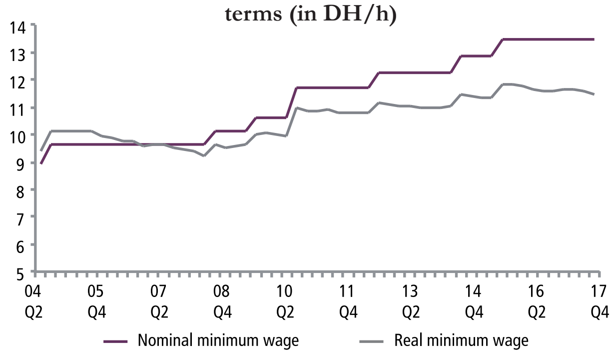
Chart 5.5: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The guaranteed minimum industrial wage (SMIG) remained stable in the third quarter, at 13.46 dh/h in nominal terms. Taking into account a 0.2 percent increase in the consumer price index, the SMIG declined on a year-on-year basis by 0.2 percent in real terms and is expected to decrease by 1.2 percent in the fourth quarter.

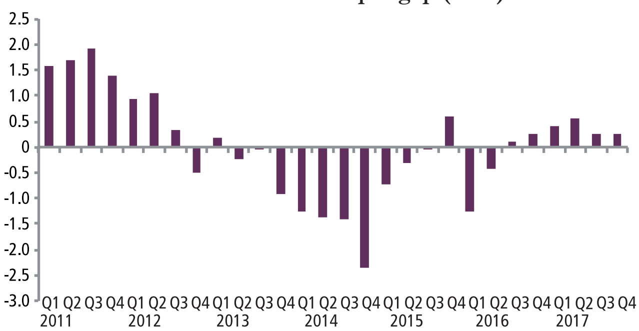
Chart 5.6: Hourly minimum wages in nominal and real terms (in DH/h)



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

Overall, Bank Al-Maghrib expects GDP to remain close to its potential in the second half of 2017.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates based on HCP data.

2 The underemployed population includes persons who worked: (i) during the reference week less than 48 hours but are willing to work additional hours and are available to do so, or (ii) more than the threshold and who are looking for another job or are willing to change their job because of a mismatch with their training or qualification or insufficient income.

Table 5.1 : Labor market main indicators

		Q3 2016	Q3 2017
Participation rate (%)		**45.8**	**45.5**
Urban		42.2	41.5
Rural		52.0	52.4
Unemployment rate (%)		**10.4**	**10.6**
Youth aged between 15 and 24 years old		28.9	29.3
Urban		14.5	14.9
Youth aged between 15 and 24 years old		44.5	45.2
Rural		4.6	4.6
Job creation (in thousands)		**-73**	**89**
Urban		-3	29
Rural		-70	60
Sectors			
- Agriculture		-66	47
-Industry including handicrafts		-44	15
- Construction		52	7
- Services		-15	20
Nonagricultural apparent productivity (change in %)		**2.4**	**2.1**
Average wage index (change in %)	**Nominal**	**1.6**	**3.2**
	Real	**-0.3**	**3.0**

Sources: HPC; CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

After falling to 0.2 percent in the third quarter, inflation, as measured by the change in the Consumer Price Index (CPI), rose to 0.6 percent in October, thus reversing the downward trend that started in the last quarter of 2016. This acceleration is attributable to a decrease in the impact of lower volatile food prices and, to a lesser extent, higher prices for fuels and lubricants in connection with the increase in international oil prices. Regulated prices trended at the same rate as in the third quarter, or 1 percent, reflecting the continued effect of past price increases in "electricity" and "tobacco". Core inflation rose slightly from 1.2 to 1.3 percent.

In the fourth quarter, inflation would have increased significantly to 1.2 percent, because of the rise in volatile food prices, after three quarters of decline, and in prices for fuels and lubricants. The rate of increase in regulated products' prices as well as in core inflation should remain unchanged from the previous quarter.

6.1. Inflation trends

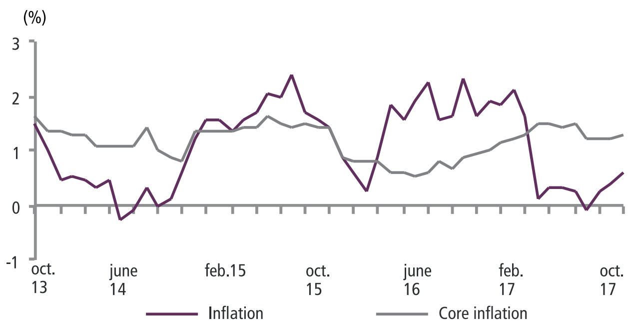
The downward trend in inflation seen since the last quarter of 2016 is starting to reverse. After falling to a low level of 0.2 percent in the third quarter of 2017, inflation reached 0.6 percent in October. This is due to the slower decline in volatile food prices and, to a lesser extent, the acceleration of core inflation and fuel and lubricant prices. Prices for regulated products in October increased at the same rate as in the previous quarter.

Volatile food prices fell 3.8 percent in October, after 6.3 percent in the third quarter, mainly due to the less rapid decline in poultry and rabbits' prices and the higher prices for "fresh vegetables". At the same time, fuel and lubricant prices rose by 5.5 percent instead of 4.2 percent, reflecting the rise in international oil prices.

Tariffs for regulated products continued to grow at the same rate of 1 percent, driven by past increases in "electricity" and "tobacco" tariffs.

Core inflation increased from 1.2 percent in the third quarter to 1.3 percent in October, reflecting the slower decline in the prices of "motor cars" from 1.4 percent in the third quarter to 0.7 percent, as well as the acceleration from 1.7 to 1.8 percent in the rate of increase in prices of "rents actually paid by tenants".

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 (%)		
	aug. 17	sept. 17	oct. 17	aug. 17	sept. 17	oct. 17
Headline inflation	**0.3**	**0.8**	**-0.1**	**0.3**	**0.4**	**0.6**
- Volatile food prices	2.0	4.3	-1.5	-6.2	-5.1	-3.8
- Fuels and lubricants	2.3	2.1	0.9	6.6	5.8	5.5
- Administered prices	0.1	0.0	0.0	1.0	1.0	1.0
Core inflation	**-0.2**	**-0.1**	**0.2**	**1.2**	**1.2**	**1.3**
- Food products	-0.2	0.3	0.2	1.3	1.5	1.5
- Clothing and footwear	-0.1	0.2	0.3	1.5	1.6	1.6
- Housing, water, gas, electricity and other fuels[1]	0.2	0.1	0.3	1.2	1.2	1.5
- Furnishings, household equipment and routine house maintenance	0.1	0.0	0.0	0.6	0.5	0.5
- Health[1]	-0.2	0.0	0.4	2.3	2.3	2.7
- Transportation[2]	0.1	0.1	0.2	-0.3	-0.2	0.1
- Communication	0.0	0.0	0.0	-0.2	-0.2	0.0
- Entertainment and culture	0.1	0.0	0.1	0.2	0.2	0.2
- Education	0.0	2.0	0.0	2.9	2.3	2.1
- Restaurants and hotels	0.5	0.4	-0.1	3.1	3.3	3.2
- Miscellaneous goods and services	0.1	0.3	-0.1	0.8	1.0	0.9

1 Excluding administered goods.

2 Excluding fuels and lubricants and regulated products.

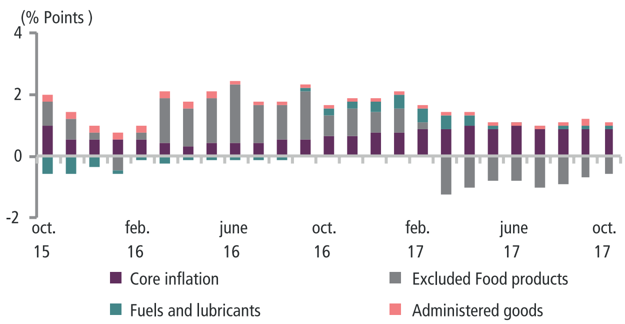
Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

The gradual easing of the decline in volatile food prices in the third quarter continued in October, but at a faster pace. The decline in these prices slowed down from 7.5 percent in July to 6.2 percent in August, 5.1 percent in September and 3.8 percent in October. This is attributable, on the one hand, to the fading effect linked to the relatively high level, a year earlier, of the prices of some of these products, mainly "poultry and rabbits" and "eggs" which fell by 1.1 percent and 10.9 percent instead of 9.1 percent and 14.5 percent, respectively. It is also attributable to higher prices for other products, namely "fresh vegetables" and "fresh fish". The latter's prices increased in October by 4.6 percent and 1.8 percent as against 2.3 percent and -2.9 percent in the third quarter, respectively.

The contribution of volatile food prices to inflation was negative, reaching 0.5 percentage point instead of an average of 0.9 percentage point in the third quarter of 2017.

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

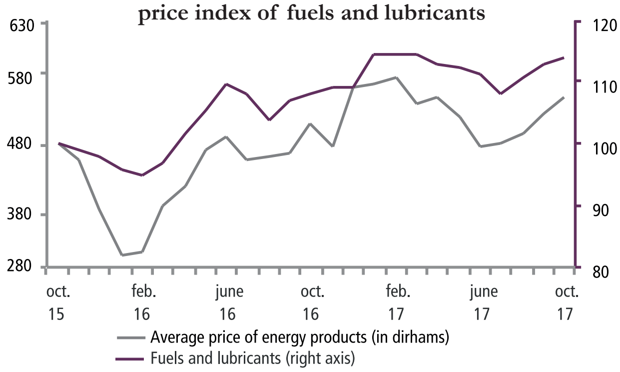


Sources: HCP, and BAM calculations.

Prices for fuel and lubricants rose 5.5 percent in October, up from an average of 4.2 percent in the third quarter, against a backdrop of an 11.4 percent increase in the average price of petroleum products and a virtual stability of the dirham's exchange rate against the dollar.

Prices for regulated products rose 1 percent in October, the same pace as in the third quarter, driven by the continued impact of the increase by 2.7 percent in "electricity" prices in January 2017 and 2 percent in tobacco prices last 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

Core inflation rose from 1.2 percent in the third quarter to 1.3 percent in October, due to a slight acceleration in the price rise of both tradables and nontradables.

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

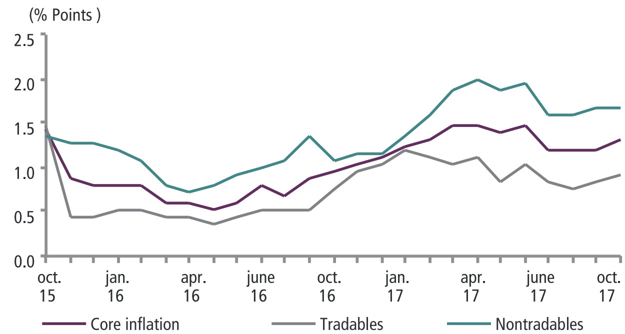
(In %)	Monthly change (%)			YoY change (%)		
	aug. 17	sept. 17	oct. 17	aug. 17	sept. 17	oct. 17
Tradables	-0.1	0.1	0.4	0.8	0.8	0.9
Nontradables	0.1	0.6	-0.1	1.6	1.7	1.7
Core inflation	-0.2	-0.1	0.2	1.2	1.2	1.3

Sources: HCP, and BAM calculations.

Prices for tradable goods rose 0.9 percent in October after 0.8 percent in the third quarter. Their change is linked in part to the acceleration of the prices of "oils" and "oils and fats" which increased by 11.4 percent and 8.6 percent instead of 9 percent and 4.4 percent, respectively. The impact of these increases was mitigated by the 6.3 percent decrease, as against a previous 3.3 percent increase, in prices of "dry legumes".

In addition, the slower decline in the prices of "motor cars" from 1.4 percent to 0.7 percent contributed to the faster increase in tradable prices. Their contribution to core inflation was 0.5 percentage point.

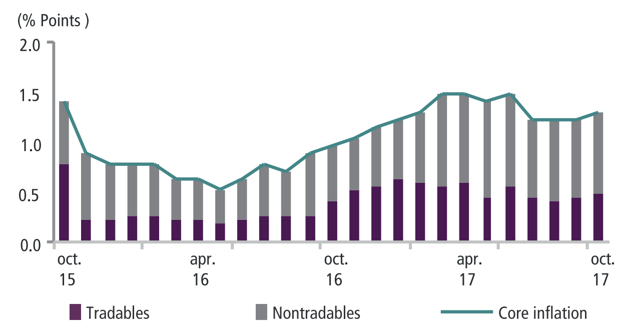
Chart 6.4: YoY change in the price indexes of tradables and nontradables



Sources: HCP, and BAM calculations.

At the same time, the inflation of nontradable goods rose from 1.6 percent in the third quarter to 1.7 percent, mainly as a result of the increase in "rents actually paid by tenants" from 1.7 to 1.8 percent and in "fresh meat" prices from 1.6 to 1.7 percent. Its contribution to core inflation stood at 0.8 percentage point.

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 accelerate significantly in the fourth quarter. It would reach 1.2 percent, bringing its average over the year to 0.7 percent.

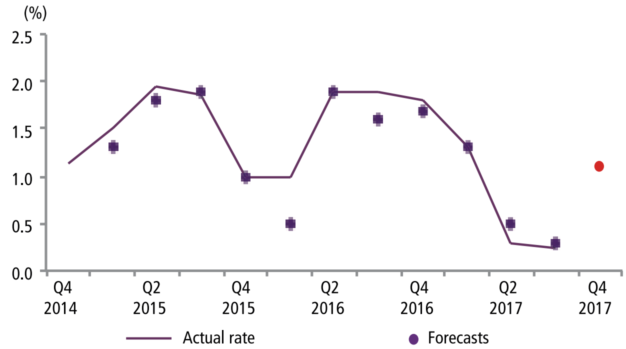
This rise would result from a 1.6 percent rise, after three quarters of decline, in volatile food prices, mainly due to supply pressures on some of these products.

The acceleration from 4.2 to 6.8 percent in the rate of increase in fuel and lubricant prices in connection with the projected trend of international oil prices should also contribute, but to a lesser extent, to the rise in inflation in the fourth quarter of 2017.

Regulated prices would increase at the same rate observed a quarter before, i.e. 1 percent, in the absence of any expected measures regarding these prices.

Core inflation is projected to reach 1.3 percent in the fourth quarter and throughout 2017.

Chart 6.6: Inflation short-term forecasts and actual rates

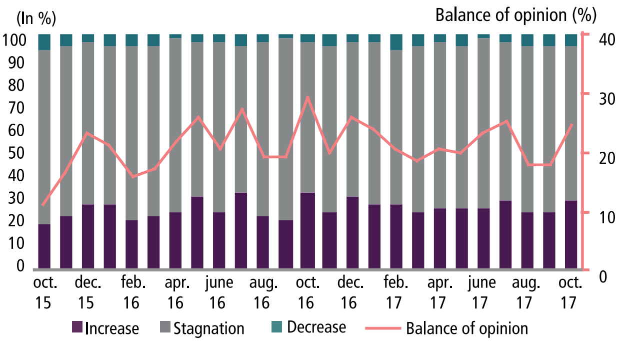


Source: BAM.

6.3. Inflation expectations

The results of Bank Al-Maghrib's Business Survey in the Industry for October 2017 indicate that 66 percent of the manufacturers surveyed anticipate a stagnation of inflation over the next three months, while 29 percent expect a rise and 5 percent of them expect a decline.

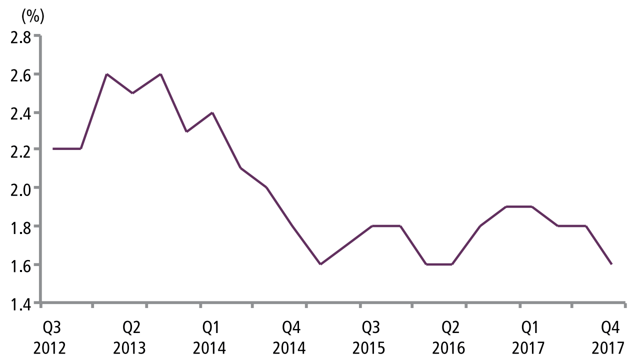
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

Moreover, the results of Bank Al-Maghrib's Inflation Expectations Survey conducted in the fourth quarter of 2017 show that financial experts expect inflation to decelerate from 1.8 to 1.6 percent over the eight-quarter horizon.

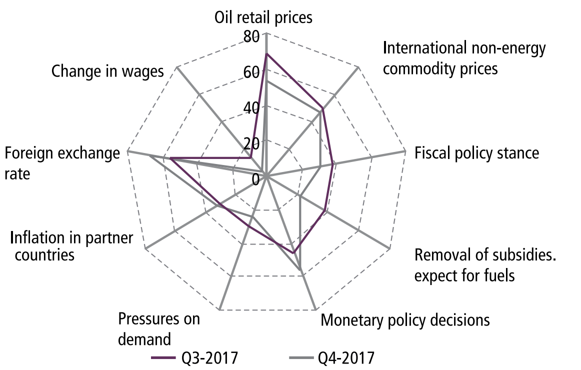
Chart 6.8: Inflation expectations by financial experts*



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

They consider that changes in oil retail prices, the dirham's exchange rate and non-energy commodity prices are the main determinants of the future trend of inflation during this period.

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

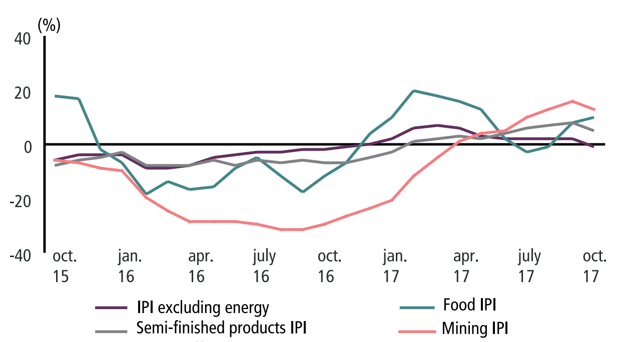


Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Import and producer prices

Non-energy import prices continued to slow down. After increasing 3.7 percent in the second quarter and 2.3 percent in the third quarter, import prices fell 0.6 percent in October. Prices for imported food products increased sharply by 9.5 percent in October, up from 1.3 percent in the third quarter, driven mainly by the 42 percent increase in "wheat" prices which more than offset the fall in the prices of the other main imported foodstuffs, namely "maize", down 11.3 percent, "tea", down 6.9 percent, and "vegetable and raw oils", down 3.4 percent.

Chart 6.10: YoY change major import price indexes

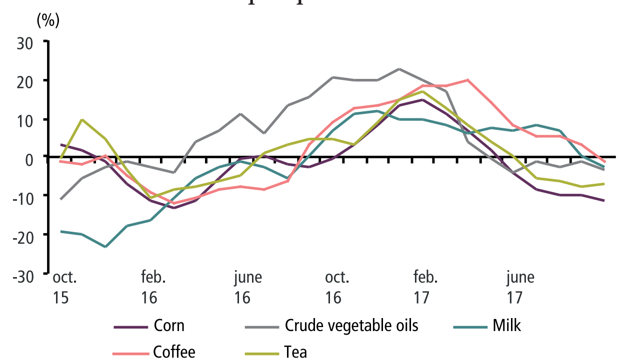


Sources: Foreign Exchange Office, and BAM calculations.

Import prices of mining products rose 12.4 percent in October, slightly lower than the 12.8 percent observed last quarter.

Import prices of semi-finished products increased 4.9 percent from 7.1 percent in the third quarter, as import prices of "iron and steel wires, sheet piling and sections" rose 3 percent as against 3.6 percent in the previous quarter and "paper and board" import prices declined 0.6 percent after increasing 1.4 percent.

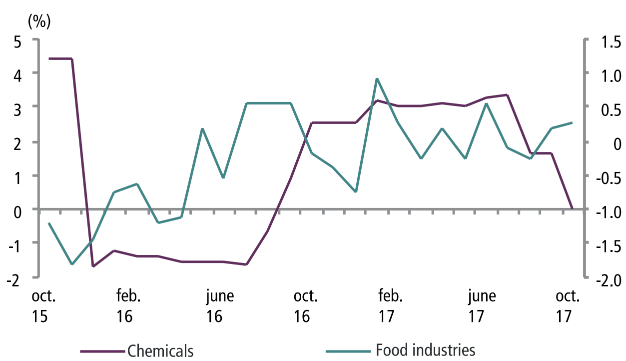
Chart 6.11: Change in the major components of the food import price index



Sources: Foreign Exchange Office, and BAM calculations.

Manufacturing producer prices rose 0.6 percent in the third quarter and October 2017, year on year. This trend included an acceleration from 4.4 to 7.6 percent in the growth rate of "electrical equipment manufacturing" producer prices and a 0.3 percent increase compared to a 0.1 percent decrease in "food industries" producer prices which offset the less rapid increase from 2.2 to 0 percent in "chemical industry" producer prices.

Chart 6.12: YoY change in major industrial producer price indexes



Source : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Global economic activity continues to strengthen and the positive medium-term outlook has improved, particularly for the euro area. However, certain risk factors could weigh on these forecasts. These include the U.S. administration's more restrictive trade and immigration policies, rising geopolitical tensions and the fragility of the financial system in some EU countries. In contrast, the planned implementation of an expansionist fiscal policy by the U.S. government could further stimulate growth in the United States and the world.

In the United States, monetary conditions would remain accommodative, despite the normalization of the Fed's monetary policy. Household consumption would support economic activity and the labor market situation in the medium term. At the same time, the euro area would benefit from increased confidence of economic operators and accommodative monetary and financial conditions that would underpin investment. Emerging economies, on the other hand, should benefit from improved activity in advanced economies. In particular, after the end of the crisis, economic activity in the Russian and Brazilian economies would continue to improve, whereas in China, the expected deceleration in growth should remain limited thanks to the budget support measures, but the high level of debt is a downside risk to growth prospects.

In commodity markets, food prices are expected to finish the year 2017 with a moderate rise and remain close to these levels in the medium term. World oil prices are expected to increase by almost 26 percent in 2017. In the medium term, they are predicted to decelerate and their projections have been revised upwards, mainly in connection with the rise in geopolitical tensions, the better-than-expected outlook for global growth and the extension of the oil-producing countries' agreement to cut production. Under these conditions, and taking into account the strengthening of domestic demand, inflation in the United States would accelerate in 2017 and remain close to the medium-term objective of the Federal Reserve, whereas in the euro zone it should converge gradually towards the ECB target at the end of the forecast horizon.

At the national level, the export recovery in 2017 should continue in the medium term, particularly as car manufacturing is projected to increase significantly in 2019 in connection with the start of production in the Peugeot plant. At the same time, imports are expected to grow at a steady pace of around 5 percent, reflecting a deceleration in purchases of energy products, after a sharp rise in 2017, and an upturn in the acquisition of capital goods.

Considering these developments and assuming that inflowing FDI would be about 3.5 percent of GDP in 2018 and 2019 and that grants from GCC partners would reach 8 billion dirhams in 2017, 7 billion in 2018 and 2.5 billion in 2019, net international reserves would remain close to 240 billion dirhams by the end of 2019, ensuring coverage of nearly 5.5 months of imports of goods and services during the next two years.

Monetary conditions eased in 2017, reflecting the continued accommodative stance of monetary policy and the depreciation of the real effective exchange rate, which is itself linked to the appreciation of the euro and the low inflation in Morocco compared to major trading partners and competitors. In the medium term, this trend should continue, supported by the continued depreciation of the real effective exchange rate, albeit less acute than in 2017. Under these conditions, bank lending to the nonfinancial sector would end the year 2017 with an increase of 4.5 percent and continue to improve in the medium term with a rate of 5 percent in 2018 and 2019, unchanged from the forecasts presented in September report.

Turning to public finances, after a slight overrun in 2016, budget adjustment is expected to resume. The deficit would ease from 4.1 percent of GDP in 2016 to 3.5 percent in 2017, 3.1 percent in 2018 and nearly 3 percent in 2019.

Economic growth would accelerate to 4.1 percent this year, a forecast revised slightly downward compared to September. This projection reflects a 14.7 percent rebound in agricultural value added and a recovery, albeit slow, in nonagricultural activities. On the demand side, this performance would be supported by a pickup in net exports, driven by stronger foreign demand and lower real effective exchange rate. Similarly, domestic demand would keep momentum as household consumption would improve while investment is expected to decelerate rapidly. In the medium term, growth would slow to 3 percent in 2018 and 3.6 percent in 2019 under the assumption of average crop years. Nonagricultural activities would continue to improve, up 3.4 percent in 2018 and 3.6 percent in 2019. On the demand side, after being positive in 2017, the contribution of net exports to growth should turn negative in 2018 and 2019, but would be lessened by the planned start of production at the Peugeot plant. Domestic demand would continue to support growth, especially as investment is expected to recover assuming that public investment would keep momentum and large-scale projects would continue.

Considering the expected consolidation of domestic demand and the rise in imported inflation, core inflation should accelerate gradually over the medium term, from 0.8 percent in 2016 to 1.3 percent in 2017, reaching 1.9 percent in 2019. Fuel and lubricant prices are expected to increase in 2017 and 2018, faster than projected in September following the upward revision of international oil prices' forecasts. Volatile food prices are expected to decline in 2017, at a slower rate than forecast in September, in connection with their larger-than-expected increase in the fourth quarter of 2017. Given all these elements, inflation would reach 0.7 percent in 2017, before increasing to 1.5 percent in 2018 and then stabilizing at 1.6 percent in 2019. Over the forecast horizon, inflation would average 1.5 percent.

7.1 Underlying assumptions

Global economic recovery would gather strength

The global economic recovery continues to strengthen, supported by renewed confidence among economic operators and accommodative monetary and financial conditions in advanced economies. Growth in the euro area should therefore pick up to 2.3 percent in 2017, buoyed by strong domestic demand, particularly investment, before slowing to 1.8 percent in 2018 and 1.6 percent in 2019, mainly under the effect of Brexit. In the United States, the renewed optimism of economic operators, in conjunction with the anticipated tax reforms, is expected to stimulate economic activity in the short term. In the medium term, this momentum should continue, supported by household consumption amid continued accommodative stance of the Fed's monetary policy, despite the continued normalization process. U.S. growth is expected to increase from 1.5 percent in 2016 to 2.2 percent in 2017 before stabilizing at 2.3 percent in 2018 and 2019. In China, growth should continue to slow down, reflecting economic rebalancing, albeit at a slower pace in 2017 in connection with fiscal stimulus measures. After exiting the crisis, economic activity in Brazil and Russia should continue to improve. Under these conditions, foreign demand to Morocco would strengthen in the medium term.

However, these prospects remain surrounded by significant downside risks, due in particular to the U.S. administration's more restrictive trade and immigration policies as well as rising geopolitical tensions and political uncertainties in Spain. In addition, the fragility of the financial system in some euro area countries and especially in China as well as the rapid deceleration of Chinese growth could weigh on global growth prospects. With regard to upside risks, the implementation of the U.S. administration's expansionary fiscal policy should further stimulate U.S. and global growth.

Chart 7.1: Growth in the euro area

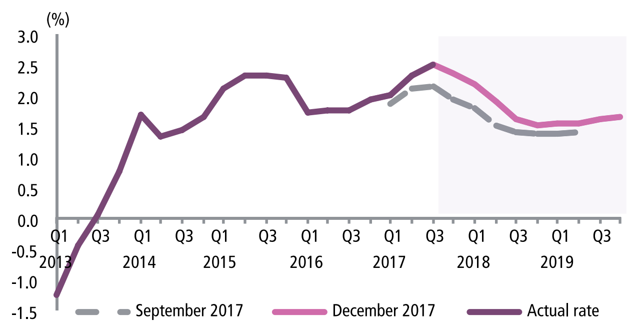
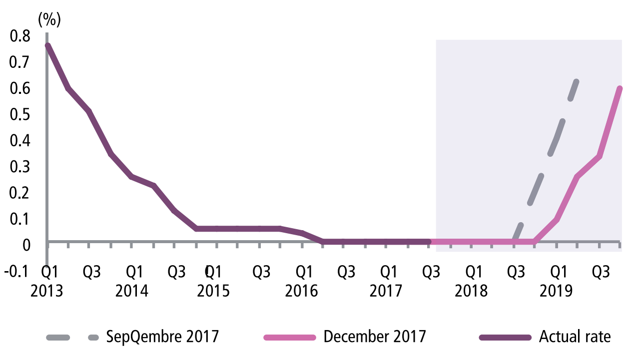


Chart 7.2: ECB policy rate



Source: GPM[1] forecasts of November 2017.

The euro would remain strong, supported by improved economic fundamentals of euro zone countries

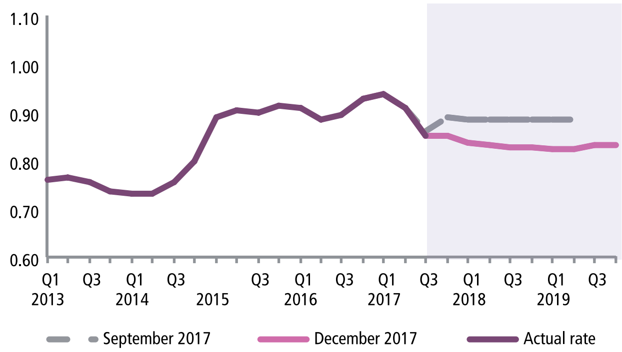
The continued economic recovery in the United States should prompt the Federal Reserve to continue, in the medium term, the gradual normalization of federal funds rates and the reduction of its balance sheet that began in October. For payments of principal that the Federal Reserve receives from its holdings of agency debt and

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.

mortgage-backed securities, the cap would be $10 billion per month initially and will be increased in steps over 12 months until it reaches $50 billion per month. The ECB should maintain its asset purchase program until the end of September 2018 while reducing it to a monthly rate of 30 billion from January 2018. Its key rate should remain unchanged until the first quarter of 2019.

In a context characterized by improving economic fundamentals in the euro zone, the European currency appreciated markedly in the third quarter and should remain close to this level in the medium term.

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of November 2017.

Oil price forecasts are revised upward and those of food prices downward

After reaching $42.8/bl in 2016, international oil prices are expected to rise on average to $52.8/bl in 2017 and $57.8/bl in 2018 and then decrease to $55.3/bl in 2019. These forecasts were revised upward from the previous report, mainly because of better global economic outlook, greater geopolitical uncertainties in the Middle East and extended agreement of oil-producing countries to reduce production until the end of 2018. Concerning fertilizers, the price of DAP would average 345 $/mt in 2017 and stabilize at this level in 2018 before increasing slightly to $353/mt in 2019. The price of rock phosphate, after declining from $112/mt to $91/mt in 2017, would remain stable at around $90/mt. These forecasts were revised slightly downward due to continued excess capacity in the market, notably in Morocco and Saudi Arabia. Moreover, food prices are expected to rise moderately for the full year 2017 and remain close to current levels in the medium term. Their projections were revised downward over the forecast horizon, taking into account, in particular, the increase in wheat supply.

Under these conditions, inflation in the United States would reach 2.1 percent in 2017 and remain close to the Fed's target in the medium term, at 2.2 percent in 2018 and 2.4 percent in 2019[2]. In the euro area, inflation[3] is expected to gradually converge towards the ECB target at the end of the forecast horizon, standing at 1.5 percent in 2017, 1.2 percent in 2018 and 1.7 percent in 2019.

2 This is the inflation rate predicted by the GPM as measured by the annual change in the Consumer Price Index. Based on the Personal Consumer Price Index, the Fed projected, in its December 13 forecast, an inflation rate of 1.7 percent in 2017, 1.9 percent in 2018 and 2 percent in 2019.

3 GPM forecasts of November 2017. The ECB projected, in its December 14 forecast, an inflation rate of 1.5 percent for 2017, 1.4 percent for 2018 and 1.5 for 2019. Excluding energy and food prices, inflation is expected at 1 percent in 2017, 1.1 percent in 2018 and 1.5 percent in 2019.

Chart 7.4: Food commodity price index

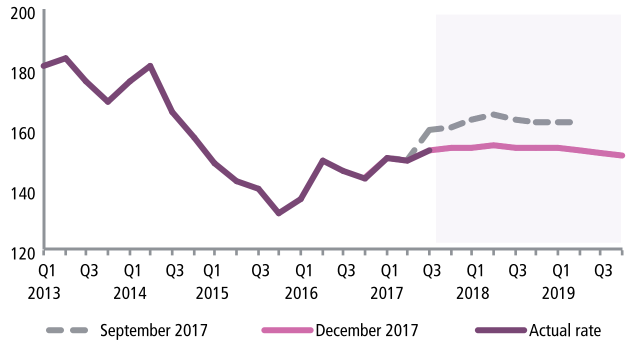


Chart 7.5: Crude oil price

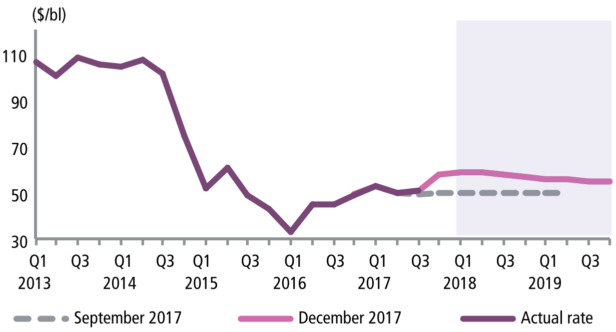


Chart 7.6: Inflation in the euro area

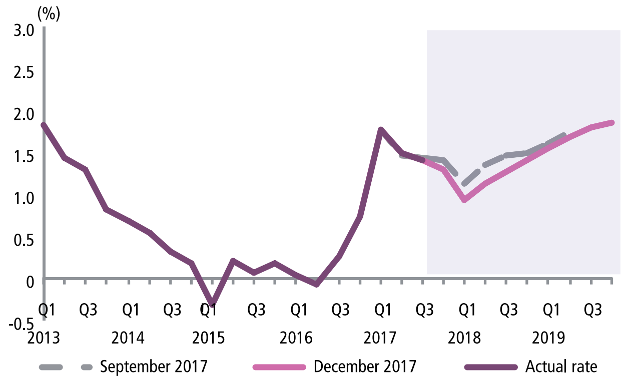
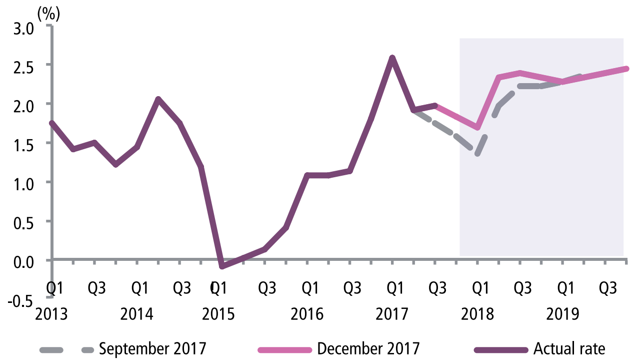


Chart 7.7: Inflation in the United states



Source: GPM forecasts of November 2017.

Continued fiscal adjustment

The stance of fiscal policy remains focused on reducing the budget deficit in line with the Government's objectives. The deficit is expected to gradually decline from 4.1 percent of GDP in 2016 to almost 3 percent in 2019. For 2017, the adjusted target of 3.5 percent of GDP should be achieved. Compared to the September forecast, a slight revision was made to subsidy expenses, due to the integration of the new assumptions of international energy prices and the exchange rate.

For 2018, taking into account data from the Finance Bill 2018, the deficit was slightly revised downward to 3.1 percent of GDP as against 3.2 percent in the September forecast and 3 percent according to the Finance Bill. The projection of spending on other goods and services has been adjusted upward, while ordinary revenues have been revised downward, with a slight upward adjustment in tax revenues and a decline in non-tax revenues.

For 2019, assuming the continuation of the current policy stance of resource mobilization and expenditure control, the deficit is expected to be around 3 percent of GDP.

A cereal production of 96 million quintals for the crop year 2016-2017 and a good performance in other crops

The cereal production for the crop year 2016-2017, according to the Ministry of Agriculture, Fisheries, Rural Development, Water and Forests, totaled 95.6 million quintals, up from 33.5 million last year and 73 million on average during the last five years. This performance is due to favorable climatic conditions with a good spatial and temporal distribution of rainfall. Other crops' production would have increased by 16.1 percent for citrus fruits, 3.4 percent for date palms and 1.2 percent for sugar crops, while that of olive trees would have decreased.

For the crop years 2017/2018 and 2018/2019, Bank Al-Maghrib's forecasts assume the cereal production of the three main crops to average 70 million quintals and the recent trend in other crops to continue.

7.2 Macroeconomic projections

Easing current account deficit over the forecast horizon

Taking into account budget execution as at end October, the current account deficit is expected at 3.6 percent of GDP in 2017, 0.3 percentage point lower than the September forecast. This deficit would stabilize at this level in 2018 and narrow to 3.3 percent in 2019. BAM projects exports to keep momentum, including a significant increase in automotive industry shipments in 2019. At the same time, imports are expected to grow at a steady pace of around 5 percent, which covers a deceleration in energy imports and a recovery in capital goods' purchases in 2018 and 2019.

Travel receipts and expatriate remittances would respectively increase by 4 percent and 3.8 percent in 2018 and by 4 percent and 3.6 percent in 2019. Assuming that GCC grants would amount to 8 billion dirhams in 2017, 7 billion in 2018 and 2.5 billion in 2019 and that FDI inflow would be around 3.1 percent of GDP in 2017 and 3.5 percent of GDP in 2018 and 2019, net international reserves are expected to be close to 239 billion in 2017, 238 billion dirhams in 2018 and 237 billion in 2019, covering 5 months and 24 days of imports of goods and services in 2017 and 5 months and a half in 2018 and 2019.

Table 7.1: Main components of the balance of payments

	Actual rates					Forecasts			Gap (Dec./Sept)	
	2012	2013	2014	2015	2016	2017	2018	2019	2017	2018
Exports of goods* (change in %)	5.8	-0.1	8.8	8.6	2.7	9.1	6.7	8.3	2.6	2.0
Imports of goods* (change in %)	8.2	-1.5	2.6	-4.9	9.9	5.2	6.1	4.5	0.7	0.8
Travel receipts (change in %)	-1.8	-0.4	7.7	-1.4	5.0	4.9	4.0	4.0	1.4	0.3
Expatriate remittances (change in %)	0.6	-1.5	3.7	0.3	4.3	2.4	3.8	3.6	-0.6	0.1
Current account balance (% of GDP)	**-9.5**	**-7.8**	**-5.7**	**-2.1**	**-4.4**	**-3.6**	**-3.6**	**-3.3**	**0.3**	**0.4**
Net international reserves in months of goods and services' imports	**4.2**	**4.4**	**5.1**	**6.6**	**6.4**	**5.8**	**5.5**	**5.5**	**0.1**	**-0.3**

* From Foreign trade perspective
Sources: Foreign Exchange Office and BAM forecasts.

Accommodative monetary policy stance and continued improvement of bank lending

Monetary conditions eased in 2017, helped by the continued accommodative monetary policy stance and the depreciation of the real effective exchange rate, which is itself related to the appreciation of the euro and the low level of inflation in Morocco compared to the main trading partners and competitors. In the medium term, this situation should continue, driven by the continued depreciation of the real effective exchange rate, albeit less markedly than in 2017.

Taking into account the revised forecasts of net international reserves, the liquidity deficit was revised to 38.8 billion dirhams as at end 2017. In the medium term, and mainly due to the trend increase in currency in circulation, it is expected to increase to 50.6 billion in 2018 and 62.7 billion in 2019.

Under these conditions, bank lending to the nonfinancial sector should end the year with a 4.5 percent increase, forecast unchanged from that of the September edition. It should continue to improve in the medium term and grow by about 5 percent in 2018 and 2019. In these circumstances, and taking into account the change in the other counterparts of money supply, the M3 aggregate would grow by 4.9 percent in 2017 and then down to about 4 percent in 2018 and 2019.

Table 7.2: Money supply and bank lending

	Actual rates				Forecasts			Gap (Dec./Sept)	
	2013	2014	2015	2016	2017	2018	2019	2017	2018
Bank lending to the nonfinancial sector (change in %)	1.7	3.8	0.3	3.9	4.5	5.0	5.0	0.0	0.0
M3 (change in %)	3.1	6.2	5.7	4.7	4.9	3.8	3.9	1.4	-1.1
Liquidity surplus or deficit, in billion dirhams	-68.4	-40.6	-16.5	-14.7	-38.8	-50.6	-62.7	8.0	3.3

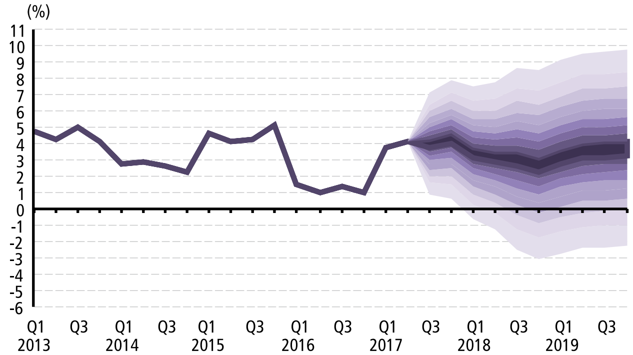
Source : BAM.

Rebound in agricultural value added in 2017 and continued slow recovery of nonagricultural activities

After reaching 1.2 percent in 2016, national growth would accelerate to 4.1 percent in 2017, a forecast slightly adjusted downward from the September edition. This trend reflects a rebound in agricultural value added to 14.7 percent and a slow recovery in nonagricultural activities by 2.7 percent. On the demand side, net exports should contribute positively to growth, supported on the one hand by the larger-than-expected improvement in economic activity in major trading partners and, on the other hand, by the depreciation of the real effective exchange rate. In terms of domestic demand, households' final consumption would accelerate as expected in September, as a result of higher incomes, particularly in agriculture, while investment momentum is predicted to decelerate faster than expected as evidenced by the rapid slowdown in capital goods' imports. Government consumption should continue to grow moderately in connection with efforts made to control operating expenses.

Assuming average crop years, growth is projected to slow to 3 percent in 2018 and 3.6 percent in 2019. Nonagricultural activities would continue to improve, up 3.4 percent in 2018 and 3.6 percent in 2019. On the demand side, after a positive contribution in 2017, net exports are expected to make a negative contribution to growth in 2018, which will diminish in 2019 in connection with the start of production in the Peugeot plant. Domestic demand should continue to support growth, in particular with a recovery in investment under the assumption of continued steady pace in public investment and major projects.

Chart 7.8: Growth outlook over the forecast horizon (Q3 2017 - Q4 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 (%)

	Actual rates					Forecasts			Gap (Dec./Sept)	
	2012	2013	2014	2015	2016	2017	2018	2019	2017	2018
National growth	**3.0**	**4.5**	**2.7**	**4.5**	**1.2**	**4.1**	**3.0**	**3.6**	**-0.2**	**-0.1**
Agricultural VA	-9.1	17.2	-2.2	11.9	-12.8	14.7	-1.0	3.5	0.0	0.0
Nonagricultural VA	4.5	1.8	2.7	1.8	2.2	2.7	3.4	3.6	-0.2	-0.1
Taxes on products net of subsidies	6.8	14.6	9.7	18.1	8.5	2.7	3.9	4.1	-1.4	-0.3

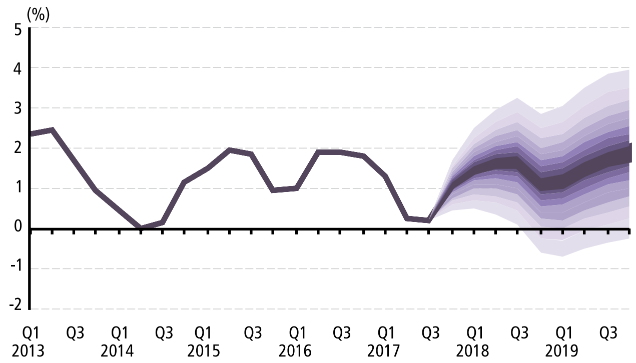
Sources: HCP data, and BAM forecasts.

Altogether, after growing below its potential in 2016, the business cycle would broadly return to positive territory in 2017, thanks to the improvement in revenues, notably from agriculture, foreign demand and the accommodative stance of monetary policy.

Core inflation would accelerate gradually but would remain subdued over the medium term

Core inflation is expected to accelerate gradually over the medium term, from 0.8 percent in 2016 to 1.9 percent in 2019, which is almost unchanged from the September forecast. This trend mainly reflects the expected strengthening of domestic demand and the rise in imported inflation, which is itself impacted by the expected depreciation of the real effective exchange rate.

Chart 7.9: Inflation forecast over the horizon (Q4 2017 - Q4 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

	Actual rates		Forecasts				Gap (Dec./Sept)	
	2015	2016	2017	2018	2019	8 quarters horizon	2017	2018
Inflation	**1.6**	**1.6**	**0.7**	**1.5**	**1.6**	**1.5**	**0.1**	**0.2**
Core inflation	1.3	0.8	1.3	1.5	1.9	1.6	-0.1	-0.1

Sources: HCP data, and BAM forecasts and calculations.

For commodities excluded from core inflation, fuel and lubricant prices are projected to increase in 2017 at a faster pace than expected in September following the upward revision of international oil price forecasts. Volatile food prices would decline in 2017, but less rapidly than projected in September due to the significant quarterly increase expected in the fourth quarter of 2017.

Overall, inflation is expected to slow to 0.7 percent in 2017, before rising to 1.5 percent in 2018 and then to 1.6 percent in 2019. Over the forecast horizon, it would average 1.5 percent.

Chart 7.10: Change in core inflation and output gap

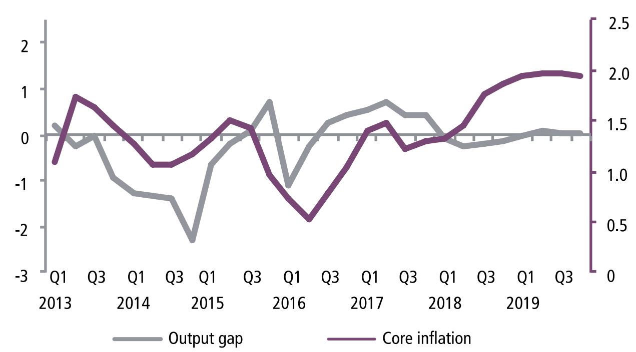
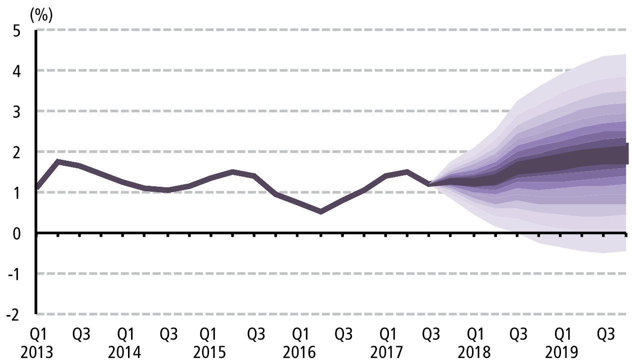


Chart 7.11: Projections of core inflation over the forecast horizon (Q4 2017 - Q4 2019)*



* 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

The baseline forecast scenario remains surrounded by several risks, with a balance of risks tilted to the downside for growth and to the upside for inflation. Downside risks to economic growth are linked to rising geopolitical tensions in the Middle East, the political crisis in Spain and the U.S. administration's restrictive trade and immigration policies. In addition, the fragility of the financial system in some euro area countries and a faster deceleration of growth in China could have a negative impact on the outlook for global growth. At the national level, a below-average cereal production would negatively impact national growth. Regarding the upside risks, the U.S. administration's expansionary fiscal policy and the easing of financial conditions due to financial deregulation in the United States, after the appointment of the new Fed president, could further stimulate its domestic demand and hence global growth.

Concerning inflation forecasts, the risks identified may lead to a higher-than-expected inflation rate. This would be mainly caused by a higher-than-expected rise in fresh food prices in connection with delayed rains and a more pronounced increase in energy commodity prices due to rising geopolitical tensions.

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

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