**PRESS RELEASE**

**BANK AL-MAGHRIB BOARD MEETING**

Rabat, June 19, 2018

1. The Board of Bank Al-Maghrib held its second quarterly meeting of the year on Tuesday, June 19.
2. At this meeting, it examined and approved the Annual Report 2017 on the country's economic, monetary and financial situation as well as on the Bank's activities.
3. The Board also analyzed the recent economic developments and the macroeconomic forecasts prepared by the Bank for the next eight quarters.
4. Based on these assessments, particularly those of medium-term inflation and growth prospects, the Board considered that the current level of the key rate at 2.25 percent remains appropriate and decided to keep it unchanged.
5. The Board noted that inflation has markedly accelerated over the first four months of the year. This change reflects the impact of the review of the CPI basket structure last March by the High Commission for Planning as well as significant increases in volatile food prices and regulated prices. Spurred by these temporary shocks, inflation is expected to reach 2.4 percent in 2018, before returning to 1.4 percent in 2019. Core inflation, which measures the fundamental price trend, would remain subdued, reaching about 1.1 percent in 2018 and 1.6 percent in 2019.
6. Internationally, despite a relative moderation in some advanced economies in the first quarter of 2018, global growth remains strong. Its medium-term outlook remains broadly favorable, but is surrounded by a number of risks related in particular to U.S. trade policy, geopolitical tensions and political difficulties in some European countries. In the euro area, GDP growth would be 2.3 percent in 2018 before decelerating to 1.8 percent in 2019, impacted by the expected tightening of monetary conditions. In the United States, growth would reach 2.7 percent, boosted by tax measures, and then return to 2 percent in 2019. In the labor market, the situation also continues to improve, with a decline in unemployment in the euro area and continued strong job creation in the United States. In emerging countries, activity is benefiting from the consolidation of demand from advanced countries and, for some of them, from higher oil prices and the depreciation of their currencies. Growth would thus pick up in Russia and Brazil, strengthen in India and slow down in China in connection with the economic rebalancing policy.
7. On the commodity market, prices overall trended upward during the first five months of 2018. More particularly, Brent oil price is expected to end the year on an average price of $67.2/bl, up 23.5 percent, as a result of the production reduction agreement, the geopolitical tensions and higher demand. In 2019, reflecting the projected increase in production in the United States, it is expected to drop to $62.5/bl. Phosphate and derivatives' prices also trended upward, particularly due to higher production costs and continued demand. Hence, prices rose year-on-year by 14.3 percent to $407/mt in May for DAP, by 18.5 percent to

$326/mt for TSP and by 3 percent to $103/mt for crude phosphate. In the medium term, they would remain close to these levels.

**8.** Under these conditions, inflation would continue to hover below the ECB's target in the euro area, at around 1.5 percent in 2018 and 1.4 percent in 2019, while in the United States it would stand at a level close to the FED target.

**9.** With regard to monetary policy decisions, the ECB decided, on June 14, to keep its interest rates unchanged, while expecting them to remain at their current levels at least through the summer of 2019. It also indicated that it anticipates that, after September 2018, the monthly pace of the net asset purchases will be reduced from €30 billion to €15 billion until the end of December 2018 and that net purchases will then end. In turn, during its meeting of June 12 and 13, the Fed raised the target range of the federal funds rate by one quarter of a percentage point to a range between 1.75 percent and 2 percent, maintaining that the stance of its monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return of inflation to its target.

**10.** Nationally, GDP growth accelerated to 4.1 percent in 2017 from 1.1 percent in 2016. This improvement was driven by a 15.4 percent rebound in agricultural value added, while the increase in nonagricultural activities was limited to 2.7 percent. In the medium term, Bank Al-Maghrib projects the latter to continue to recover, up 3.2 percent in 2018 and 3.5 percent in 2019. Agricultural value added would increase by 5.7 percent in 2018 due to a good crop year, especially as the Agriculture Department projects cereal production to stand at 98.2 million quintals, before falling by 1.7 percent in 2019, assuming a normal crop year. As a result, domestic growth would slow down to 3.6 percent in 2018 and 3.1 percent in 2019. On the demand side, household consumption and investment are expected to continue to grow steadily in the medium term, while net exports' contribution to growth would be negative.

**11.** In the labor market, the national economy generated 116,000 jobs between the first quarter of 2017 and the same quarter of 2018, including 50,000 in the services, 43,000 in agriculture and 32,000 in the construction sector. Meanwhile, industry, including handicrafts, reported a loss of 9,000 jobs. Taking into account a net entry of 92,000 jobseekers into the market, labor force participation rate decreased by 0.4 point to 47.1 percent and unemployment rate fell from 10.7 percent to 10.5 percent at the national level and from 15.7 percent to 15.6 percent in urban areas.

**12.** With regard to external accounts, exports kept momentum in the first five months of the year, mainly driven by a marked increase in the sales of the automotive industry and travel receipts. Meanwhile, goods' imports maintained a steady pace, particularly capital goods and energy products. Looking ahead, goods' exports would rise by 5.8 percent in 2018 and 6.9 percent in 2019, mostly due to the continuing good performance of the automotive industry, with the announced start of production of the Peugeot plant. Similarly, travel receipts would improve by 8 percent in 2018 and 4 percent in 2019. On the opposite, goods' imports are expected to increase by 7.2 percent, driven by the rise in the energy bill and capital goods' purchases, and then slow to 3.7 percent in 2019. Expatriates remittances would maintain momentum in 2018 with a projected increase of 6 percent, before slowing to 4.1 percent in 2019. Taking into account the remaining 7 billion dirhams of GCC grants predicted for 2018, the current account deficit would reach about 4.1 percent of GDP by the end of this year and would ease to 3.6 percent in 2019. Against this background, and assuming FDI inflows equal to 4.4 percent and 3.5 percent of GDP respectively, foreign exchange reserves would reach 255.4 billion dirhams as at-end 2018 and 245.9 billion as at-end 2019, covering 5 months and 25 days and then 5 months and 18 days of goods and services' imports.

**13.** On the monetary side, the dirham rose in the first quarter by 2.5 percent against the U.S. dollar and depreciated by 1.8 percent against the euro, mainly due to the change in the euro/dollar parity. Considering also changes in inflation and foreign exchange rates in other partner and competitor countries, the effective exchange rate of the dirham depreciated by 0.9 percent in nominal terms and 0.8 percent in real terms, thereby contributing to maintaining accommodative monetary conditions. Also, lending rates fell by 15 basis points, particularly real-estate loans and cash advances to businesses. In this context, lending to the nonfinancial sector grew by 4.1 percent at end-April, with a notable increase in equipment loans, while cash advances declined. Based on these developments, nonagricultural growth outlook and the expectations of the banking system, the Bank has lowered its forecast for lending to the nonfinancial sector to 4 percent for 2018 and kept it unchanged at 4.5 percent for 2019.

**14.** In terms of public finance, budget execution as at end-April resulted in a rise in fiscal deficit by 1.4 billion to 14.2 billion, mostly due to a decline in the positive balance of the Treasury's special accounts. Ordinary revenues increased by 1.1 percent, mainly driven by higher revenues from indirect taxes, while overall spending eased by 1.1 percent, including declines by 2.7 percent in investment and 11.7 percent in subsidy costs. In the medium term, fiscal adjustment would continue, though at a pace slower than expected in March, as the deficit would be around 3.4 percent of GDP in 2018 and 3.3 percent in 2019.