BANK AL-MAGHRIB

MONETARY POLICY REPORT

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FOREWORD

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

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

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

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

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

Bank Al-Maghrib Board members:

The Governor, Chairman

The Director General

The Government Representative

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

Mr. Abdellatif BELMADANI

Mr. Mohammed BENAMOUR

Ms. Miriem BENSALAH CHAQROUN

Mr. Bassim JAI-HOKIMI

Mr. Mustapha MOUSSAOUI

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 20, 2018

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

2. At the beginning of the meeting, the Board assessed the implementation status of the reform of the exchange rate regime launched on January 15. It noted the good conditions in which the reform is taking place and the positive response of the markets as well as of the relevant national and international institutions.

3. Then, it analyzed 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 remains appropriate and decided to keep it unchanged at 2.25 percent.

5. The Board noted that inflation, as projected in the Monetary Policy Report of last December, slowed down in 2017 to 0.7 percent due to a decline in volatile food prices. Conversely, core inflation accelerated to 1.3 percent after a temporary significant decrease in 2016 to 0.8 percent. In the medium term, inflation is projected to rise but would remain at moderate levels. It would reach 1.8 percent in 2018, driven mainly by higher regulated prices, and ease to 1.5 percent in 2019. Core inflation is expected to stand at 1.4 percent in 2018 and 1.9 percent in 2019, as a result of stronger domestic demand and higher imported inflation.

6. Internationally, the global economy saw a substantial improvement in 2017, as growth would have accelerated from 3.2 percent to 3.8 percent. This strengthening is expected to continue over the medium term, boosted by the renewed confidence of economic agents and accommodative monetary conditions in the advanced economies. In the euro area, growth rebounded from 1.8 percent to 2.5 percent in 2017 and would reach 2.2 percent in 2018 before falling to 2 percent in 2019, mainly in conjunction with political uncertainties, especially over the Brexit terms. The unemployment rate decreased from 10 percent to 9.1 percent in 2017 and would fall further to nearly 8.7 percent in 2019. In the United States, economic activity would be boosted by weaker U.S dollar and the tax reform. After rising 1.5 percent in 2016 and 2.3 percent in 2017, GDP is expected to grow by 2.5 percent in 2018 and 2.1 percent in 2019. Unemployment fell from 4.9 percent in 2016 to 4.4 percent in 2017 and would remain close to this level in the medium term. Emerging

economies would benefit from improved demand from advanced economies and higher oil prices for oil-exporting countries. In particular, the Chinese economy would hold up well owing to the fiscal stimulus measures that are, however, expected to decrease as part of the country's transition to a more sustainable growth model.

7. On the commodity market, after a significant increase by 23.5 percent in 2017 to $54.4/bl on average, Brent crude oil price hovered around $67/bl during the first two months of 2018. It is expected to average $63.7/bl for the full year 2018, notably in connection with the renewed agreement to cut production and stronger global demand. In 2019, prices would decline to $61.8/bl owing in particular to higher output in North America and Brazil. Food prices, after rising 8.1 percent in 2017, are expected to decrease by 2.8 percent in 2018 and 4 percent in 2019, affected by the slowdown of the Chinese economy. Fertilizers' prices experienced diverging trends in 2017, rising by 2.6 percent to $354/mt for DAP and dropping by 4.9 percent to $276/mt for TSP and by 20.1 percent to $90/mt for rock phosphate. Over the medium term, amid excess supply, prices would remain close to the levels of 2017 according to the World Bank's October forecast.

8. Under these conditions, inflation would hover around 1.5 percent over the next two years in the euro area, below the ECB's target. In the United States, it would stabilize as from this year around the Fed's 2 percent objective.

9. Regarding monetary policy decisions, the ECB decided on March 8 to maintain its policy rate unchanged and to continue its current asset purchase program until end-September 2018 and beyond if necessary. The Fed also kept unchanged the target range for federal funds rate at 1.25-1.5 percent, at its last meeting of January 31. It is expected to gradually increase its rates while continuing the normalization of its balance sheet in line with the program announced in June 2017.

10. At the national level, growth would have accelerated to 4 percent in 2017, driven by a rebound of 14.8 percent in agricultural value added while nonagricultural activities would have grown by merely 2.7 percent. For 2018, Bank Al-Maghrib's forecasts, based on rainfall data and the situation of the vegetation cover as of March 10, predict a cereal production of about 80 million quintals and a 2.3 percent increase in the agricultural value added. At the same time, nonagricultural activities would continue to recover, up 3.2 percent, which would drive overall growth to 3.3 percent. In 2019, GDP would expand by 3.5 percent, with a 1.8 percent increase in agricultural value added –assuming a cereal production of 70 million quintals- and a 3.6 percent rise in nonagricultural activities. On the demand side, these developments mainly reflect slight acceleration of investment and continued momentum in household consumption, while the contribution of net exports would be negative in 2018 and almost nil in 2019.

11. In the labor market, after a net loss of 37 thousand jobs in 2016, the situation improved somewhat in 2017, driven by agricultural activities. The national economy thus created 86 thousand jobs, including 42 thousand in the primary sector, 26 thousand in the services, 11 thousand in the construction sector and 7 thousand in the industry including handicrafts. At the same time, the net

inflow of new job seekers reached 135 thousand, with a slight drop in the participation rate by 0.3 percentage point to 46.7 percent. Under these conditions, the unemployment rate edged up from 9.9 percent to 10.2 percent.

12. Regarding external accounts, in 2017 goods' exports performed well, up 9.4 percent, travel revenues showed a strong rebound of 8.5 percent to 69.7 billion dirhams, and expatriate remittances rose by 4.5 percent to 65.4 billion. At the same time, goods' imports increased by 6.4 percent, driven by a significant increase in the energy bill by 27.4 percent to 69.7 billion dirhams, the first since 2012. Taking into account a 9.5 billion dirhams inflow of GCC grants, the current account deficit would have eased from 4.4 percent to 3.8 percent of GDP. In the medium term, exports would keep momentum, particularly with the expected marked increase in automotive industry sales in 2019. Similarly, travel receipts would continue at a sustained rate of 5.7 percent in 2018 and 5.2 percent in 2019, while expatriate remittances would increase by 5 percent and 4.1 percent, respectively. On the other hand, the growth of imports would accelerate to 7.1 percent in 2018, mainly as a result of the projected increase in the energy bill and capital goods' purchases, and then slow to 4.2 percent in 2019. Assuming the inflow of the remaining 7 billion dirhams of GCC grants in 2018, the current account deficit would be around 4 percent of GDP in 2018 and 2019. In these conditions and assuming an FDI inflow equivalent to 4.4 percent of GDP in 2018 and 3.5 percent of GDP in 2019, foreign exchange reserves would be around 257.3 billion dirhams in 2018 and 244.4 billion in 2019, thus providing coverage of goods and services' imports for 5 months and 26 days in 2018 and 5 months and 17 days in 2019.

13. Monetary conditions remained accommodative in 2017, with a depreciation of the real effective exchange rate. After falling by 46 basis points in 2016, lending rates were up 27 points in nominal terms, mainly reflecting higher rates on loans to businesses, particularly cash advances. In the medium term, monetary conditions would ease further, as the real effective exchange rate is expected to depreciate more markedly in 2018. In this context, lending to the nonfinancial sector rose 3.7 percent in 2017, after 3.9 percent a year earlier. This increase covers a deceleration of loans to public corporations and an acceleration of lending to private corporations and households. Considering these developments and medium-term prospects for nonagricultural growth, the projection for nonfinancial credit growth has been adjusted to 4.5 percent in 2018 and 2019.

14. Turning to public finances, budget execution for 2017 resulted in a deficit of 3.6 percent of GDP. Revenues increased by 5.7 percent, with higher tax revenues and GCC grants. At the same time, overall expenses rose by 2.7 percent, with increases of 8.7 percent in subsidy costs to 15.3 billion dirhams and 5.1 percent in investment. In the medium term, fiscal adjustment would continue and budget deficit is expected to average 3.2 percent of GDP in 2018 and 2019.

OVERVIEW

The global economic activity continued to strengthen in the fourth quarter of 2017. Growth in the United States moved up from 2.3 percent in the third quarter to 2.5 percent, driven by improved private and government consumption as well as investment. In the euro area, despite stabilizing at 2.7 percent, growth remained robust and accelerated to 2.5 percent throughout the year, its highest level in 10 years. In Japan, it was up from 1.9 percent to 2.1 percent, with an improvement in private consumption and public investment. However, growth decelerated from 1.8 percent to 1.4 percent in the United Kingdom, due to uncertainties surrounding the Brexit terms.

In key emerging countries, growth stagnated at 6.8 percent in China, owing to the slowdown in domestic demand. However, it improved significantly from 1.4 percent to 2.1 percent in Brazil and from 6.1 percent to 6.7 percent in India. In Russia, third quarter data show an economic deceleration from 2.5 percent to 1.8 percent.

In the labor market, the unemployment rate in the United States decreased by 0.5 point in 2017 to 4.4 percent. In February 2018, it stabilized at 4.1 percent for the fifth consecutive month, as 313 thousand jobs were created. In the euro area, the unemployment rate fell from 10 percent in 2016 to 9.1 percent in 2017 and to 8.6 percent in January 2018, its lowest level since December 2008.

In stock markets, fears of a faster-than-expected normalization of monetary policies of advanced countries' central banks, especially the FED, combined with faster inflation and higher wages in the United States, have created considerable tensions in stock markets, especially during the first days of February. The US indexes thus experienced a correction, which was transmitted to the other major markets of the advanced and emerging economies. Despite the rises observed thereafter, stock market indexes declined between January and February with rates ranging from 3.4 percent for the Dow Jones to 7.2 percent for the NIKKEI 225. Similarly, the MSCI emerging countries fell by 2.2 percent, covering declines of 2.7 percent in China index and 4.5 percent in India.

In the sovereign debt markets, the underperformance of stock markets and increasing expectations of a more restrictive monetary policy stance in the United States resulted in higher 10-year yields of the major advanced economies. Indeed, they rose from 2.6 percent in January to 2.9 percent in February in the United States, from 0.5 percent to 0.7 percent in Germany and from 0.7 percent to 0.9 percent in France.

In the currency markets, the euro appreciated between January and February by 1.3 percent against the dollar, standing at 1.24 dollars. Conversely, it depreciated by 1.4 percent versus the Japanese yen and remained unchanged against the pound sterling. As to the main emerging countries' currencies against the dollar, the Indian rupee depreciated by 1.1 percent, while the Chinese yuan appreciated by 1.7 percent and the Turkish lira and the Brazilian real remained stable. The annual bank lending growth decelerated slightly in the United States from 3.7 percent in December to 3.5 percent in January, and accelerated from 2.6 percent to 3 percent in the euro area.

In commodity markets, after ending 2017 up 23.5 percent to $54.4 per barrel on average, the Brent price stood at $65.4 per barrel in February, up 17.9 percent, year on year. Non-energy commodities prices were up 4.2 percent, driven mainly by base metal prices, while agricultural commodity prices declined due to the still strong supply. The durum wheat price rose by 25.4 percent, owing to further concerns about the deterioration of harvest conditions in the major producing countries. Prices of phosphates and derivatives dropped by 12.2 percent for crude phosphate and 7.3 percent for urea and increased by 12.2 percent for DAP, 5.6 percent for potassium chloride and 3 percent for TSP.

Against this backdrop, after finishing the year up 1.5 percent, inflation in the euro area moved back to 1.3 percent in January and 1.1 percent in February. In the United States, after two months of stagnation at 2.1 percent, unchanged from 2017, inflation rose to 2.2 percent in February.

Regarding monetary policy decisions, the ECB decided on March 8, 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. The Bank also reiterated that these purchases at a monthly pace of 30 billion euros are intended to run 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. Similarly, the FED maintained in January the target range for the federal funds unchanged at [1.25 percent - 1. 50 percent], in view of realized and expected labor market conditions and inflation. It also indicated that it is continuing to normalize its balance sheet and reiterated that its stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to target inflation.

Nationally, the growth of exports accelerated in 2017 to 9.4 percent, with particularly an increase of 11.1 percent for phosphates and its derivatives to 44 billion dirhams and 7 percent for agricultural and agribusiness commodities to 51.9 billion. Meanwhile, despite a 27.4 percent increase in the energy bill to 69.5 billion, imports slowed to 6.4 percent from 9.9 percent in 2016, due to a slowdown in capital goods imports. Despite these trends, the trade deficit widened slightly and the import coverage ratio increased from 54.8 percent in 2016 to 56.3 percent. For the other components of the current account, travel receipts showed a significant increase of 8.5 percent to 69.7 billion dirhams and remittances from Moroccan expatriates rose 4.5 percent to 65.4 billion dirhams. In view of an inflow of GCC grants of 9.5 billion, the current account deficit would have accordingly eased to 3.8 percent of GDP from 4.4 percent in 2016. Also, assuming a net FDI inflow of 24.4 billion, net international reserves amounted to 240.9 billion dirhams at end-2017, equaling 5 months and 21 days of imports of goods and services.

Under these conditions, the bank liquidity situation improved markedly during the fourth quarter of 2017, as the needs eased to 48.6 billion dirhams. Bank Al-Maghrib thus adjusted the volume of its injections to 50 billion and the weighted average rate on the interbank market remained consistent with the key rate. Monetary conditions were also marked by a slight appreciation of the real effective exchange rate and higher lending rates in nominal terms. In this context, lending to the nonfinancial sector continued to improve in the fourth quarter, with growth of 4.8 percent, thus ending 2017 up 3.7 percent. Also, given the strengthening of claims on the central government and the slow decline in foreign exchange reserves, the growth of the M3 aggregate stood at 5.7 percent in the fourth quarter.

On the public finance side, the 2017 fiscal year ended with a non-privatization deficit of 37.8 billion, exceeding the budget law target by 4.9 billion, but easing by 7.6 billion compared to 2016. Current revenues grew by 5.7 percent, with improved tax revenues and donations from GCC countries. At the same time, current expenditure rose by 2 percent, covering an increase in spending on other goods and services, transfers to local governments and a subsidy cost of 15.3 billion, as against 14.7 billion forecast in the finance law. Moreover, given a 0.9 billion cut in payment arrears compared to the end of December, the financing requirements stood at 38.7 billion and were covered, in addition to a negative external net flow, by domestic resources, amounting to 35.4 billion. Under these conditions, the Treasury debt would have stood at 65.1 percent of GDP in 2017. The budget execution for the first month of 2018 resulted in a surplus of 988 million, due to higher revenues and lower expenditures, particularly regarding the payroll, investment and subsidies.

In terms of national accounts, data for the third quarter of 2017 show faster growth to 3.8 percent, up from 1.3 percent a year earlier, driven by a 14.5 percent rebound in the agricultural value added after a decline of 13.6 percent. On the other hand, the nonagricultural value added accelerated from 2.3 percent to 2.7 percent. On the demand side, household final consumption grew by 4.5 percent from 3.5 percent a year earlier, while general government consumption slowed down from 0.9 percent to 0.7 percent. Investment dropped by 5.3 percent, after an increase of 18.1 percent. However, net exports of goods and services contributed positively to growth by 2.9 percentage points, as opposed to a negative contribution of 6.4 points. Exports grew 10.5 percent from 2.2 percent, while the pace of imports decelerated from 17.1 percent to 1.5 percent.

In the labor market, after a net loss of 37 thousand jobs in 2016, conditions were marked in 2017 by the creation of 86 thousand jobs, of which 42 thousand in the agriculture, forestry and fishing sector, 26 thousand in services, 11 thousand in construction and 7 thousand in industry including crafts. Taking into account a net inflow of 135 thousand jobseekers, the participation rate fell from 47 percent to 46.7 percent and the unemployment rate thus moved up from 9.9 percent to 10.2 percent and peaked at 42.8 percent among urban youth.

In the real estate market, the real estate price index recorded a quarterly decline of 1.3 percent in the fourth quarter and the number of transactions fell by 2.4 percent. Throughout the year, after a rise of 1.3 percent in 2016, prices rose by 5 percent and transactions decreased by 7.6 percent after an increase of 8.4 percent. Regarding the stock market, the MASI appreciated by 2 percent in the fourth quarter, bringing its annual performance to 6.4 percent while the trading volume dropped by 4.1 percent to 69.7 billion. Under these conditions, the market capitalization amounted to 627 billion dirhams, up 7.5 percent year on year and the PER stood at 20.4 at the end of 2017, from 20 in the previous year.

As forecast in the latest Monetary Policy Report, inflation moved down to 0.7 percent in 2017 from 1.6 percent in 2016, owing to the 3.1 percent drop in volatile food prices, after a 7.5 percent rise, with core inflation accelerating from 0.8 percent to 1.3 percent. Recent data point to a slight deceleration in inflation from 1.9 percent in December to 1.8 percent in January, reflecting a slower growth from 5.8 percent to 3.3 percent in volatile food prices and from 6.7 percent to 2.6 percent in fuel and lubricant prices. Prices for regulated products rose 2.8 percent, as against 0.9 percent and core inflation stabilized at 1.1 percent.

In terms of prospects, the global economy is expected to maintain its momentum in the medium term, supported by renewed confidence among economic operators and favorable monetary and financial conditions in advanced economies. After a rate of 2.5 percent in 2017, growth in the euro area would consolidate to 2.2 percent in 2018 and 2 percent in 2019. In the United States, after 2.3 percent in 2017, it would stand at 2.5 percent in 2018 and 2.1 percent in 2019, supported by tax reforms and the depreciation of the dollar.

In emerging countries, economic activity should benefit from the pickup in demand from advanced economies and rising oil prices for exporting countries. After exiting the recession, the Russian and Brazilian economies would continue to improve, and in China, albeit decelerating, economic activity would remain resilient, thanks to budget support measures.

In the labor market, conditions should improve further in the United States in the medium term. After 4.4 percent in 2017, the unemployment rate would stand at 4.3 percent in 2018 and 4.4 percent in 2019, levels close to full employment. In the euro area, this rate should continue its downward trend from 9.1 percent in 2017 to 8.8 percent in 2018 and 8.7 percent in 2019.

In commodity markets, food prices should post declines of 2.8 percent in 2018 and 4 percent in 2019, essentially reflecting slow demand from China. On the other hand, the Brent price should continue its upward trend to 63.7 dollars/bl in 2018, reflecting, in addition to the extension of the production reduction agreement, the decline in US stocks, geopolitical tensions in the Middle East and, to a lesser extent, improved global demand. In 2019, it is expected to fall slightly to $61.8/bl, in conjunction with the projected rise in production in the United States, Canada and Brazil. Regarding phosphates and derivatives, prices would remain relatively low, particularly due to output capacity surpluses. According to the World Bank's October 2017 projections, they would stand respectively at $345/mt in 2018 and $353/mt in 2019 for DAP and $90/mt and $92/mt for rock phosphate.

Against this backdrop, inflation should decelerate from 1.5 percent in 2017 to 1.4 percent in 2018, before returning to 1.5 percent in 2019 in the euro area, and stabilizing at 2.3 percent on average in 2018 and 2019 in the United States.

Nationally, the export dynamics should consolidate, with a significant increase in automotive sales in 2019, according to data announced regarding the start-up of the Peugeot plant. Meanwhile, the pace of imports should increase markedly in 2018 to 7.1 percent, mainly driven by higher purchases of capital goods and energy bill, before falling to 4.2 percent in 2019. After the exceptional increase recorded in 2017, travel receipts are expected to rise by 5.7 percent in 2018 and 5.2 percent in 2019, and the growth of remittances from Moroccan expatriates should accelerate to 5 percent in 2018 and fell back to 4.1 percent in 2019. Also, given a GCC donation of 7 billion dirhams in 2018, the current account should widen slightly to be around 4 percent of GDP on average over the forecast horizon. In total, assuming FDI inflows of equaling 4.4 percent of GDP in 2018 and 3.5 percent of GDP in 2019, international reserves should reach 257.3 billion dirhams at the end of 2018, before returning to 244.4 billion in 2019, thus covering respectively 5 months and 26 days and 5 months and 17 days of imports of goods and services.

Taking account of the change in international reserves in the medium term and the upward trend of the currency in circulation, banks' liquidity deficit should ease to 35.5 billion dirhams at end-2018 and increase to 59.4 billion dirhams at end-2019. Monetary conditions should remain accommodative in the medium term, due to the expected depreciation of the real effective exchange rate, especially in 2018. In these circumstances, in view of the performance in 2017 and growth projections, the forecast about bank lending to the nonfinancial sector was slightly adjusted downward to 4.5 percent in 2018 and 2019.

In terms of public finances, assuming a continued revenue mobilization, a controlled spending and a realization of the expected GCC grant inflows, the budget deficit should stabilize at around 3.2 percent of GDP in 2018 and 2019.

Regarding national accounts, growth would have stood at 4 percent from 1.2 percent in 2016, due to a rebound of 14.8 percent in the agricultural value added and a slight improvement to 2.7 percent in the nonagricultural value added. This change also reflects improved net exports and a robust domestic demand. On the basis of rainfall and vegetation cover situation data as at March 10, Bank Al-Maghrib estimates in 2018 a cereal production close to 80 million quintals and a 2.3 percent increase in the agricultural value added. Nonagricultural activities would continue to improve moderately, with a 3.2 percent increase in their value added. National growth would be 3.3 percent. In 2019, it should consolidate to 3.5 percent, with a 1.8 percent increase in the agricultural value added, assuming an average crop year and a 3.6 percent increase in nonagricultural activities. On the demand side, the medium-term growth path reflects a sustained pace of its domestic component, driven mainly by a recovery in investment and a further sustained momentum in household final consumption. The contribution of net exports would be negative, reflecting a pickup in imports which should more than offset the dynamics of exports, supported by an improvement in foreign demand and a depreciation of the real effective exchange rate.

Against this backdrop, inflation would continue to evolve to moderate levels. Its forecast was revised upwards to 1.8 percent in 2018, taking into account the increase in prices for regulated products, and was slightly adjusted to 1.5 percent for 2019. Core inflation should be tilted to the upside to approach 1.4 percent in 2018, before reaching 1.9 percent in 2019, reflecting the expected consolidation of domestic demand and the rise in imported inflation. Fuel and lubricant prices should continue to rise in 2018, although at a slower pace than in 2017, before falling back in 2019, due to the expected changes in oil prices.

BAM central scenario forecasts remain surrounded by several risks, with a balance at equilibrium for growth and tilted upward for inflation. Growth could be negatively impacted by the weakening of foreign demand addressed to Morocco because of several factors, including geopolitical tensions in the Middle East, the restrictive trade policies of the US administration as well as political uncertainties in some Eurozone countries. On the other hand, the higher-than-expected cereal production and the expected further depreciation of the real effective exchange rate, in conjunction with the euro-dollar exchange rate, should lead to higher growth rates. As for the inflation, higher oil prices on the international market and higher wages as part of social dialogue would cause prices to trend upward.

1.INTERNATIONAL DEVELOPMENTS

The latest international economic data available at the end of February show overall continued momentum in world economic activity. Growth continued its upward trend in the United States and Japan. In the euro area, it continued to be robust despite stabilization in the last quarter of 2017. However, growth slowed in the United Kingdom because of Brexit. In the major emerging economies, it stabilized in China, accelerated in India and Brazil, and fell in Russia. The strengthening of economic conditions was coupled with a further improvement in labor market conditions in the United States and the euro area. In the financial markets, rising fears of a faster-than-expected tightening of monetary policies, fueled by the publication of favorable macroeconomic indicators of advanced economies, resulted in a correction of the major stock market indexes of advanced and emerging countries, with a sharp rise in their volatility. At the same time, long-term sovereign yields of major advanced economies rose significantly. On commodity markets, prices increased overall, year on year, except for agricultural commodities whose prices continued to decline. Inflation accelerated in the United States, while it declined in the euro area. In total, all of these developments point to less moderate external inflationary pressures over the coming quarters, particularly in conjunction with the improvement in external demand addressed to the domestic economy and the continued rise in international commodity prices.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, the positive economic trend continued in the fourth quarter of 2017, in a context marked particularly by uncertainties as to the potential effects of the recent tax reform (Box I.1). As a result, growth accelerated to 2.5 percent, year on year, from 2.3 percent, driven mainly by an improvement in both private and government consumption as well as residential and non-residential investment. As a result, US growth ended 2017 at an average rate of 2.3 percent from 1.5 percent in 2016. In the euro area, growth stagnated at 2.7 percent in the fourth quarter and 2.5 percent over the whole year, its fastest rate in 10 years. By country, it moved up from 2.3 percent to 2.5 percent in France, from 2.7 percent to 2.9 percent in Germany, stagnated at 3.1 percent in Spain and decreased slightly from 1.7 percent to 1.6 percent in Italy.

Table 1.1: YoY change in quarterly growth

	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Advanced economies								
United States	**1.4**	**1.2**	**1.5**	**1.8**	**2.0**	**2.2**	**2.3**	**2.5**
Euro area	**1.7**	**1.8**	**1.7**	**1.9**	**2.1**	**2.4**	**2.7**	**2.7**
France	1.2	1.2	0.9	1.2	1.2	1.9	2.3	2.5
Germany	1.8	1.9	1.9	1.9	2.1	2.3	2.7	2.9
Italy	1.3	1.0	1.0	1.0	1.3	1.6	1.7	1.6
Spain	3.5	3.4	3.2	3.0	3.0	3.1	3.1	3.1
United Kingdom	**1.9**	**1.8**	**2.0**	**2.0**	**2.0**	**1.8**	**1.8**	**1.4**
Japan	**0.5**	**0.8**	**0.9**	**1.5**	**1.3**	**1.6**	**1.9**	**2.1**
Emerging economies								
China	**6.7**	**6.7**	**6.7**	**6.8**	**6.9**	**6.9**	**6.8**	**6.8**
India	**8.7**	**7.6**	**6.8**	**6.7**	**5.6**	**5.6**	**6.1**	**6.7**
Brazil	**-5.2**	**-3.4**	**-2.7**	**-2.5**	**0.0**	**0.4**	**1.4**	**2.1**
Turkey	**5.8**	**7.5**	**4.8**	**4.9**	**-0.8**	**4.2**	**5.2**	**5.1**
Russia	**n.a**	**n.a**	**n.a**	**n.a**	**0.5**	**2.5**	**1.8**	**n.a**

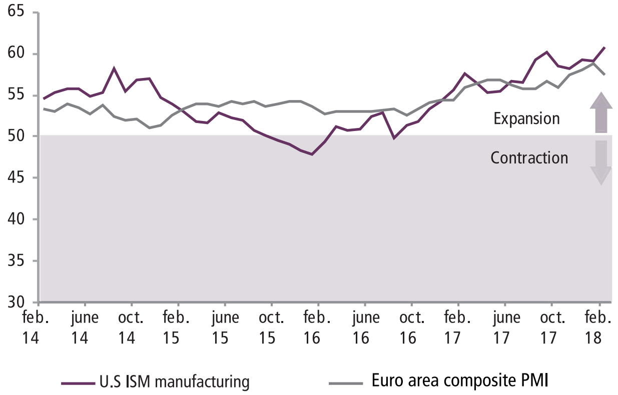
Source : Thomson Reuters Eikon.

However, the British economy showed a palpable weakness with a slow growth in the fourth quarter to 1.4 percent from 1.8 percent a quarter earlier. This trend is mainly attributed to the weaker consumption of households whose purchasing power was lowered, due to the depreciation of the pound sterling. Conversely, growth in Japan accelerated from 1.9 percent to 2.1 percent, with improved private consumption and public investment.

In key emerging countries, growth stagnated at 6.8 percent in the fourth quarter in China, as the impact of the economic upturn in advanced economies was offset by a slowdown in domestic demand. However, growth in Brazil and India shows a marked improvement to 2.1 percent from 1.4 percent and to 6.7 percent from 6.1 percent, respectively. Meanwhile, the latest data available for Russia, which are those of the third quarter, indicate a slowdown from 2.5 percent to 1.8 percent in Russia.

As for high-frequency indicators, the ISM manufacturing index of the United States shows an improvement in February to 60.8 points, from 59.1 points a month earlier. Conversely, the composite PMI of the euro area fell to 57.5 points, from 58.8 points recorded in January.

Chart 1.1: Change in some high-frequency indicators in the U.S and the Euro Area



Source : Thomson Reuters Eikon.

1.1.2 Labor market

The unemployment rate in the United States stagnated at 4.1 percent in February 2018 for the fifth consecutive month. In February, 313 thousand jobs were created, as against 239 thousand in January. At the end of 2017, the US unemployment rate fell to 4.4 percent from 4.9 percent in 2016. In the euro area, this rate stabilized at 8.6 percent in January, its lowest level since December 2008. At the end of 2017, it fell to 9.1 percent on average, as opposed to 10 percent in 2016. By country, it stagnated in January at 9.0 percent in France and 3.6 percent in Germany. However, it rose to 11.1 percent in Italy from 10.9 percent in the previous month, and fell to 16.3 percent in Spain from 16.4 percent a month earlier. In the United Kingdom, November figures indicate a stable unemployment rate at 4.3 percent compared to the previous month.

Table 1.2: Change in unemployment rate (%)

	2016	2017	2017		2018
			dec.	jan.	feb.
United States	**4.9**	**4.4**	**4.1**	**4.1**	**4.1**
Euro area	**10.0**	**9.1**	**8.6**	**8.6**	**n.a**
France	10.1	9.4	9.0	9.0	n.a
Italy	11.7	n.d	10.9	11.1	n.a
Germany	4.1	3.8	3.6	3.6	n.a
Spain	19.6	17.2	16.4	16.3	n.a
United Kingdom	**4.8**	**n.a**	**n.a**	**n.a**	**n.a**

Source : Eurostat and BLS.

Box 1.1 : Tax reform in the United States and its potential impact on the US economy

On December 22, 2017, President Donald Trump enacted a tax reform law in the United States providing for nearly $1,450 billion in tax cuts over 10 years, or 0.7 percent of US GDP[1], and which is, by its magnitude, the largest reform in the country since the overhaul of the tax law under the presidency of Ronald Reagan in 1986[2]. This reform, which came into force on January 1, 2018, is aimed primarily at making the United States more attractive to businesses and simplifying and reducing personal income taxes. The main measures of this reform for businesses and individuals are summarized in the following table:

Businesses	• Readjustment of corporate income tax rate from 35 percent to 21 percent. • 20 percent deduction up to $315,000 for companies whose profits are reported only through the income of their owners. Beyond this, an effective rate of 29.6 percent is applied. • Repealing tax on profits achieved by US companies abroad. Multinationals are now taxed solely on their US and not global profits. • Incentive to repatriate 2,000 to 4,000 billion dollars in profits from abroad with a tax of between 8 percent and 15,5 percent. The old tax system taxed these profits at 35 percent at the time of their repatriation. • New transfer tax system between US companies and their foreign affiliates, including patents and intellectual property, to ensure that companies do not move their profit centers abroad. • Strong incentive to invest through the elimination of the amortization of equipment expenses over five years.
Individuals	• Readjustment and reduction of the seventh tax bracket, that of the wealthier households, from 39.6 percent to 37 percent, while the other six tax rates were kept unchanged (10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent). • Almost doubling the standard deductions, up for a couple from $12,700 to $24,000, so to limit the number of households reporting specific deductions[3]. • Doubling the tax child credit to $2,000. • Exemption for inheritance tax below $10 million. • Capping the deduction for mortgage interest at $750,000 in home loan value. • Repealing the fine imposed on Americans who do not subscribe to private health insurance, which has been theoretically compulsory since 2010.

In terms of impact, tax reform should work its way through the US economy[4] through: (i) demand, by an increase in consumption and investments; (ii) supply, by an increase in the capital stock; and (iii) monetary policy, by a faster rise in interest rates. In addition, although the timing and magnitude of the direct impact are currently highly uncertain, it is expected that the tax bill of this reform will have a modest impact on the US economy. Growth and potential output should be affected positively with a peak from the second half of 2018.

(1) According to an estimate of the US Congress.
(2) According to Reuters on December 22.
(3) US taxpayers can choose between two tax deduction schemes: one is done by analyzing each tax niche, the other is flat-rate, the idea being to encourage households to opt more for the flat-rate scheme.
(4) The GPM network projections for January 2018.

The IMF[5] estimates that this tax reform should in the short term stimulate the US economy, mostly driven by the investment response to the corporate income tax cuts. It also assumes that the decline in tax revenues will not be offset by spending cuts in the near term, and stronger domestic demand is projected to increase imports and widen the current account deficit.

Under these conditions, the IMF projects that the tax reform would add to US growth through 2020, so that US real GDP would be 1.2 percent higher than in a projection without this reform. However, in light of the increased fiscal deficit, which will require fiscal adjustment, and the temporary nature of some of the reform provisions, U.S growth is expected to be lower for a few years from 2022, thereby offsetting some of the earlier growth gains. This economic dynamic will also have positive demand spillovers for US trading partners, especially Canada and Mexico and more broadly the global economy. In this respect, the IMF indicated that the effects of this reform on the production of the United States and its trading partners account for around one-half of the cumulative revision to global growth over the period 2018-19.

Finally, the minutes of the last FED monetary policy meeting[6] show that "…the effects of recently enacted tax changes--while still uncertain--might be somewhat larger in the near term than previously thought". Therefore, it believes that the rate of US economic growth "would exceed its estimates… that labor market conditions would strengthen further… and that prices will probably increase in 2018".

(5) WEO projections for January 2018.
(6) Meeting of January 31, 2018.

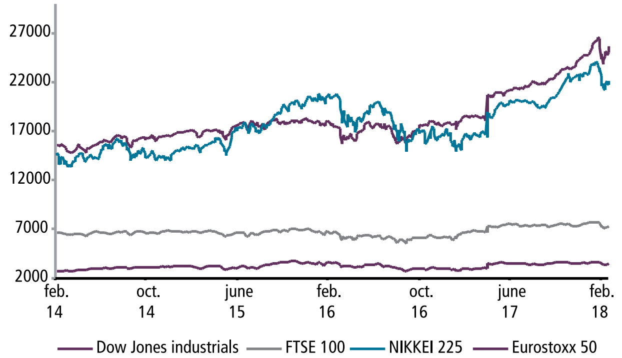
1.2 Monetary and financial conditions

Worries about greater tightening of the monetary policies of central banks in advanced countries, mainly the FED, combined with the faster inflation and rising wages in the United States, have created major tensions in global stock markets, especially during the first ten days of February. The US indexes thus underwent a correction, which was transmitted to the main indexes of other advanced and emerging economies. Despite the rises observed thereon, all these indexes recorded between January and February declines at 3.4 percent for the Dow Jones, 5.2 percent for the Eurostoxx 50, 5.5 percent for the FTSE 100 and 7.2 percent for NIKKEI 225. At the same time, volatility indexes nearly doubled to 22.7 basis points for VIX and 21.9 basis points for VSTOXX.

In emerging economies, the MSCI EM fell by 2.2 percent, covering mainly falls of 2.7 percent in China, 4.5 percent in India and 0.8 percent in Turkey.

The underperformance of the stock markets and the stronger expectations of a more restrictive stance of the US monetary policy resulted in an increase in 10-year yields in the major advanced economies. Between January and February, they rose from 2.6 percent to 2.9 percent in the United States, from 0.5 percent to 0.7 percent in Germany and from 0.7 percent to 0.9 percent in France. They were also up in Greece and Italy and stagnated in Portugal and Spain.

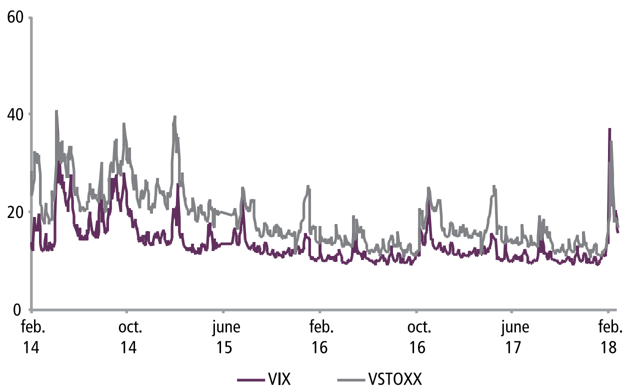
Chart 1.2: Change in major stock market indexes of advanced economies



Source : Thomson Reuters Eikon.

In the major emerging economies, 10-year yields rose between January and February from 7.4 percent to 7.6 percent in India and dropped from 4 percent to 3.9 percent in China. They also stagnated at 11.6 percent in Turkey and 9.4 percent in Brazil.

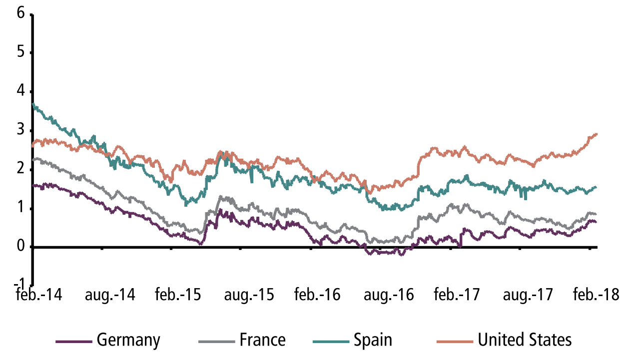
Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters Eikon.

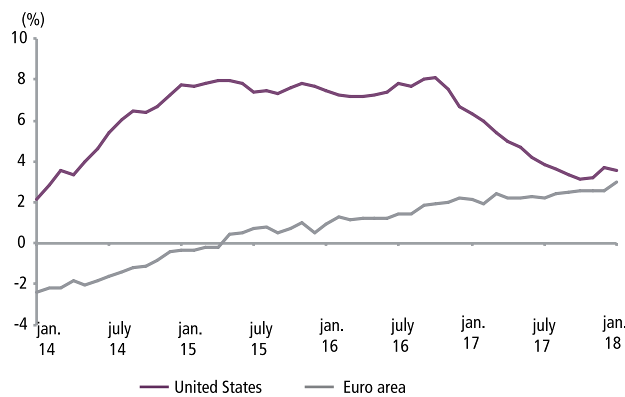
In the money markets, the 3-month Euribor remained unchanged at -0.3 percent, while the same-maturity Libor rose from 1.7 percent to 1.9 percent. Meanwhile, annual bank lending growth decelerated slightly in the United States from 3.7 percent in December to 3.5 percent in January, while in the euro area, it accelerated from 2.6 percent to 3 percent.

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



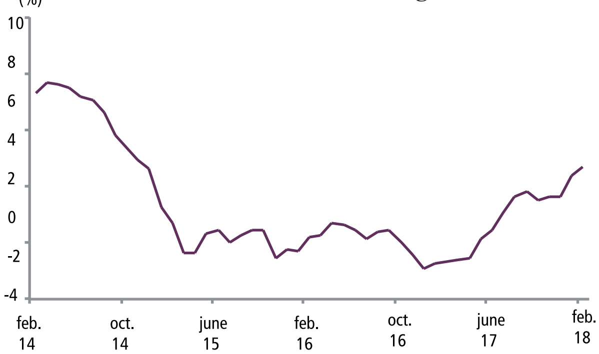
Source : Thomson Reuters Eikon.

In the foreign exchange markets, the euro appreciated between January and February by 1.3 percent against the dollar, to 1.24 dollars. On the other hand, it depreciated by 1.4 percent vis-à-vis the Japanese yen and remained unchanged against the pound sterling. Regarding the main emerging countries' currencies, the Indian rupee depreciated by 1.1 percent vis-à-vis the dollar, while the Chinese yuan appreciated by 1.7 percent and the Turkish lira and the Brazilian real remained unchanged.

Regarding monetary policy decisions, the ECB decided on March 8 to keep its policy rate at 0 percent, while indicating that it expects all of its rates to remain at their present levels for an extended period of time and well beyond the horizon of the net asset purchases. The ECB also reiterated that these purchases, at a monthly pace of 30 billion euros, are intended to run 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.

Similarly, the Fed decided on January 31 to maintain the target range for the federal funds unchanged at [1.25 percent - 1. 50 percent], in view of realized and expected labor market conditions and inflation. The Fed reiterated that its stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

In the same vein, the Bank of England maintained on February 8 its key rate unchanged at 0.5 percent. It also decided to maintain the stock of sterling nonfinancial investment-grade corporate bond purchases at £10 billion and that of UK government bond purchases at £435 billion.

In emerging countries, the Central Bank of Brazil lowered on February 7, its key rate by 0.25 percentage point to 6.75 percent, its lowest level ever, while indicating that all available economic activity indicators point to a sustained economic recovery. Similarly, the Russian Central Bank cut its key rate by 0.25 percentage point to 7.5 percent on February 9, given the weakening of inflation, while confirming that it would continue to reduce the policy rate and could complete the transition from a moderately restrictive monetary policy to a neutral monetary policy in 2018. Finally, the Reserve Bank of India kept on February 7 its rate unchanged at 6 percent.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In 2017, the Brent price rose significantly to an average of $54.4, up 23.5 percent from 2016. This trend was largely driven by supply factors, mainly the reduction in oil production from OPEC and non-member producers as well as temporary disruptions in oil production following hurricanes and geopolitical tensions. In February, the Brent price fell 5.2 percent, after rising 7.4 percent a month earlier. However, it moved up 17.9 percent, year on year, to $65.4. On the same trend, natural gas prices declined by 9.1 percent compared to January but increased their annual change to 9.6 percent. They traded at $6.87 mBTU1 on the European market.

Chart 1.7 : Brent prices in dollars

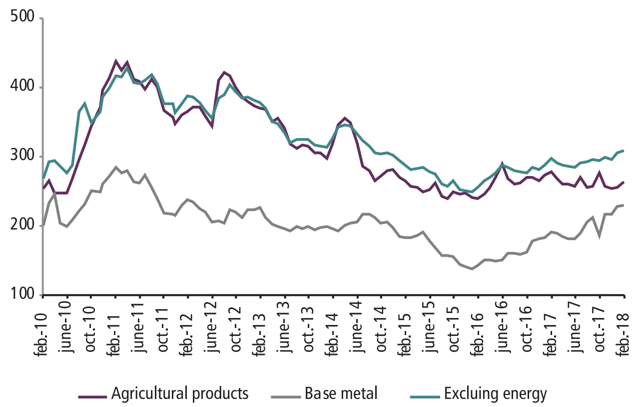
Source : World Bank.

1 BTU: British Thermal Unit

1.3.2 Non-energy commodity prices

Non-energy prices were up 4.2 percent, year on year, driven mainly by base metal prices, which rose 20.1 percent. In contrast, agricultural commodity prices fell by 5.4 percent due to a still large supply.

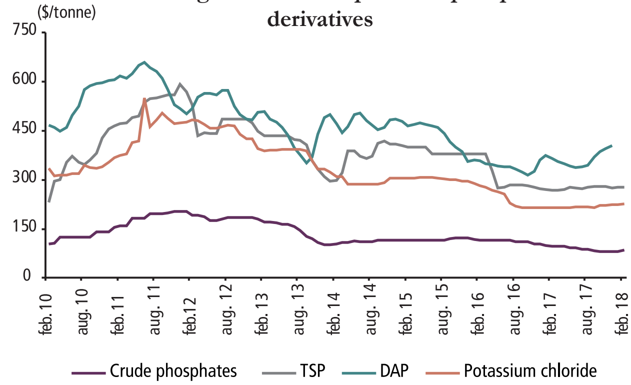
Chart 1.8: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

In fertilizer markets, crude phosphate, DAP, urea and potassium chloride prices rose by 6.2 percent to $86, 2.3 percent to $404, 2.2 percent to $229 and 0.4 percent to $226, respectively. Only the TSP continues to stagnate at $278 per tonne. On a year-on-year basis, prices were up by 12.2 percent for DAP, 5.6 percent for potassium chloride and 3 percent for TSP. In contrast, prices for crude phosphate and urea fell by 12.2 percent and 7.3 percent, respectively. For durum wheat, the latest data point to an increase of 4.4 percent in its price compared to December and 25.4 percent year on year, due to the continued concern over the harvests of the major producers.

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

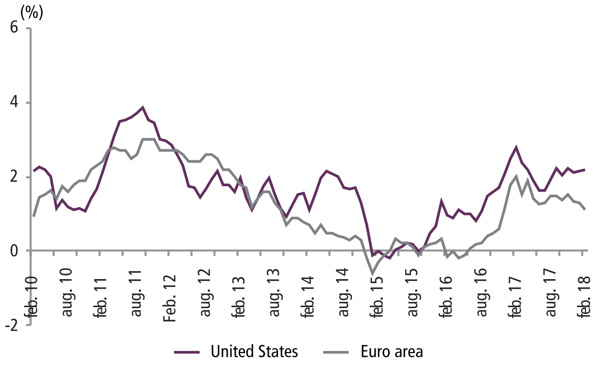


Source: World Bank.

1.3.3 Inflation in the world

According to Eurostat, inflation in the euro area declined from 1.3 percent in January to 1.1 percent in February. By country, apart from Spain, where it rose from 0.7 percent to 1.2 percent, inflation fell from 1.4 percent to 1.2 percent in Germany, from 1.5 percent to 1.3 percent in France and from 1.2 percent to 0.5 percent in Italy. In the United States, after two months of stagnation at 2.1 percent, the consumer prices grew further to 2.2 percent in February. As for the other major advanced economies, the latest data remain those of January, showing an increase to 1.3 percent in Japan and stagnation at 3 percent in the United Kingdom. In emerging economies, inflation accelerated in February from 1.5 percent to 2.9 percent in China, while it remained unchanged at 2.2 percent in Russia. In India and Brazil, the latest data show respective rates at 5.1 percent and 2.9 percent in January.

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

	2016	2017	2017/2018		
			dec.	jan.	feb.
United States	**1.3**	**2.1**	**2.1**	**2.1**	**2.2**
Euro area	**0.2**	**1.5**	**1.4**	**1.3**	**1.1**
Germany	0.4	1.6	1.6	1.4	1.2
France	0.3	1.2	1.2	1.5	1.3
Spain	-0.2	2.0	1.2	0.7	1.2
Italy	-0.1	1.4	1.0	1.2	0.5
United Kingdom	**0.7**	**2.6**	**3.0**	**3.0**	**n.a**
Japan	**-0.1**	**0.4**	**1.1**	**1.3**	**n.a**

Source : Thomson Reuters Eikon and IMF.

2. EXTERNAL ACCOUNTS

In 2017, the trade deficit stood at 190.2 billion, slightly widening by 5.2 billion compared to the previous year. This trend is attributed to an increase of 26.3 billion in imports, driven by a higher energy bill. This rise is greater than that of 21.1 billion in exports, mainly resulting from the continued dynamics of phosphate and automotive sectors. The import coverage ratio thus reached 56.3 percent, from 54.8 percent in 2016.

For the other components of the current account, travel receipts grew significantly by 8.5 percent and remittances from Moroccan expatriates rose 4.5 percent. Concerning the main financial transactions, the net inflow of FDI grew by 15.4 percent, reflecting a drop of 60.1 percent in disposal of investments and 14.9 percent in inflows. The net flow of Moroccan investments abroad also moved up 3.6 billion to 9.3 billion dirhams. Under these conditions and taking account of other items of the balance of payments, net international reserves amounted to 240.9 billion dirhams, equaling 5 months and 21 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

Export uptrend continued in 2017, with growth of 9.4 percent compared to 2016. The improvement covered all major sectors and was mainly driven by the performance of sales of phosphates and derivatives which, despite a fall in export prices, rose by 11.1 percent to 44 billion dirhams. This trend is largely attributed to the 4 billion increase in natural and chemical fertilizer sales, which amounted to 25 billion. Similarly, exports of the automotive sector, although decelerating, rose by 7.3 percent to 58.6 billion and those of the textile and leather sector grew by 6.1 percent, as against 6.8 percent a year ago. Sales of agricultural and agri-food sectors totaled 51.9 billion, up 7 percent from the previous year.

Table 2.1: Change in exports

Sectors/ Segments	2016	2017	Change (in millions of Dh)	
			Value	In %
Exports	**245 059**	**223 965**	**21 094**	**9.4**
Phosphates and derivatives	44 007	39 600	4 407	11.1
Automobile	58 598	54 630	3 968	7.3
Agriculture and Agribusiness	51 888	48 488	3 400	7.0
Textile and leather	37 454	35 290	2 164	6.1
Aeronautics	11 057	9 215	1 842	20.0
Electronics	9 070	8 432	638	7.6
Pharmaceutics	1 163	1 100	63	5.7
Others	31 822	27 210	4 612	16.9

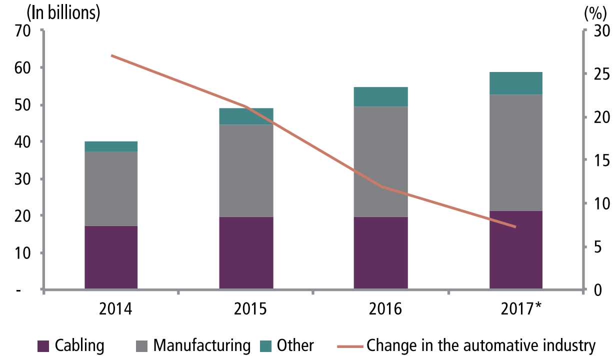
Source: Foreign Exchange Office.

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

	2017/2016		
	Value	Quantity	Price
Crude phosphates	12.9	40.0	-19.3
Natural and chemical fertilizers	18.9	23.3	-3.6
Phosphoric acid	-4.7	5.3	-9.5

Source: Foreign Exchange Office.

Chart 2.1: Breakdown of automotive industry's exports



* Preliminary data

Source: Foreign Exchange Office.

2.1.2 Imports

The 6.4 percent growth in overall imports is mainly due to an increase of 27.4 percent in the energy bill to 69.5 billion, reflecting increases of 31.1 percent in purchases of gas oils and fuel oils and 24.1 percent in petroleum gas and other hydrocarbons. Similarly, consumer goods purchases moved up 5.2 percent and capital goods imports grew by 2 percent. Conversely, food purchases fell 4.7 percent to 42.5 billion, with a 34.7 percent drop in wheat imports to 8.3 billion.

In total, the trade deficit amounted to 190.2 billion dirhams, widening by 2.8 percent compared to 2016 or 5.2 billion and the import coverage ratio moved up from 54.8 percent to 56.3 percent at the end of 2017.

Table 2.3 : Change in imports

Products group	2017	2016	Change (in millions of Dh)	
			Value	In %
Imports (CIF)	**435 276**	**408 970**	**26 306**	**6.4**
Energy products	69 470	54 519	14 951	27.4
Equipment goods	105 785	103 672	2 113	2.0
Raw products	20 659	17 833	2 826	15.8
Finished consumer goods	101 689	96 697	4 992	5.2
Semi- finished products	95 042	91 568	3 474	3.8
Food products	42 518	44 600	-2 082	-4.7

Source: Foreign Exchange Office.

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

	2017/2016		
	Value	Quantity	Price
Wheat	-34.7	-42.3	13.0
Gas oils and fuel oils	31.1	7.3	22.1
Petroleum gaz and other fuel	24.1	1.1	22.7
Crude and unrefined sulfur	7.0	9.6	-2.4

Source: Foreign Exchange Office.

2.2 Other components of the current account

Concerning the balance of services, travel receipts rose by 8.5 percent to 69.7 billion dirhams. As to the transport services, revenues grew by 13.8 percent to 28.8 billion and expenses increased by 21.8 percent to 38.7 billion dirhams. Overall, the balance of services posted a surplus of 68.1 billion dirhams, up 2.3 percent over the previous year.

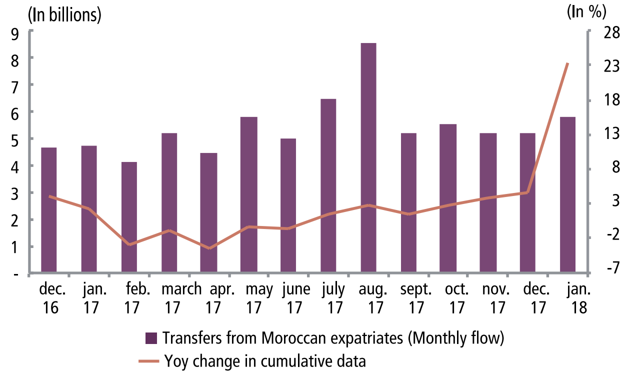
The growth of remittances from Moroccan expatriates accelerated from 4 percent in 2016 to 4.5 percent in 2017, reaching 65.4 billion dirhams.

Table 2.5: Change in the balance of services

(In millions of dirhams)	2017	2016	Change	
			Value	In %
Imports	**94 473**	**84 006**	**10 467**	**12.5**
Transport services	38 741	31 798	6 943	21.8
Travel	17 032	14 302	2 730	19.1
Exports	**162 560**	**150 535**	**12 025**	**8.0**
Transport services	28 786	25 296	3 490	13.8
Travel	69 663	64 226	5 437	8.5
Balance	**68 087**	**66 529**	**1 558**	**2.3**

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 increased by 3.3 billion dirhams to 24.4 billion, with decreases of 8.5 billion in disposal of investments and 5.3 billion in receipts. The net flow of investments by Moroccans abroad grew by 3.6 billion.

In view of these developments and those of other financial operations, outstanding net international reserves fell by 3.3 percent, year on year, to 240.9 billion at the end of 2017, equaling 5 months and 21 days of imports of goods and services.

Preliminary data for January 2018 show a continued widening of the trade deficit to 15.4 billion, reflecting a 3.7 percent increase in both the growth of imports and exports.

The increase in exports reflects improved sales of the main sectors, with continued momentum in the phosphates and derivatives as well as automotive sectors. The increase in imports is attributed to a significant increase in food purchases and the energy bill.

Travel receipts were up 40.6 percent and transfers from Moroccan expatriates grew by 23.4 percent. The net flow of FDI stood at 1.8 billion, up 19.5 percent over the same period of the previous year and the flow of investment by Moroccans abroad amounted to 1.5 billion, up 30.3 percent.

3. MONEY, CREDIT AND ASSETS MARKET

During the fourth quarter of 2017, monetary conditions were marked by a slight appreciation in the real effective exchange rate and an increase in lending rates. The growth of loans to the nonfinancial sector continued to improve, reflecting a faster lending to private companies and individual entrepreneurs. As to other counterparts of the money supply, net claims on the central government continued to rise since the beginning of the year and net international reserves showed a slow fall compared to the previous quarter. Overall, the money supply growth accelerated from 5.2 percent to 5.7 percent.

On the assets markets, after rising 1 percent in the third quarter, real estate prices in the fourth quarter were down 1.3 percent, quarter on quarter. This trend was attributed to price declines by 1.9 percent for apartments and 1.2 percent for urban land, while those of commercial property rose by 3.4 percent. On the stock market, the MASI rose 2 percent in the fourth quarter, bringing its performance since the beginning of the year to 6.4 percent. Transactions amounted to 28.8 billion, mainly due to the large volume recorded in December for normal day trading operations.

3.1 Monetary conditions

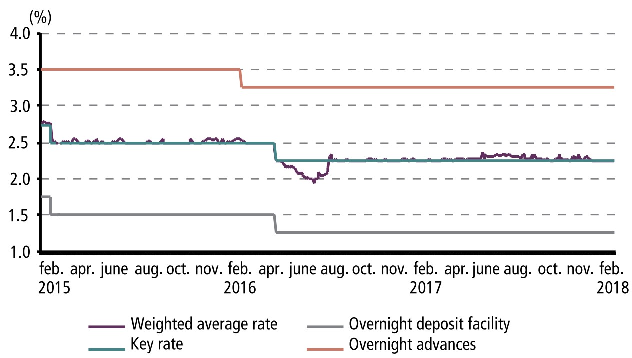
3.1.1 Bank liquidity and interest rates

During the fourth quarter of 2017, banks' liquidity situation improved significantly, as the needs eased to an average of 48.6 billion dirhams from 67.3 billion dirhams a quarter before, reflecting particularly a significant increase in foreign exchange reserves. Thus, Bank Al-Maghrib reduced the amount of its injections to 50 billion, of which 45.8 billion as 7-day advances, 3.2 billion as secured loans granted under the program to support financing of VSMEs and 1 billion via 24 hour-advances.

The latest data available for January and February 2018 indicate that the liquidity deficit continued to ease and averaged 44.4 billion.

In this context, the interbank rate remained consistent with the key rate. In the Treasury bill market, yields fell for all maturities, both in the primary and secondary markets. In January 2018, they were issued at rates up 8 points for the 5-year maturity and 14 basis points for the 2-year maturity.

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

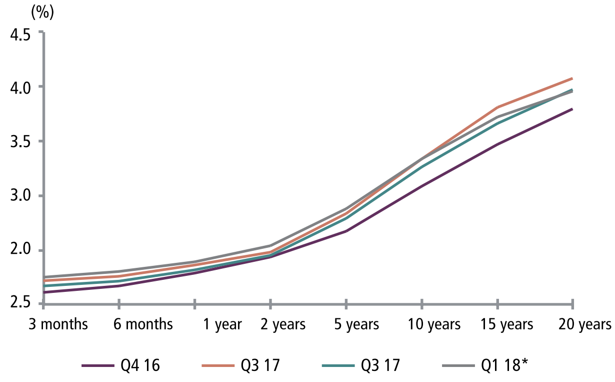


Source : BAM.

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

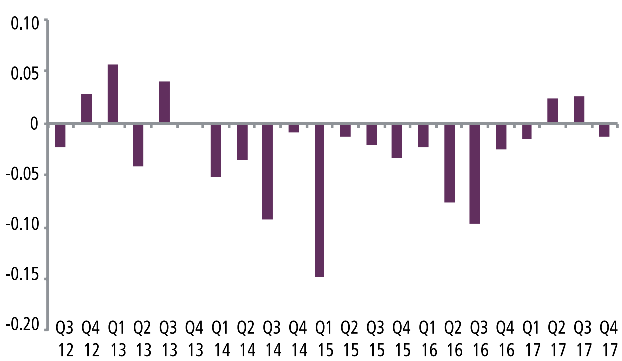
	2016				2017				2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4.	jan.
52 weeks	2.57	1.93	2.33	2.30	2.32	2.26	2.36	2.29	2.42
2 years	2 .63	2.05	2.48	2.44	2.52	2.41	2.49	2.44	2.58
5 years	2.92	2.30	2.71	2.69	2.83	2.78	2.83	2.77	2.85
10 years	3.48	2.87	3.22	3.08	3.27	3.27	3.32	3.28	-
15 years	3.77	3.22	-	-	3.87	3.87	3.87	3.71	3.70

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



In the other markets, the issuance rates of the certificates of deposit showed overall slight increases during the last three months of 2017. On the contrary, deposit rates remained almost unchanged at 2.80 percent for 6-month deposits and 3.10 percent for one-year deposits. Under these conditions, banks' cost of financing[1] remained virtually unchanged in the fourth quarter of 2017.

Chart 3.3: Change in cost of bank financing



Weighted average rate of lending rates increased by 17 basis points in the fourth quarter of 2017 to 5.77 percent. This change reflects an increase of 20 basis points in rates on loans to businesses, including increases of 16 points for cash advances and 21 points for equipment loans. Similarly, rates on loans to individuals rose by 23 points, owing to a 26-point increase in home loans.

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

Table 3.2 : Change in lending rates

	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Overall rate	**5.55**	**5.25**	**5.08**	**5.17**	**5.48**	**5.26**	**5.60**	**5.77**
Personal loans	**6.02**	**5.72**	**5.78**	**5.71**	**5.88**	**5.76**	**5.69**	**5.92**
Real estate loans	5.00	4.96	4.94	4.83	4.88	4.75	4.68	4.94
Consumer loans	6.91	6.63	6.64	6.64	6.71	6.67	6.60	6.56
Enterprises	**5.44**	**5.15**	**4.98**	**5.08**	**5.41**	**5.17**	**5.56**	**5.76**
Cash advances	5.38	5.11	4.94	5.19	5.44	5.19	5.65	5.81
Equipment loans	5.50	4.94	4.87	4.40	4.76	4.87	5.09	5.30
Real estate loans	6.33	6.10	5.73	5.69	5.86	5.78	5.82	6.95
Individual entrepreneurs	**7.93**	**7.54**	**6.89**	**7.44**	**8.08**	**7.82**	**8.14**	**5.57**

Source : BAM.

Table 3.3: Deposit rates

	2015			2016				2017			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	3.60	3.56	3.46	3.31	3.18	2.94	2.90	2.86	2.80	2.81	2.80
12 months	3.83	3.74	3.78	3.67	3.55	3.33	3.30	3.20	3.10	3.09	3.10

3.1.2 Exchange rate

During the fourth quarter of 2017, the euro rose slightly by 0.28 percent, quarter on quarter, against the US dollar to 1.18. Against this backdrop, the national currency depreciated by 0.11 percent versus the euro and appreciated by 0.17 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham appreciated by 8.30 percent against the Turkish lira and by 2.83 percent vis-à-vis the Brazilian real, while it depreciated by 0.67 percent against the Chinese yuan. As a result, the effective exchange rate rose slightly 0.3 percent in nominal terms and 0.5 percent in real terms.

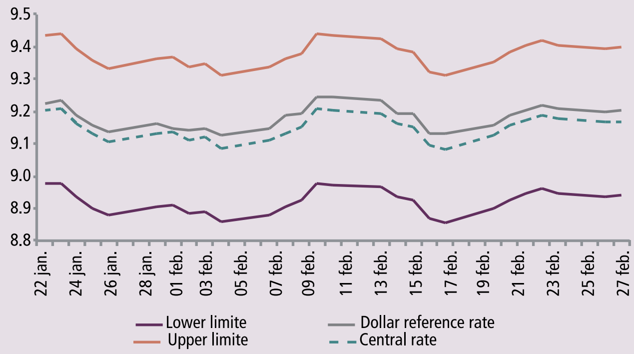
Box 3.1: Transition to a more flexible exchange rate regime

After consultation with Bank Al-Maghrib, The Ministry of Economy and Finance decided to adopt, as of January 15, 2018, a more flexible exchange rate regime. The exchange rate of the dirham will evolve, under this new regime, within a fluctuation band of ±2.5 percent, as against ±0.3 percent adopted previously, compared to a central rate set by Bank Al-Maghrib on the basis of a basket of currencies composed of the euro and US dollar, accounting for 60 percent and 40 percent, respectively. Under this new regime, Bank Al-Maghrib sets the central exchange rate of the dirham against the US dollar as well as the limits of the fluctuation band and updates them before each auction of foreign currencies and in case of significant change in international exchange rate. With a view to determining the dirham central rates and fluctuation bands against other currencies, banks refer to those of the dirham against the dollar and the exchange rates of these currencies against the dollar on the international market.

Based on the quotes of banks holding market maker status , the Bank also publishes reference exchange rates for currencies against the dirham, which also represent a reference for the market and can be used by traders to value their foreign exchange exposure.

In order to regulate liquidity in the foreign exchange market, the Bank may intervene, on its own initiative, through the purchase or sale of currency against dirham by auction. It may also use other instruments, such as purchases or sales of foreign currencies against over-the-counter dirham, foreign currency loans and borrowings and currency swaps against dirham.

Chart B.3.1.1 : Change in the Dollar reference rate



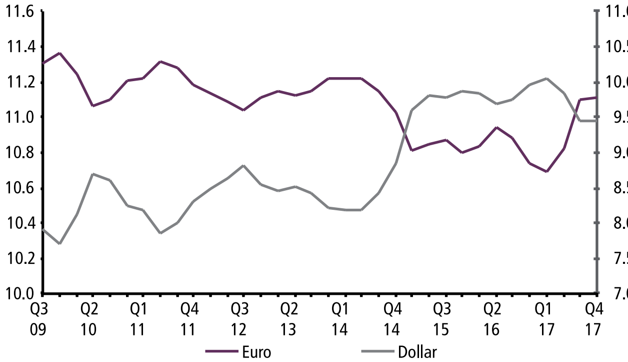
Since the transition to this new regime took place, the reference foreign exchange rate of the dollar against the dirham remained overall close to the central exchange rate of the fluctuation band. Regarding auctions, Bank Al-Maghrib carried out 18 transactions of foreign exchange sales, totaling 214 million dollars.

Table B 3.1.1: Foreign currencies auction

	15 to 19 jan	22 to 26 jan	29 jan to 2 feb	5 to 9 feb	12 to 16 feb	19 to 23 feb
Currency	dollar	dollar	dollar	dollar	dollar	dollar
Amount (in millions $)	12	18	75	109	0	0
Average rate (DH/$)	9.2401	9.1804	9.1482	9.2044	-	-

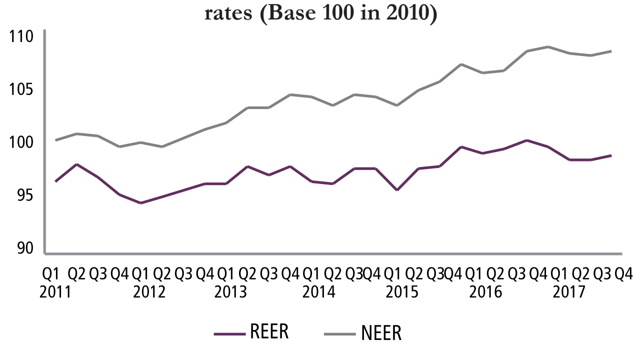
1 Market holders are banks which undertake to respect the obligations fixed by Bank AL-Maghrib, mainly with regard to the continuous firm listing on the purchase and sale of the USD / MAD exchange rate. In return, only the market holders can take part in the currency auctions.

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 rose in the fourth quarter by 5.4 percent for spot transactions to 23.6 billion dirhams and by 11 percent for forward operations to 10.8 billion dirhams. Purchases increased by 4.5 percent to 23.5 billion for spot transactions and 31.2 percent for forward operations to 2.8 billion. As to Banks' transactions with Bank Al-Maghrib, purchases averaged 372 million dirhams from 555 million dirhams in the third quarter. Under these conditions, banks' net foreign exchange position stood at 2.7 billion at the end of December, as against 4.8 billion at the end of September.

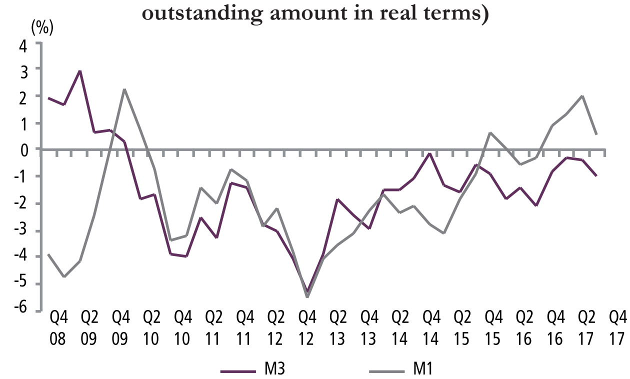
3.1.3 Monetary position

The M3 aggregate growth accelerated to 5.7 percent in the fourth quarter, from 5.2 percent a quarter earlier. Analysis of the money supply components shows a rise of 4.6 percent in money market fund shares/units, after their 4.1 percent decrease. Meanwhile, time deposits showed a slow decline from 7.8 percent to 7 percent, reflecting a 3.8 percent decline in household time deposits, less pronounced than the 6.6 percent drop recorded in the previous quarter. On the other hand, time deposits of private and public enterprises fell by 8 percent and 16.3 percent respectively, as against 7.7 percent and 9.9 percent.

Demand deposits grew by 7.4 percent, as against 7.6 percent, reflecting a slowdown from 10.3 percent to 5.7 percent for private companies and from 21.8 percent to 20.1 percent for public ones. For households, they rose by 7 percent from 6.1 percent. At the same time, the growth of currency in circulation moved down from 7.9 percent to 7.3 percent.

By counterparts, the change in M3 reflects an acceleration from 10.9 percent to 13.1 percent in net claims on the central government, a slow fall from 12.4 percent to 5 percent in net international reserves, as well as a deceleration from 5.1 percent to 4.3 percent in bank credit.

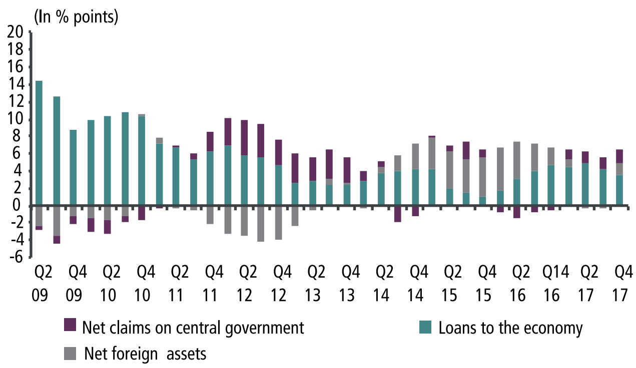
Chart 3.6: Money gap1 (in % of M3 and M1 equilibrium outstanding amount in real terms)



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.

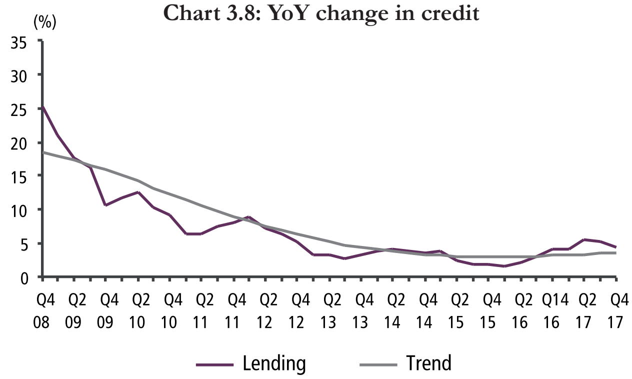
Source : BAM.

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 4.3 percent to 4.8 percent in the fourth quarter, reflecting an improvement in loans to both private enterprises and individual entrepreneurs.

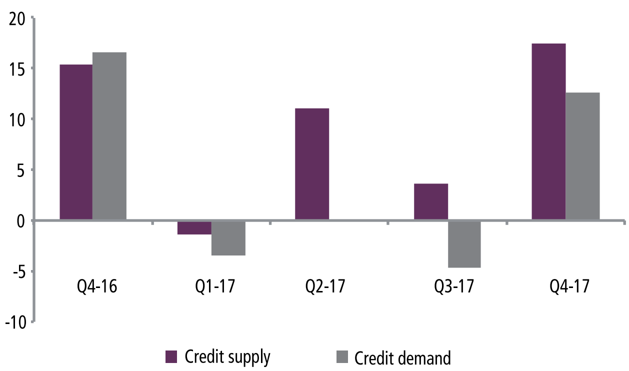
By economic unit, outstanding loans to private enterprises grew by 3.9 percent from 3.3 percent in the third quarter, in conjunction with a faster growth from 3.7 percent to 6.7 percent in loans to property development and a 0.2 percent increase in cash advances, after a decline of 0.2 percent. The growth of state-owned enterprises, although decelerating, remained relatively high at 10.8 percent, as opposed to 14.5 percent. This trend covers a 33.8 percent improvement in equipment loans from 32 percent in the third quarter and a further decline in cash advances from 37.6 percent to 43.9 percent.

The growth of loans granted to individual entrepreneurs moved up from 2.4 percent to 6.1 percent. This acceleration is attributed to a slow decrease from 8.6 percent to 0.7 percent in loans to property development and from 12 percent to 1.9 percent in cash advances, while equipment loans decelerated slightly from 14.9 percent to 11.6 percent.

By industry, the change in corporate loans reflects respective increases of 15.3 percent and 1 percent in lending to the extractive industries and manufacturing industries, as against decreases of 12.3 percent and 0.7 percent, and an acceleration from 0.4 percent to 1.4 percent in credit granted to the "building and public works" sector. Conversely, loans to the "electricity, gas and water" sector decreased by 7.3 percent, after their 3.6 percent rise in the third quarter.

The growth of loans to individuals slowed slightly from 4.6 percent to 4.4 percent in the fourth quarter. In particular, housing loans grew by 4.1 percent, as opposed to 4.9 percent a quarter earlier, while consumer loans stabilized at 4.6 percent.

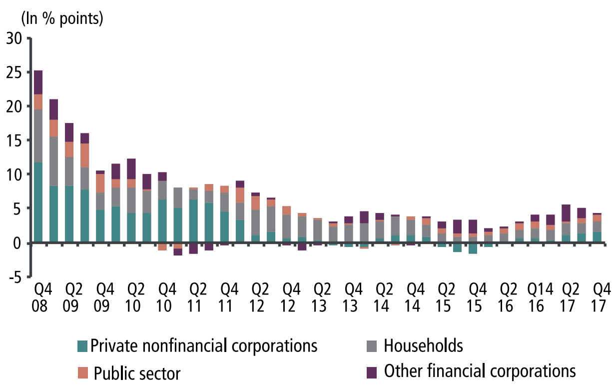
Chart 3.9: Change in supply and demand (Diffusion Index)



Nonperforming loans (NPLs) grew by 2.7 percent, as against 3.2 percent in the previous quarter and their ratio to bank lending remained stable at 7.6 percent. NPLs of private nonfinancial enterprises recorded a further decline of 0.4 percent, while NPLs of households nearly stabilized at 10.4 percent.

The lending conditions survey of the fourth quarter 2017 indicate an improvement in the supply conditions for businesses across loan categories, while for individuals, they remained virtually unchanged. Demand would have increased from one quarter to another for both businesses and individuals.

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



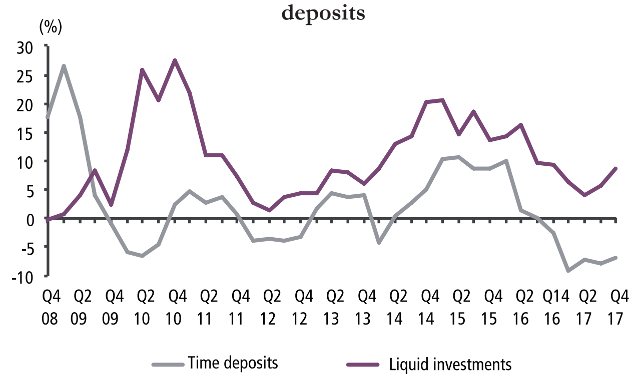
Loans granted by nonbank financial corporations to the nonfinancial sector increased 2.5 percent, as against 3.5 percent in the third quarter. This trend covers a deceleration from 5.6 percent to 3.4 percent in loans distributed by the finance companies and a slow fall from 9.7 percent to 4.8 percent in those granted by offshore banks.

Throughout 2017, the bank credit growth slowed from 4.2 percent to 2.9 percent, mainly due to a 3.6 percent decline in financial loans, after a rise in 5.8 percent. In particular, loans to the nonfinancial sector grew by 3.7 percent compared with 3.9 percent, in connection with a slowdown from 22.1 percent to 1.6 percent in loans to public enterprises.

January 2018 data indicate a deceleration in the bank credit growth to 3.2 percent. The growth of loans to the nonfinancial sector moved down to 3.8 percent, owing to slow loans to both public and private enterprises.

Liquid investment aggregates grew by 8.7 percent in the fourth quarter from 5.7 percent, due to an acceleration from 6.1 percent to 13.9 percent increase in bond UCITS and from 1.2 percent to 1.6 percent in treasury bills. However, equity and diversified UCITS increased by 44.2 percent compared to 47.8 percent in the third quarter.

Chart 3.11: YoY change in liquid investments and time deposits



3.2 Asset prices

3.2.1 Real estate assets

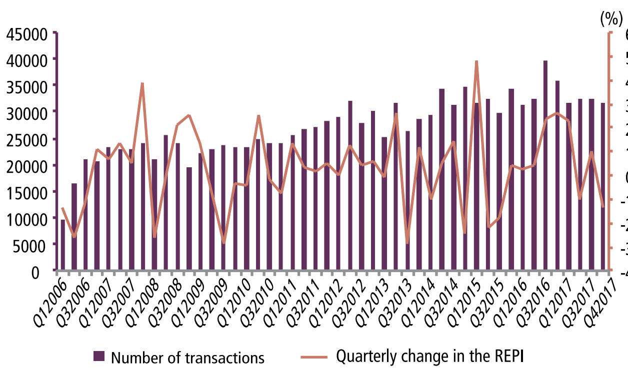
In the fourth quarter of 2017, the real estate price index (REPI) fell by 1.3 percent quarter on quarter. This trend is attributed to a 1.9 percent drop in apartment prices and a 1.2 percent decrease in urban land prices, while commercial property prices rose by 3.4 percent.

The number of transactions posted a quarterly decline of 2.4 percent, essentially reflecting a drop of 9.1 percent in apartment sales. However, urban land sales increased by 20.7 percent.

In the main cities, the REPI showed decreases ranging from 1.1 percent in Fes to 4.1 percent in Tangier. Transactions showed divergent trends. The largest increases were recorded in the cities of Marrakech and Meknes, with respective rates of 22.9 percent and 12.6 percent and the main decreases were registered in Tangiers and Agadir, with rates of 41.9 percent and 5.7 percent.

For the year 2017 as a whole, real estate asset prices were up 5 percent, from 1.3 percent in 2016. This trend reflects price increases in all asset categories with rates of 4.9 percent for residential property, 5.3 percent for urban land and 7.1 percent for commercial property. Under these conditions, the volume of transactions decreased by 7.6 percent after an 8.4 percent increase in 2016, covering an 8.7 percent decline in residential sales.

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



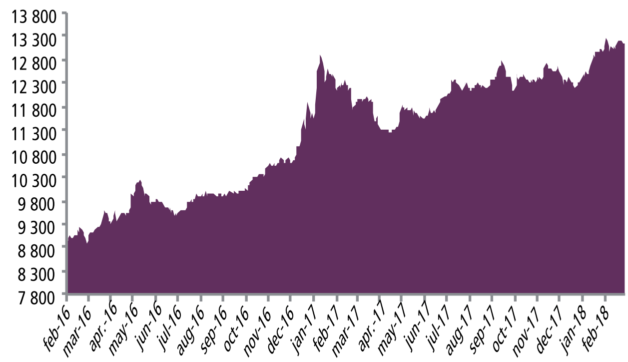
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

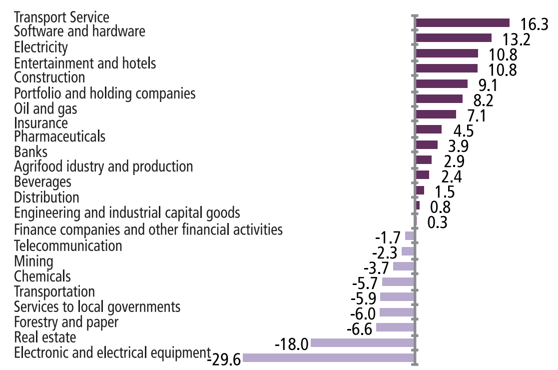
During the last quarter of 2017, the MASI was up 2 percent, bringing its annual performance to 6.4 percent. This change comes against the backdrop of a continued improvement in the financial indicators of listed companies and the stability of bond yields.

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.

The performance of MASI in 2017 is mainly due to respective increases of 39.1 percent, 36.8 percent, 26.8 percent and 9.9 percent in the "mining", "transportation services", "agribusiness" and "banking" sector indexes. Conversely, the sectors of "real estate", "buildings and construction materials" and "telecommunications" recorded respective annual decreases of 14.3 percent, 7.5 percent and 5.6 percent.

The volume of transactions amounted to 28.8 billion in the fourth quarter 2017, particularly due to the significant volume of normal day trading operations recorded in December, which mainly transited through the market of blocks whose trading volume reached 17.8 billion. In total, the whole year of 2017 saw a 4.1 percent drop in the overall trading volume to 69.7

billion, particularly owing to a decline in the volume of capital increases, as transactions in the central and block markets rose by 16.4 percent and 29.6 percent, respectively.

Under these conditions, market capitalization grew by 7.5 percent in 2017 to stand at 627 billion dirhams.

The latest available data indicate an appreciation of 6.1 percent in the MASI during the first two months of 2018. The monthly volume in the central market stood at 3 billion, slightly lower than in January, and the market capitalization reached 665.6 billion at end-February, up 6.2 percent since the beginning of the year.

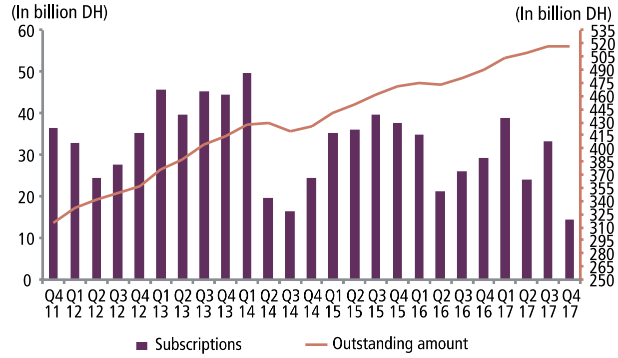
3.2.2.2 Sovereign debt market

In the fourth quarter of 2017, Treasury issues in the domestic market amounted to 14.6 billion and 57 percent of them concerned long-term maturities, while 25 percent focused on short-term ones. They were performed at slightly lower rates, compared to the third quarter 2017.

Throughout 2017, Treasury issues decreased by 0.6 percent, compared with 2016, and reached 110.7 billion dirhams. 56 percent of these issues concerned medium-term maturities while 23 percent of them involved short-term ones.

Recent data for January indicate that Treasury issues amounted to 12.5 billion dirhams and 58 percent concerned medium-term maturities. Taking into account a repayment amount of 5.2 billion, outstanding Treasury bills reached 524 billion, up 1.4 percent compared to end-December.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

3.2.2.3 Private debt market

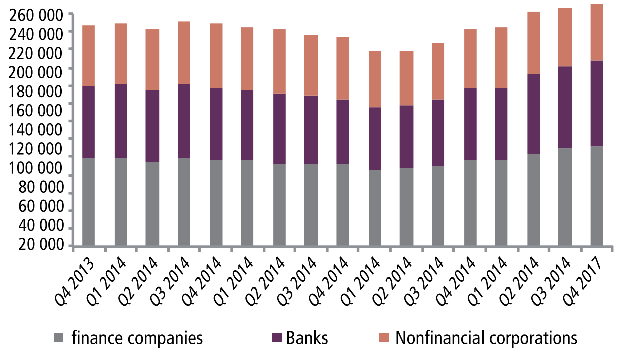
In the private debt market, issues amounted to 20.3 billion dirhams in the fourth quarter, from nearly 15 billion dirhams in the third quarter of 2017, and 68.4 percent of them were performed by banks. Emissions of the latter totaled 13.9 billion, of which 6.9 billion as certificates of deposit and 7 billion as bonds.

Issues of nonfinancial businesses were limited to 3.6 billion dirhams, as against 1.3 billion in the third quarter, of which 2.2 billion as commercial papers.

Throughout 2017, after having reached 50.5 billion dirhams in 2016, private debt market issues stood at 74.8 billion dirhams of which 59.1 billion were performed by financial companies.

The latest data available at end-January show that issues amounted to 2.8 billion dirhams. Taking into account repayments, the outstanding private debt, dominated by bond issues at a rate of 64 percent, reached 177.2 billion, almost stagnating compared to December 2017 and up 10 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

Subscriptions to mutual fund shares/units increased by 30.2 percent to 205.7 billion in the fourth quarter of 2017 and redemptions rose 27.1 percent to 184.1 billion, representing a net inflow of 21.6 billion, which mainly involved bond funds. Taking into account a quarterly performance of 0.8 percent, net assets amounted to 416 billion at the end of December, up 5.5 percent on a quarterly basis and 10.7 percent year on year.

4. FISCAL POLICY STANCE

The fiscal year 2017 ended with a deficit of 37.8 billion, in excess of 4.9 billion compared to the Finance Act target, but easing by 7.6 billion compared to the 2016 deficit, excluding privatization. Current revenue improved by 5.7 percent in 2017, due to higher tax and non-tax receipts, driven by a 32 percent increase in donations from GCC countries to 9.5 billion. At the same time, current expenditure rose by 2 percent, with an increase in spending on other goods and services, transfers to local governments and subsidy costs.

The budget execution of the first month of 2018 shows a surplus of 988 million, as against 207 million a year earlier. This change is attributed to higher revenue, while overall spending was down. Current revenue improved by 2.5 percent, reflecting increases in both tax and non-tax receipts. However, expenditure was marked by a drop in the payroll, investment and subsidies. The Treasury reduced its payments arrears by 5.6 billion, thus bringing the cash deficit to 4.6 billion, down 2 billion from January 2017. This deficit as well as the negative net external flow was covered by domestic resources, totaling 5.2 billion. As a result, direct public debt grew by 1.5 percent from its end-December 2017 level. The Treasury's financing conditions on the auction market were broadly favorable, with a limited increase in the weighted average rate.

4.1 Current revenues

Following the budget execution in the first month of 2018, current revenues improved compared to January 2017. Indeed, they grew by 2.5 percent, reflecting increases of 1.5 percent in tax receipts to 19.9 billion and 46.3 percent in non-tax proceeds to 556 million dirhams. The favorable trend in tax receipts was particularly attributed to import VAT revenues and registration and stamp duties, and to a lesser extent, to customs duties and domestic VAT, which more than offset the decline in direct taxes.

Indeed, direct tax receipts decreased by 1.2 percent to 5.9 billion, reflecting declines of 1.1 percent in corporate tax revenue to 1.5 billion and 0.9 percent in proceeds from income tax (IT) to 4.2 billion. The change in the latter covers particularly decreases of 24.4 percent to 238 million in IT proceeds from real estate profits and 1.7 percent to 640 million in those from IT on salaries paid by the Personnel Expenditure Department of the General Treasury.

Indirect taxes grew by 1.6 percent to 10.1 billion dirhams, mainly reflecting a 5 percent rise in VAT receipts to 8.2 billion dirhams. Indeed, import VAT receipts moved up 8.5 percent to 4.2 billion, following increases of 2.3 percent in VAT on energy products and 10 percent in VAT on other products. Similarly, domestic VAT proceeds improved by 1.6 percent to nearly 4 billion, including the repayment of VAT credit up to 416 million, as against 228 million in January 2017.

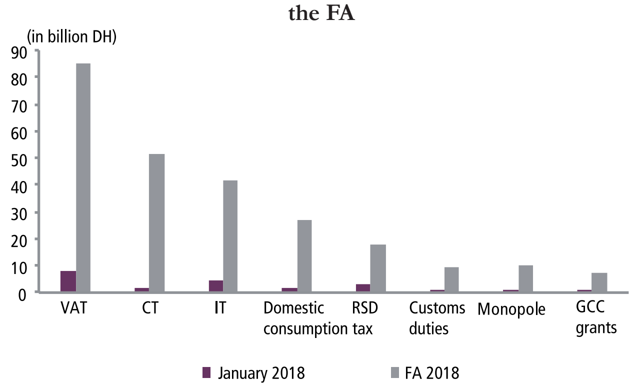
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. 2017	Jan. 2018	Change in %	FA 2018	Achievements against the FA (%)
Current revenues	**20.0**	**20.5**	**2.5**	**262.4**	**7.8**
Tax revenues	**19.6**	**19.9**	**1.5**	**237.0**	**8.4**
- Direct taxes	5.9	5.9	-1.2	97.1	6.0
Including CT	1.5	1.5	-1.1	51.2	3.0
I.T	4.3	4.2	-0.9	41.7	10.1
- Indirect taxes	10.0	10.1	1.6	112.7	9.0
VAT*	7.8	8.2	5.0	85.5	9.6
DCT	2.2	2.0	-10.6	27.3	7.2
- Customs duties	0.7	0.7	11.7	9.7	7.7
- Registration and stamp duties	3.0	3.2	4.3	17.5	18.1
Nontax revenues	**0.4**	**0.6**	**46.3**	**22.1**	**2.5**
- Monopoles	0.04	0.04	19.4	9.8	0.4
- Other receipts	0.3	0.5	49.1	12.3	4.2
Including GCC grants	0.08	0.1	88.5	7.0	2.1
Recettes des CST	**0.01**	**0.05**	**-**	**3.3**	**1.5**

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

Domestic consumption tax (DCT) receipts drained nearly 2 billion, down 10.6 percent from their January 2017 level. DCT on energy products declined by 15.3 percent to 1.1 billion, while DCT on tobacco products fell by 4 percent to 715 million. Customs duties as well as registration and stamp fees improved by 11.7 percent and 4.3 percent, respectively, compared to the same period of 2017.

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 increased by 46.3 percent, thanks to the receipt of 147 million dirhams under GCC donations, compared with 78 million a year earlier, and 43 million under monopoly revenues from Bank Al-Maghrib, as against 36 million in January 2017.

4.2 Public expenditure

Overall expenditure fell 2.5 percent to 28.9 billion, mainly covering a 13.7 percent drop to 9.8 billion in capital expenditure and an increase of 4.4 percent to 19.2 billion in current expenditure. Spending on goods and services rose by 5.3 percent to 14 billion, with a drop of 5.6 percent to 7.6 billion in the payroll and an increase of 22.1 percent to 6.4 billion in spending on other goods and services. The latter includes an increase from 1.2 billion to 2.4 billion in transfers to public businesses and institutions and stability in payments to the Treasury special accounts at 245 million dirhams. The change in the payroll is attributed to a 60.9 percent decrease in back pays and an increase of 0.9 percent in the structural payroll.

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

	Jan. 2017	Jan. 2018	Change in %	FA 2018	Achievements against the FA (%)
Overall spending	**29.7**	**28.9**	**-2.5**	**301.7**	**9.6**
Current spending	**18.4**	**19.2**	**4.4**	**241.5**	**7.9**
Goods and services	13.3	14.0	5.3	175.0	8.0
Staff	8.0	7.6	-5.6	108.9	7.0
Other goods and services	5.2	6.4	22.1	66.1	9.7
Debt interest	1.3	1.4	6.8	27.1	5.0
Subsidy costs	1.5	1.4	-7.1	13.7	10.0
Transfers to LA	2.3	2.5	5.0	25.6	9.6
Investment	**11.3**	**9.8**	**-13.7**	**60.3**	**16.2**

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

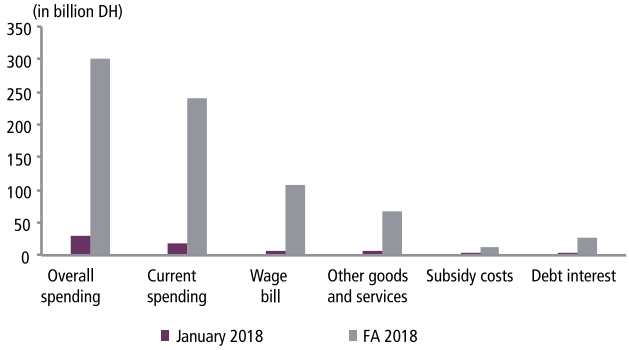
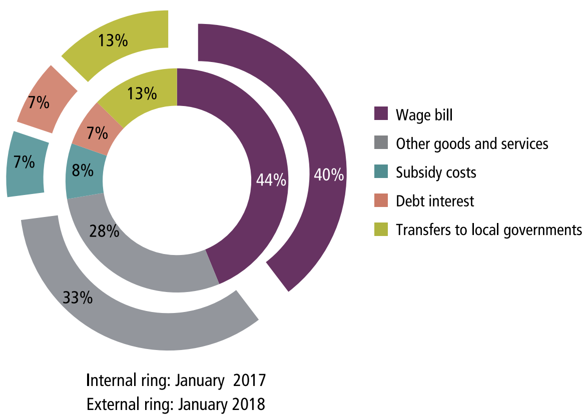


Chart 4.2: spending execution compared to the FA

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

Debt interest charges rose 6.8 percent to 1.4 billion, following increases of 4.8 percent in interest on domestic debt to 1.1 billion and 18.4 percent in interest on external debt to 224 million.

Chart 4.3: Structure of current spending

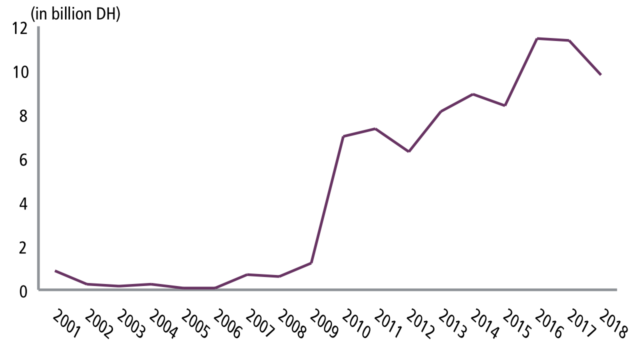


Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Subsidy costs stood at 1.4 billion, easing by 7.1 percent compared to January 2017. It should be noted, however, that in terms of issue, no payment has been made in January 2018 and January 2017.

Capital expenditure decreased by 13.7 percent to 9.8 billion, following drops of 66.4 percent in expenditure of Ministries to 687 million and 2.3 percent in transfers to the Treasury special accounts to 9.1 billion.

Chart 4.4: Investment spending, January total

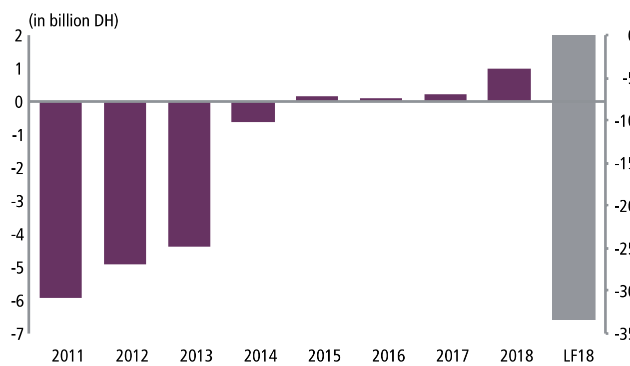


Source : Ministry of Economy and Finance (TEFD).

4.3 Treasury deficit and financing

Considering a positive balance of 9.4 billion in the Treasury special accounts, down 4.8 percent compared to January 2017, the position of public finance resulted in a fiscal surplus of 988 million, up 781 million. The Treasury paid arrears of 5.6 billion dirhams, as against 6.8 billion a year earlier. As a result, the cash deficit stood at 4.6 billion, easing by 2 billion.

Chart 4.5: Fiscal balance, January total



Source : Ministry of Economy and Finance (TEFD).

The net external financing flow was negative at 573 million, from 453 million in January 2017. This balance together with the financing needs were covered by domestic resources at 5.2 billion, down 1.9 billion dirhams.

Table 4.3: Deficit financing (in billions of dirhams)

	Jan. 2017	Jan. 2018	FA 2018	Absolute gap FA/ Jan. 2018
Current balance	**1.7**	**1.4**	**21.0**	**19.6**
Balance of TSA	9.9	9.4	6.0	-3.4
Primary balance	1.5	2.3	-6.2	-8.5
Fiscal balance	**0.2**	**1.0**	**-33.3**	**-34.3**
Change in arrears	-6.8	-5.6	0.0	
Financing requirements	**-6.6**	**-4.6**	**-33.3**	**-28.7**
Domestic financing	7.0	5.2	13.5	8.3
External financing	-0.5	-0.6	19.8	20.3

Source : Ministry of Economy and Finance (TEFD).

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

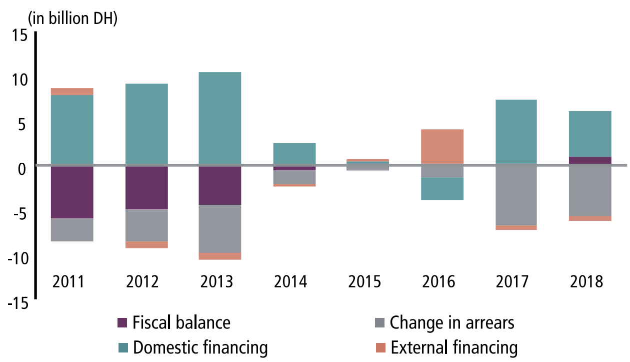
	2013	2014	2015	2016	2017	At end jan. 2018*
Treasury external debt	**129.8**	**141.1**	**140.8**	**142.8**	**152.8**	**153.2**
Change in %	11.1	8.7	-0.2	1.4	7.0	0.2
Treasury domestic debt	**424.5**	**445.5**	**488.4**	**514.6**	**539.3**	**549.4**
Change in %	12.6	5.0	9.6	5.4	4.8	1.9
Outstanding direct debt	**554.3**	**586.6**	**629.2**	**657.4**	**692.1**	**702.6**
Change in %	12.3	5.8	7.3	4.5	5.3	1.5

Source : Ministry of Economy and Finance (TEFD).

Concerning debt at end-January 2018 : Press release of the treasury and external financing Dept, Ministry of Economy and Finance.

In terms of domestic financing, the use of the auctions market concerned a net amount of 7.3 billion, as against 7.7 billion a year earlier. Net subscriptions concerned mainly 2-year bills for 6.9 billion, 5-year bills for 325 million and 52-week bills for 142 million. Net repayments concerned only the 13-week bills for 208 million dirhams.

Chart 4.6: Fiscal balance and financing , January total*

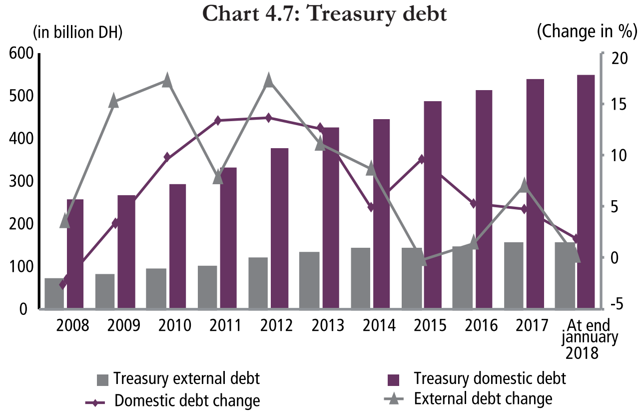


* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source : Ministry of Economy and Finance (TEFD).

The Treasury's financing conditions on the auction market remain broadly positive. The weighted average rates were slightly different compared to January 2017, with an increase of 5 bps for 52-week and 2-year bills to 2.42 percent and 2.58 percent, respectively. However, the weighted average rates on 15-year issues dropped by 4 bps to 2.85 percent.

The direct public debt moved up 1.5 percent at end-January 2018, compared to end-December 2017. This change covers increases of 1.9 percent in its domestic component and 0.2 percent in its external component.

Chart 4.7: Treasury debt



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

Box 4.1: 2017 budget execution

The 2017 budget execution resulted in a deficit of 37.8 billion dirhams, or 3.6 percent of GDP, in excess of 4.9 billion dirhams compared to the finance act target, but easing by 7.6 billion compared to the deficit of 2016, excluding privatization. This change partly reflects a more marked improvement in revenue and a current expenditure under control with an increase in investments. Current receipts rose by 5.7 percent, reflecting an uptrend in tax and non-tax receipts, with particularly a receipt of 9.5 billion under GCC donations. However, current expenditure grew by 2 percent, covering higher spending on other goods and services, transfers to local governments and subsidies. The current balance is thus positive at 24.1 billion, from 14.9 billion in 2016, making it possible to finance nearly 36.1 percent of capital expenditure. The balance of Treasury special accounts was positive at 4.9 billion, up 1.6 billion compared to the previous year.

Table B 4.1.1: Budget execution in **2017**

	2016	2017	Gaps		Execution /FA 2017
			in %	in value	
Ordinary receipts	**240.5**	**254.3**	**5.7**	**13.8**	**101.1**
Tax receipts*	**211.6**	**224.9**	**6.3**	**13.3**	**99.6**
- Direct taxes	85.1	92.0	8.1	6.9	102.9
Of which corporate tax I.S	43.0	50.0	16.3	7.0	109.7
Income tax revenues	39.0	39.3	0.7	0.3	96.2
- Indirect taxes	101.6	108.6	6.9	7.0	99.3
VAT	75.5	81.3	7.6	5.8	98.1
DCT	26.1	27.4	4.8	1.2	102.9
- Customs duties	9.1	8.6	-5.1	-0.5	96.4
- Registration and stamp	15.8	15.7	-1.0	-0.2	86.8
Non tax receipts	**25.3**	**25.8**	**1.9**	**0.5**	**115.8**
- Monopoles	8.0	8.0	-0.3	0.0	87.8
- Other receipts	17.3	17.9	2.9	0.5	135.0
Donations from GCC countries	7.2	9.5	32.0	2.3	119.4
Receipts of some TSA	**3.6**	**3.5**	**-0.7**	**0.0**	**107.3**
Overall expenses	**289.3**	**297.0**	**2.7**	**7.8**	**102.3**
Ordinary expenses	**225.6**	**230.1**	**2.0**	**4.5**	**98.0**
Goods and services	**161.8**	**163.4**	**1.0**	**1.6**	**97.3**
Personnel	104.9	104.6	-0.2	-0.3	98.0
Other goods and services	56.9	58.8	3.2	1.8	96.1
Public debts interests	**27.1**	**27.1**	**-0.1**	**0.0**	**113.9**
Subsidy	**14.1**	**15.3**	**8.7**	**1.2**	**104.6**
Transfers to TA	**22.6**	**24.4**	**7.6**	**1.7**	**98.1**
Ordinary balance	**14.9**	**24.1**		**9.2**	
Investment	63.7	66.9	5.1	3.2	120.3
Balance of TSA	3.3	4.9		1.6	
Fiscal balance	**-45.4**	**-37.8**		**7.6**	
In points of GDP	**-4.5**	**-3.6***			
Primary balance	**-18.3**	**-10.8**		**7.6**	
Variation of arrears	5.2	-0.9			
Financing balance	**-40.3**	**-38.7**		**1.6**	
Domestic financing	35.9	35.4		-0.6	
Exterior financing	2.8	3.3		0.5	
Privatization	1.5	0.0			

Sources :
- Ministry of economy and finance (TEFD).
- Local government VAT reprocessing by BAM.
- Numbers in billion DH, unless stated otherwise

* 2017 GDP is estimated by BAM

Tax revenues, executed at 99.6 percent, totaled 224.9 billion, up 6.3 percent. By category, direct tax receipts drained 92 billion, up 8.1 percent, mainly due to a 16.3 percent expansion to 50 billion in corporate tax receipts and a 0.7 percent increase in proceeds from income tax to 39.3 billion. Similarly, indirect taxes grew by 6.9 percent to 108.6 billion, following increases of 4.8 percent to 27.4 billion in DCT and 7.6 percent to 81.3 billion in VAT proceeds. The change in the latter covers rises of 7.4 percent to 51.4 billion in import VAT and 8.1 percent to 29.9 billion in domestic VAT, reflecting particularly the decrease of 8.1 billion to 7.2 billion in repayment of VAT credits. Receipts from DCT on manufactured tobacco grew 6.3 percent to 9.9 billion and on energy products rose 3.4 percent to 15.7 billion. After an improvement recorded in 2016, customs revenue fell by 5.1 percent to 8.6 billion. Similarly, revenues from registration and stamp duties decreased by 1 percent and were executed only at 86.8 percent, to 15.7 billion.

Non-tax revenue grew 1.9 percent to 25.8 billion, thus executed at 115.8 percent compared to the finance law, following the receipt of donations from GCC countries amounting to 9.5 billion, from the 8 billion projected in the finance act and as against 7.2 billion in 2016. Conversely, monopoly revenues almost stabilized at 8 billion, coming mainly from the National Land Registry and Mapping Agency at 2.4 billion, Maroc Telecom at 1.4 billion, OCP at 1.3 billion, ONDA at 500 million and Bank Al-Maghrib at 556 million.

The overall expenses were executed at 102.3 percent of the fiscal law. They rose by 2.7 percent to 297 billion, covering a 5.1 percent increase in capital spending to 66.9 billion and 2 percent to 230.1 billion in current expenses. Operating expenses grew by 1 percent, covering an increase of 3.2 percent to 58.8 billion in spending on other goods and services and an easing of 0.2 percent in the payroll to 104.6 billion. The change in the latter covers a 1.1 percent increase in the structural payroll and a 35.9 percent decrease in back pays. Debt interest charges almost stabilized at 27.1 billion, covering a stable interest on domestic debt and a 0.2 percent decrease in interest on external debt. Meanwhile, subsidy costs posted a rise of 8.7 percent to 15.3 billion.

Given an 866 million cut in payments arrears, the cash deficit stood at 38.7 billion, easing by 3.9 percent from fiscal 2016. This need was covered by domestic resources, amounting to 35.4 billion, of which 27.6 billion as indebtedness, as opposed to 23.7 billion in 2016. The external financing flow amounted to 3.3 billion, from 2.8 billion a year ago, with repayments of 13.2 billion and drawings of 16.6 billion. The Treasury withdrew 5.5 billion from the World Bank, 4.7 billion from the Saudi Development Fund, 3 billion from the ADB, 2.5 billion from the Arab Monetary Fund and 711 million from Japan.

5. DEMAND, SUPPLY AND LABOR MARKET

In 2017, the national economic activity should reach 4 percent, from 1.2 percent in the previous year, reflecting a positive contribution after a negative participation of external demand to growth and a slowdown in domestic demand. This rebound is mainly driven, on the supply side, by agriculture whose value added would increase by 14.8 percent thanks to a good crop year. Similarly, nonagricultural activities would continue their acceleration since 2016 from 2.2 percent to 2.7 percent. In the first quarter of 2018, growth is expected to be around 3 percent, due to a deceleration of agricultural activities to 1.8 percent, while nonagricultural activities should continue to improve to 3 percent.

In the labor market, after losing 37 thousand jobs in 2016, the national economy saw a net creation of 86 thousand jobs in 2017, driven by an increase of 42 thousand jobs in agriculture after a drop of 119 thousand jobs a year earlier, while 44 thousand jobs were created in the nonagricultural sector, as against 82 thousand a year before. Considering a net inflow of 135 thousand job seekers, the unemployment rate rose slightly from 9.9 percent to 10.2 percent nationally and from 14.2 percent to 14.7 percent in urban areas. Regarding the cost of labor, the latest data available for the fourth quarter show annual increases of 3.3 percent in the private sector wage index, from 0.9 percent in nominal terms, and 2.1 percent after a decline of 0.9 percent in real terms.

5.1 Domestic demand

5.1.1 Consumption

The marked improvement in household final consumption during the first half of 2017 continued in the third quarter, with an increase of 4.5 percent from 3.5 percent in the previous year, bringing its contribution to growth from 2 percentage points to 2.6 points.

In the fourth quarter, this strengthening is expected to continue, supported mainly by the improvement of incomes particularly rural incomes and labor market conditions.

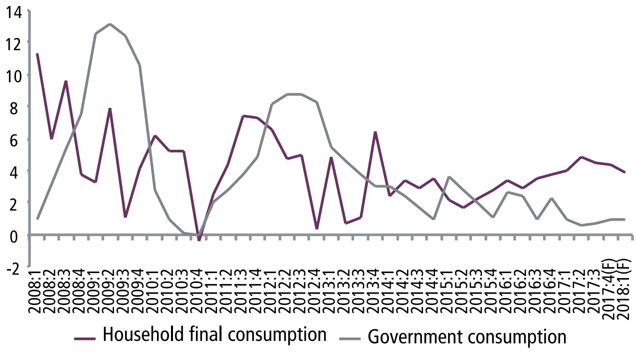
Throughout 2017, household consumption would stand at around 4.5 percent from 3.4 percent in 2016 and its contribution to growth would increase accordingly to 2.6 percentage points from 1.9 point.

In the first quarter of 2018, its growth should decelerate, due to the effect of slow agricultural activities on household income.

Government final consumption is expected to continue to evolve at a low rate in the last quarter of 2017, particularly due to a slowdown in the pace of operating expenditures.

For the year 2017 as a whole, it is projected to grow by 0.8 percent as opposed to 2.1 percent a year earlier, keeping its contribution to growth at 0.2 point.

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



Sources: HCP, and BAM forecasts.

5.1.2 Investment

Investment started to decelerate since the fourth quarter of 2016, showing a decline of 5.3 percent in the third quarter of 2017. Its contribution to growth was negative at 1.8 percentage point after a positive participation of 5.5 points a year ago.

In the fourth quarter, the decline in investment observed in the previous quarter was expected to ease, due to the recovery in imports of capital goods. In addition, end-December credit data confirm this trend with an acceleration of equipment loans and those granted to real estate developers. Moreover, BAM quarterly survey indicates that the business climate was deemed favorable by nearly two-thirds of the manufacturers.

Throughout 2017, investment would decelerate sharply from 11.6 percent to 1.3 percent.

In the first quarter of 2018, the reversal of the downward trend in the pace of investment that began in the last quarter of 2017 should continue. Indeed, the available economic indicators point to its recovery, with particularly an increase in imports of capital goods and an expansion of overall public investment.

5.2 Foreign demand

The foreign demand situation in the third quarter of 2017 confirms the recovery in net exports that started in the fourth quarter of 2016, generating a positive contribution of 2.9 percentage points to growth, after a negative participation of 6.4 points a year ago. Exports of goods and services accelerated from 2.2 percent to 10.5 percent, while imports slumped from 17.1 percent to 1.5 percent.

This momentum in net exports is expected to continue in the fourth quarter, driven by an uptrend in almost all exports.

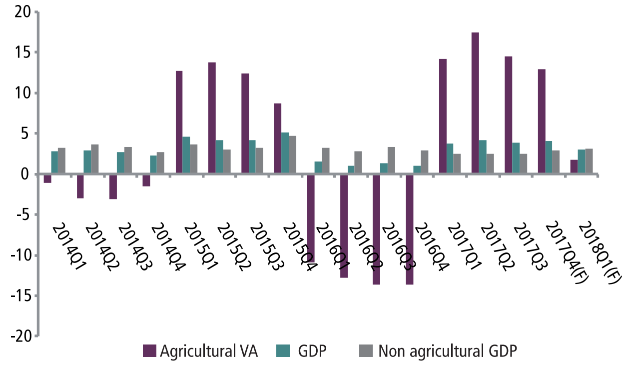
In 2017 as a whole, net exports would contribute positively by 0.9 percentage point to growth after a negative participation of 4.7 points in 2016.

This positive trend in net exports should reverse in the first quarter of 2018 following the pickup in imports of capital goods, the continued increase in the energy bill and deceleration of phosphate exports.

5.3 Supply

Regarding the supply, the expected continued rise in growth in the fourth quarter of 2017 is driven mainly by agriculture whose value added would increase by 12.9 percent after a decline of 13.7 percent a year earlier, thanks to a good crop year of 95.6 million quintals. To a lesser extent, nonagricultural value added would rise by 3 percent, as against 2.6 percent. Taking account of an expected deceleration in taxes net of subsidies, nonagricultural GDP would maintain its growth rate at 2.9 percent.

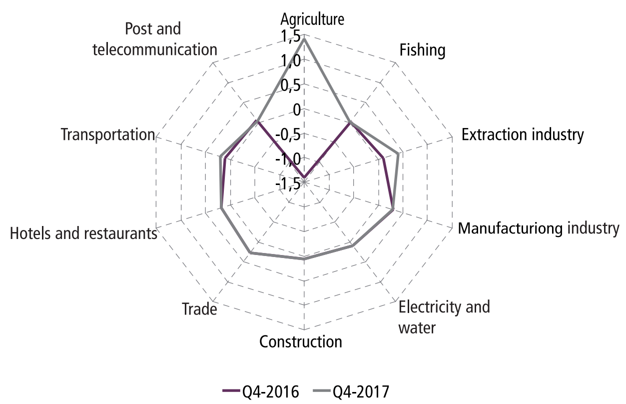
Chart 5.2: GDP per component (chained prices, change in %)



Sources: HCP data, and BAM forecasts.

In the secondary sector, the mining activity would continue its momentum with a rebound of 15.5 percent in the fourth quarter from 3.7 percent a year earlier, as evidenced by the significant increase in exports of phosphates and derivatives. Conversely, activity would slow down from 2.1 percent to 1.8 percent in the manufacturing sector and from 4.5 percent to 3.7 percent in the electricity and water sector. Construction activities would keep a limited pace, not exceeding 1.1 percent, in a context marked by low cement sales and a relative acceleration of real estate loans.

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



Sources: HCP data, and BAM forecasts.

Regarding tertiary activities, growth would move up to 5.2 percent for transport services, maintain its pace around 3.5 percent for the trade branch and slightly slow to 7.9 percent for the "hotels and restaurants" sector and to 2.4 percent for posts and telecommunications.

For 2017 as a whole, GDP growth would accelerate markedly to 4 percent from 1.2 percent a year earlier, mainly due to a rebound of 14.8 percent in the agricultural value added, as against a decline of 12.8 percent a year ago, and an improvement of 2.7 percent in nonagricultural activities from 2.2 percent. Nonagricultural GDP is expected to grow by 2.6 percent, as opposed to 3.1 percent, reflecting a sharp deceleration in taxes net of subsidies.

In the first quarter of 2018, growth should slow down to around 3 percent due to the deceleration of agricultural activities to 1.8 percent from 14.2 percent a year earlier. On the other hand, nonagricultural activities should continue to improve to 3 percent, fostered particularly by the improvement of mining, manufacturing, electricity and tourism activities.

5.4 Labor market and output capacity[1]

5.4.1 Activity and employment

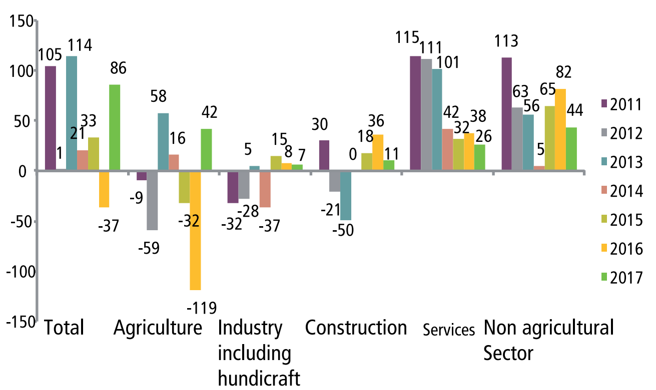
In 2017, labor market conditions were characterized by a marked rise in the labor force aged 15 and above, standing at 1.1 percent to 11.91 million people. This trend was recorded in both urban and rural areas with respective increases of 1.2 percent and 1.1 percent. Given a 1.7 percent increase in the working-age population, the participation rate continued to drop, albeit at a slower pace, from 47.0 percent to 46.7 percent nationally and from 43.0 percent to 42.4 percent in cities. In rural areas, this rate rose by 0.3 point to 54.1 percent.

1 It should noted that 2016 data were readjusted by the HCP based on new population projections on the basis of the 2014 population census data.

Meanwhile, after a loss of 37 thousand jobs a year ago, the national economy created 86 thousand jobs, of which nearly two-thirds were in rural areas. The employed labor force thus increased by 0.8 percent, while the employment rate fell by 0.4 point to 41.9 percent, with a decline of 0.8 point to 36.1 percent in cities and an increase of 0.3 point to 52 percent in rural areas.

At the sectoral level, the improvement in employment was mainly attributed to the creation of 42 thousand jobs in the agricultural sector, particularly thanks to a good cereal harvest. In nonagricultural activities, job creations were however limited to 44 thousand jobs, of which 26 thousand in services, 11 thousand in the construction sector and 7 thousand in industry including crafts.

Chart 5.4: Job creation by sector (in thousands)



Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force grew by 4.2 percent to 1.22 million people. Considering the change in the labor force, the unemployment rate thus rose from 9.9 percent to 10.2 percent nationally and from 14.2 percent to 14.7 percent in urban areas, while it stagnated at 4.0 percent in rural areas. The unemployment rate among young people aged 15 to 24 continued to worsen to 26.5 percent nationally and 42.8 percent in cities.

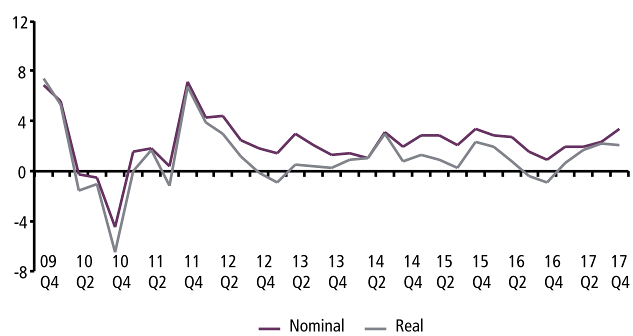
The increase in the unemployment rate was accompanied by a further rise in underemployment[2] , which rose from 9.6 percent to 9.8 percent nationally, from 8.7 percent to 8.9 percent in urban areas and from 10.7 percent to 10.8 percent in rural areas.

3.4.3 Productivity and wages

Taking into account the faster growth of the value added from 2.2 percent in 2016 to 2.7 percent in 2017 and the slow scale of employment from 1.3 percent to 0.7 percent in the nonagricultural[3] sector , the apparent labor productivity improved by 2 percent from 1 percent.

The average salary, calculated on the basis of CNSS data, posted in the fourth quarter increases of 3.3 percent from 0.9 percent a year earlier in nominal terms and 2.1 percent, after a decline of 0.9 percent in real terms.

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



Sources: CNSS, and BAM calculations.

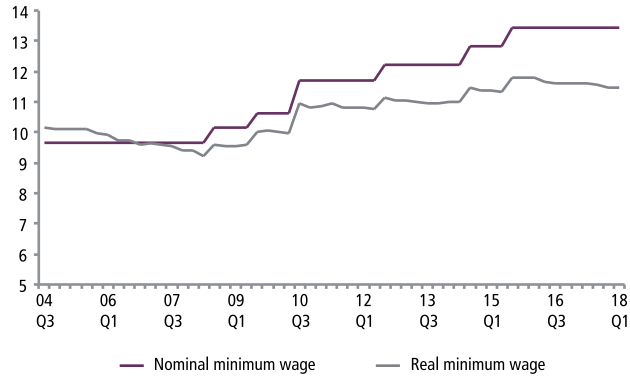
The guaranteed minimum industrial wage (SMIG) remained in the fourth quarter of 2017 at 13.46 dh/h in nominal terms. Taking account of a 1.2 percent increase

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.

3 Measured as the ratio of the nonagricultural value added to the employed labor force excluding agriculture.

in the consumer price index, the SMIG recorded a year-on-year decrease of 1.2 percent in real terms and should fall 1.6 percent in the first quarter 2018.

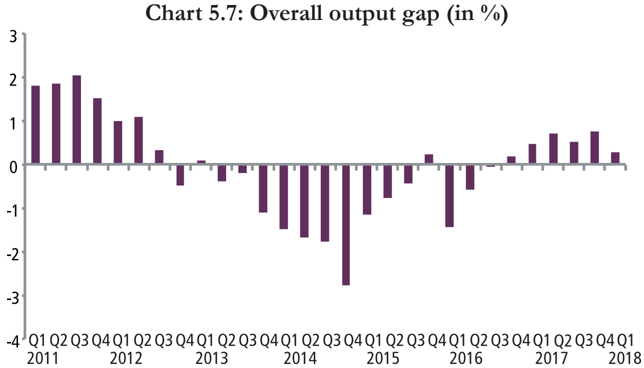
Chart 5.6: Hourly minimum wages in nominal and real terms (in DH/h)



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

Against this backdrop, the output gap should ease slightly in the first quarter while remaining positive.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		2016	2017
Participation rate (%)		**47.0**	**46.7**
Urban		43.0	42.4
Rural		53.8	54.1
Unemployment rate (%)		**9.9**	**10.2**
Youth aged between 15 and 24 years old		25.8	26.5
Urban		14.2	14.7
Youth aged between 15 and 24 years old		41.8	42.8
Rural		4.0	4.0
Job creation (in thousands)		**-37**	**86**
Urban		26	31
Rural		-63	55
Sectors			
- Agriculture		-119	42
-Industry including handicrafts		8	7
- Construction		36	11
- Services		38	26
Nonagricultural apparent productivity (change in %)		**1.0**	**2.0**
		Q4 17	**Q4 16**
Average wage index (change in %)	**Nominal**	**3.3**	**0.9**
	Real	**2.1**	**-0.9**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

As expected in the latest Monetary Policy Report, inflation ended the year with an average rate of 0.7 percent from 1.6 percent a year earlier. The recent inflation trend indicates an acceleration to 1.9 percent in December 2017, before falling to 1.8 percent in January 2018. The change in inflation between December and January reflects a slowdown from 5.8 percent to 3.3 percent in volatile food prices and from 6.7 percent to 2.6 percent in fuel and lubricant prices. However, these trends were more than offset by a significant increase in prices for regulated products to 2.8 percent in January from 0.9 percent in December. This price rise was due to the upward revision of the DCT on dark tobaccos and stamp duties. Core inflation stabilized at 1.1 percent between December and January.

In the short term, inflation should stand at lower levels in the next two months compared to January, reaching 1.6 percent in the first quarter of 2018.

6.1. Inflation trends

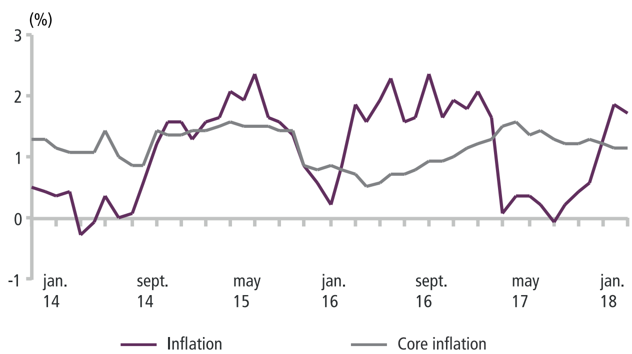
After its gradual increase in the second half of 2017 to 1.9 percent in December, inflation slowed down slightly to 1.8 percent in January 2018. This deceleration is attributable to the slow rise in volatile food prices and fuel and lubricant ones. It would have been more marked if prices of regulated products did not increase significantly due to further adjustments to prices of certain goods and services. Core inflation remained stable at 1.1 percent, reflecting persistently moderate inflationary pressures.

Growth of volatile food prices decelerated from 5.8 percent in December to 3.3 percent in January, mainly due to the slow increase in prices of "fresh vegetables" from 14.8 percent to 5.8 percent.

Similarly, fuel and lubricant prices were up 2.6 percent, as against 6.7 percent in December and 8.8 percent on average in 2017, reflecting the deceleration in international energy prices.

However, prices for regulated products increased significantly from an average of 0.8 percent in 2017 to 2.8 percent due to the upward revision of the DCT on dark tobaccos and the increase in stamp duties, provided for in the finance acts of 2017 and 2018, respectively.

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		
	nov. 17	dec. 17	jan. 18	nov. 17	dec. 17	jan. 18
Headline inflation	**0.4**	**0.5**	**0.1**	**1.3**	**1.9**	**1.8**
- Volatile food prices	2.7	3.3	-3.3	1.5	5.8	3.3
- Fuels and lubricants	1.8	0.3	0.6	6.6	6.7	2.6
- Administered prices	0.0	0.0	2.5	0.9	0.9	2.8
Core inflation	**0.2**	**0.0**	**0.2**	**1.2**	**1.1**	**1.1**
- Food products	0.1	0.1	0.1	1.3	1.3	0.9
- Clothing and footwear	0.3	0.2	0.2	1.7	1.5	1.5
- Housing, water, gas, electricity and other fuels[1]	0.1	0.1	0.1	1.3	1.4	1.4
- Furnishings, household equipment and routine house maintenance	0.0	0.1	0.1	0.5	0.5	0.5
- Health[1]	0.1	-0.1	-0.3	2.7	2.7	2.4
- Transportation[2]	0.2	-0.7	-0.1	0.1	-0.4	-0.4
- Communication	0.0	0.0	0.0	0.0	0.0	0.0
- Entertainment and culture	0.0	0.0	-0.1	0.2	0.2	0.2
- Education	0.0	0.0	0.0	2.0	2.0	2.0
- Restaurants and hotels	0.0	0.0	0.2	3.0	2.8	3.0
- Miscellaneous goods and services	0.1	0.0	0.7	1.3	1.2	1.8

1 Excluding administered goods.
2 Excluding fuels and lubricants and regulated products.
Sources: HCP, and BAM calculations.

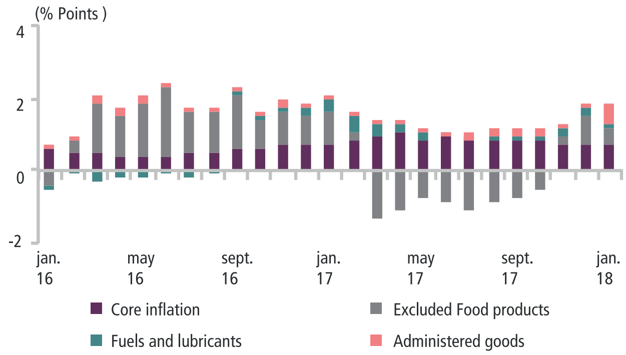
Core inflation, which measures the underlying price trend, stabilized at 1.1 percent between December and January.

6.1.1. Prices of goods excluded from core inflation

Volatile food prices rose slowly in January, following a one-off supply shock a month earlier. Indeed, growth of these prices slowed to 3.3 percent from 5.8 percent overall and from 14.8 percent to 5.8 percent for "fresh vegetables". However, "fresh fish" prices grew 3.1 percent as against 0.9 percent and "poultry and rabbit" prices moved up 6.1 percent, after 4.9 percent.

The contribution of these products to inflation was down from 0.8 in December to 0.5 percentage point in January.

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

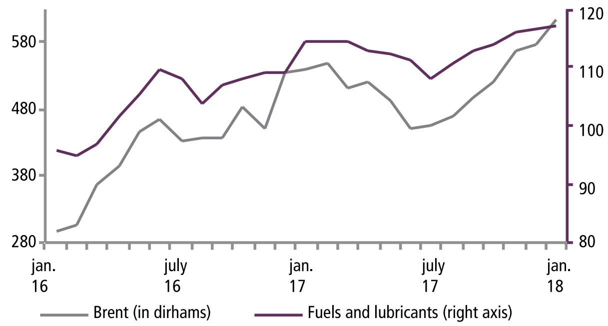


Sources: HCP, and BAM calculations.

Fuel and lubricant prices rose 2.6 percent in January, as against 6.7 percent in December 2017, reflecting the effect of the previous deceleration in international oil prices and the slight appreciation of the dirham's exchange rate against the dollar.

Prices for regulated products rose significantly in January to 2.8 percent as opposed to an average of 0.9 percent in the fourth quarter. This increase is attributed, on the one hand, to a 21.8 percent rise in prices of products falling under the heading "other services", which itself reflects a rise in "stamp duties" in application of the provisions of the 2018 Budget Law. On the other hand, it reflects the second increase in the DCT on dark tobaccos planned under the 2017 Budget Law, which implied a monthly increase of 10.7 percent in "tobacco" prices.

Chart 6.3: Change in international prices of Brent and the price index of fuels and lubricants



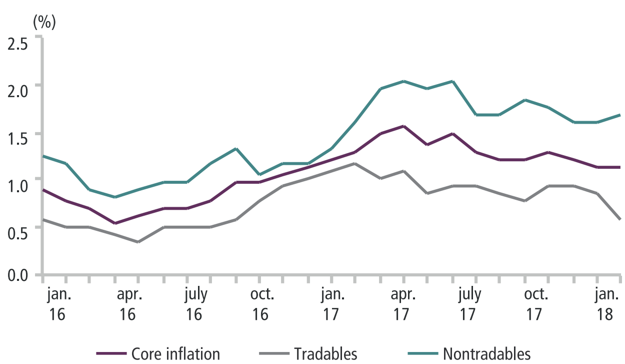
Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

Core inflation stabilized at 1.1 percent, which is the low level observed a month earlier, as against 1.2 percent in the fourth quarter and 1.3 percent in 2017. However, this stagnation covers an acceleration of nontradable inflation and a deceleration of tradables' one.

Indeed, prices for nontradable goods rose 1.7 percent in January from 1.6 percent in December and the fourth quarter of 2017, contributing 0.8 percentage point to core inflation as against 0.7 point one month earlier.

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



Sources: HCP, and BAM calculations.

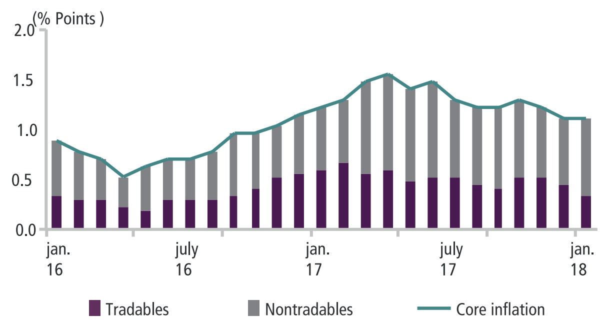
On the other hand, inflation of tradable goods decelerated from 0.8 percent in December to 0.6 percent in January, mainly due to a slow increase in prices of "oils" from 5.6 percent to 3.3 percent. Its contribution to core inflation thus stood at 0.3 percentage point, as against 0.5 in December.

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

(In %)	Monthly change			YoY change		
	nov. 17	dec. 17	jan. 18	nov. 17	dec. 17	jan. 18
Tradables	0.3	0.0	0.0	0.9	0.8	0.6
Nontradables	-0.1	0.0	0.3	1.6	1.6	1.7
Core inflation	0.2	0.0	0.2	1.2	1.1	1.1

Sources: HCP, and BAM calculations.

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



Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

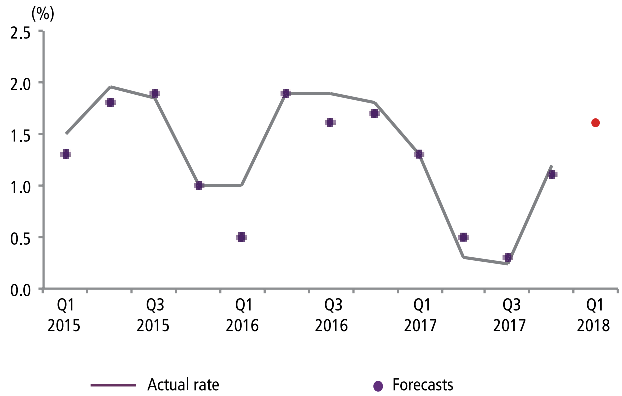
Inflation is expected to be lower in the next two months compared to January, standing at 1.6 percent in the first quarter of 2018.

Indeed, volatile food prices should grow 2.4 percent in the first quarter of 2018, a faster pace compared to the 1.1 percent recorded a quarter before, in connection with the dissipation of their previous declines, which should more than offset the monthly increases forecast for the next two months.

The growth of prices for regulated products should accelerate markedly to 2.9 percent, reflecting the continued impact of the implementation, in January, of the second increase in the DCT on dark tobacco and of the higher rates of "stamp duties".

In contrast, fuel and lubricant prices would be up 2.9 percent, as against 6.3 percent a quarter earlier, owing to expected changes in global energy prices and the dollar.

Chart 6.6: Inflation short-term forecasts and actual rates



Source: BAM.

Box 6.1 : Inflation trend in 2017

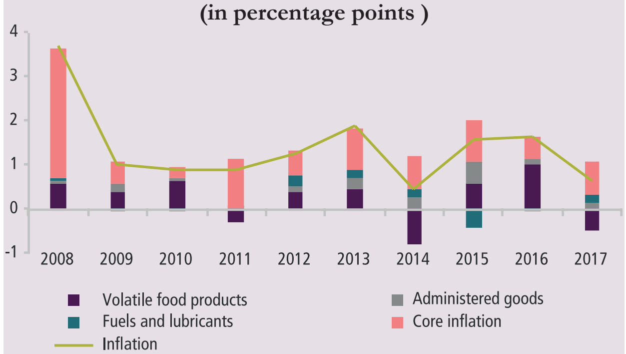
After falling to 1.6 percent in the last two years, inflation, measured as the change in the consumer price index, fell to 0.7 percent in 2017. This slowdown is attributable exclusively to the 3.1 percent decline in volatile food prices, as against 7.5 percent in the previous year.

However, fuel and lubricant prices grew by 8.8 percent after two successive declines, in conjunction with the rise in international oil prices.

Similarly, core inflation rose to its historical average from 0.8 percent to 1.3 percent in 2017, driven by higher imported inflation and stronger household consumption.

Prices for regulated products evolved at 0.8 percent, a virtually stable rate from one year to another. This trend has resulted from the implementation of the latest upward revision of "electricity" prices as well as to the higher prices for "tobacco" and "medical services".

Chart B 6.1.1 : Contributions to inflation (in percentage points)

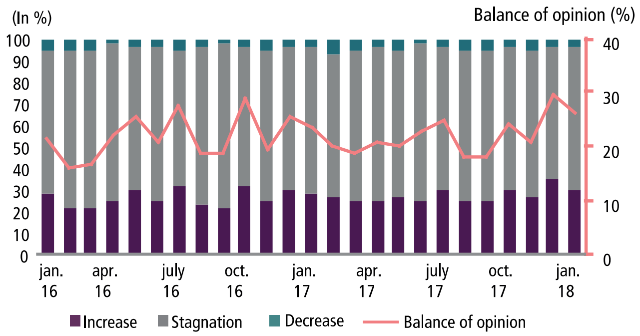


Source : HCP and BAM calculations.

6.3. Inflation expectations

The findings of Bank Al-Maghrib's business survey in the industry for January 2018 indicate that 67 percent of the manufacturers surveyed anticipate a stagnation of inflation over the next three months, while 30 percent expect a rise and 3 percent of them predict a decline.

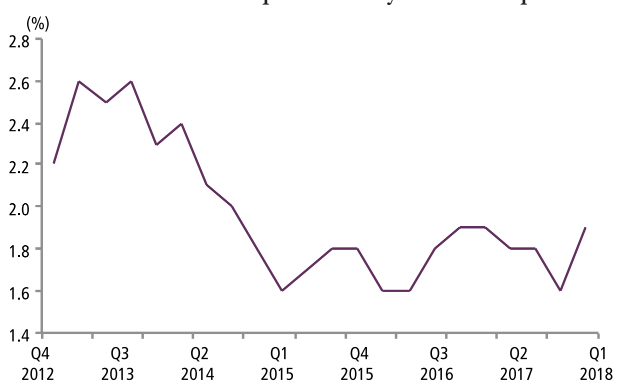
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

Bank Al-Maghrib's inflation expectations survey for the first quarter of 2018 suggests that financial experts expect inflation to accelerate from 1.6 percent to 1.9 percent over the eight-quarter horizon.

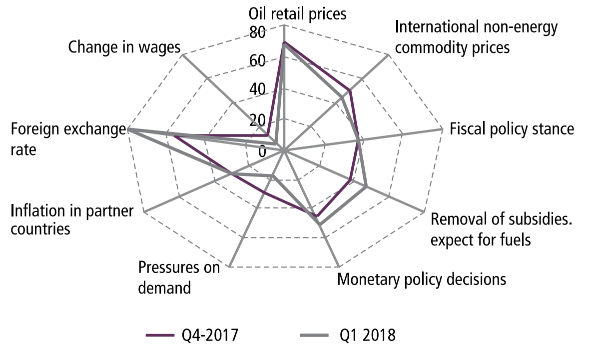
Chart 6.8: Inflation expectations by financial experts*



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

These experts consider that changes in the exchange rate, prices at the pump and the non-subsidization of commodities 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



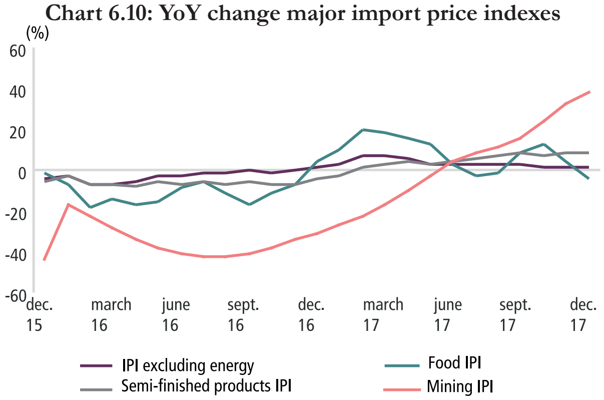
Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Import and producer prices

Non-energy import prices continued to slow down since March 2017. Indeed, they fell to 1.3 percent in the fourth quarter from 3.7 percent on average during the first three quarters of the year. This deceleration reflects exclusively the slow growth in imported food prices, which more than offset the faster growth of the import prices of mining and semi-finished products.

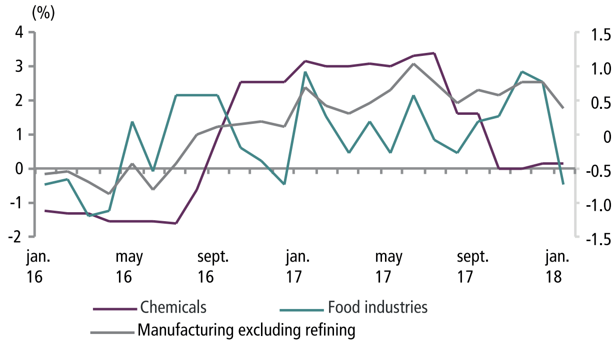
Thus, import food prices increased by 4.3 percent, as against 9.1 percent on average during the first three quarters, due to the fall in prices of the main imported foodstuffs except for wheat, whose prices grew by 31 percent in the fourth quarter.

Chart 6.10: YoY change major import price indexes



Sources: Foreign Exchange Office, and BAM calculations.

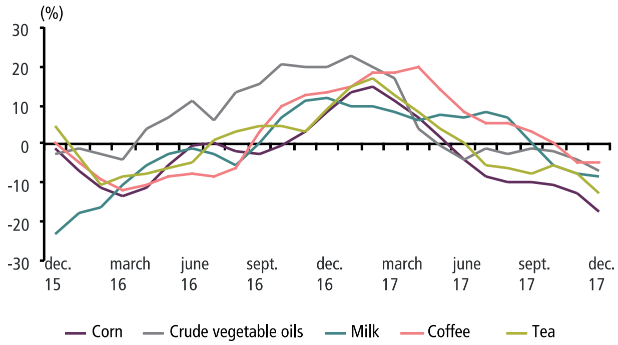
Chart 6.12: YoY change in major industrial producer price indexes



Source : HCP.

On the other hand, import prices of semi-finished products rose by 8.4 percent, as against 3.5 percent, mainly owing to faster growth of "paper and cardboard" prices from 0.6 percent to 2.4 percent. The mining import prices moved up by 31.6 percent, after a 4.5 percent decline, in connection with higher import prices for "raw sulfur» and "iron and steel ore".

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



Sources: Foreign Exchange Office, and BAM calculations.

Producer prices of manufacturing industries rose 0.4 percent in January after 0.7 percent in average in the fourth quarter. This deceleration reflects a 0.7 percent decrease, after the 0.7 percent rise, in the growth pace of producer prices of "food industries", which more than offset the acceleration from 1.9 percent to 3 percent in producer prices in the branch "manufacturing of other nonmetallic mineral products".

7. MEDIUM-TERM OUTLOOK

Summary

Global economic activity continues to strengthen and is expected to maintain its momentum in the medium term, as both domestic demand and foreign trade should recover. The outlook remains, however, surrounded by several risks, including heightened concerns about the stance of the US administration's trade policy, political uncertainties in Europe, rising geopolitical tensions in the Middle East and the fragility of the financial system in some countries of the euro area and in China.

Growth in the euro area would continue to be supported by favorable financial and monetary conditions, renewed confidence among economic operators and improved labor market conditions. In the United States, growth should continue to gain strength, benefiting in particular from tax reforms and the depreciation of the dollar. In emerging economies, the recovery is expected to continue, thanks to improved demand from advanced economies and rising commodity prices for exporting countries. In particular, Russia and Brazil's exit from recession was confirmed and growth in China should remain robust albeit under deceleration.

On commodity markets, world prices for Brent should continue their upward trend in the short term, reflecting, in addition to the extension of the production reduction agreement, a decline in US stocks, geopolitical tensions in the Middle East and, to a lesser extent, an improvement in global demand. In the medium term, this trend should reverse, considering, in particular, an expected rise in production in the United States, Canada and Brazil. Food prices should remain weak over the forecast horizon, mainly due to the expected slower demand from China. Under these conditions, inflation should accelerate in the medium term in the United States to a level close to the Fed's target, while in the euro area, inflationary pressures would remain moderate despite a strong domestic demand.

Nationally, exports should maintain their steady pace over the forecast horizon, mainly with an expected significant increase in car manufacturing sales in 2019, following the announced start-up of the Peugeot plant. Imports should accelerate in 2018, mainly driven by a marked increase in capital goods purchases and energy costs, before decelerating in 2019. Similarly, travel receipts and transfers from Moroccan expatriates are expected to maintain momentum and the GCC grant inflows would expand to 7 billion dirhams in 2018. Against this backdrop, the current account deficit should widen slightly to around 4 percent of GDP in the medium term.

Considering these developments and inflows of FDI equaling 4.4 percent of GDP in 2018 and 3.5 percent of GDP in 2019, net international reserves should stand at 257.3 billion in 2018 before falling to 244.4 billion in 2019. They would cover 5 months and 26 days of imports in 2018 and 5 months and 17 days in 2019.

Monetary conditions should remain accommodative in the medium term. In particular, the real effective exchange rate should depreciate further in 2018, owing to the expected appreciation of the euro and, to a lesser extent, a lower domestic inflation compared to partners and competitors. In 2019, this depreciation should ease, mainly reflecting the dissipation of the appreciation of the euro. Bank lending to the nonfinancial sector would improve by 4.5 percent in 2018 and 2019, slightly slower than expected in December.

Regarding public finances, after a widening to 4.5 percent of GDP in 2016, the fiscal adjustment resumed in 2017 with a deficit of 3.6 percent of GDP and should continue in the medium term, reducing the deficit to around 3.2 percent of GDP.

As to national accounts, growth should accelerate to 4 percent in 2017, after a rate of 1.2 percent in 2016, revised slightly downward compared to December. This trend covers a 14.8 percent rebound in the agricultural value added and a 2.7 percent growth in nonagricultural activities. By component of demand, this improvement reflects higher net exports, due to the slow growth of capital goods imports, and a robust domestic demand, driven in particular by the strength of household final consumption. In the medium term, growth should slow to 3.3 percent in 2018 before consolidating to 3.5 percent in 2019. This outlook reflects respective increases of 2.3 percent and 1.8 percent in the agricultural value added and growth rates of 3.2 percent and 3.6 percent in nonagricultural activities. Domestic demand should continue to support growth, while net exports should decline, as the contribution of imports of goods and services more than offset that of exports, whose momentum should benefit from the expected consolidation of foreign demand and the depreciation of the real effective exchange rate.

In this context, core inflation, marked by an expected consolidation of domestic demand and a depreciation of the real effective exchange rate, should move up gradually over the medium term to 1.9 percent in 2019. Also taking into account the expected rise in fuel and lubricant prices and the rebound in prices for regulated products, reflecting the increase in taxes on dark tobacco and stamp duties, inflation should accelerate from 0.7 percent in 2017 to 1.8 percent in 2018, before moving back to 1.5 percent in 2019. Over the forecast horizon, it would average 1.7 percent.

7.1 Underlying assumptions

Continued expansion of global economic activity

The global economy continues to strengthen, supported by renewed confidence among economic operators and the generally accommodative monetary and financial conditions in advanced economies. In particular, economic growth in the euro area accelerated from 1.8 percent in 2016 to 2.5 percent in 2017 and should consolidate to 2.2 percent in 2018 and 2 percent in 2019. In the United States, the strength of the economy is expected to continue, supported by tax reforms and the depreciation of the dollar. Indeed, growth stood at 2.3 percent in 2017, from 1.5 percent in 2016, and should improve to 2.5 percent in 2018 before slowing to 2.1 percent in 2019. In emerging countries, the economic activity should benefit from the pickup of demand from advanced economies and rising commodity prices for exporting countries. In particular, the Russian and Brazilian economies emerged from the recession and should continue to improve. In China, although decelerating, the economy should remain resilient thanks to fiscal support measures.

However, these prospects remain surrounded by significant risks, mainly due to the heightened uncertainty regarding the stance of the US administration's trade policy and the rising geopolitical tensions in the Middle East. Moreover, the fragility of the financial system in some euro area countries and China, uncertainties surrounding the government coalition in Italy and Brexit terms as well as faster deceleration of growth in China could weigh on prospects for global growth.

Chart 7.1: Growth in the euro area

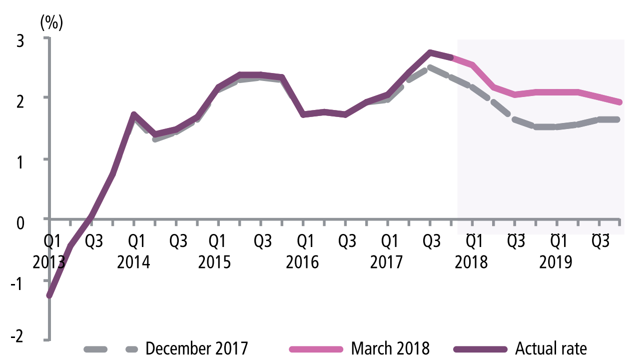
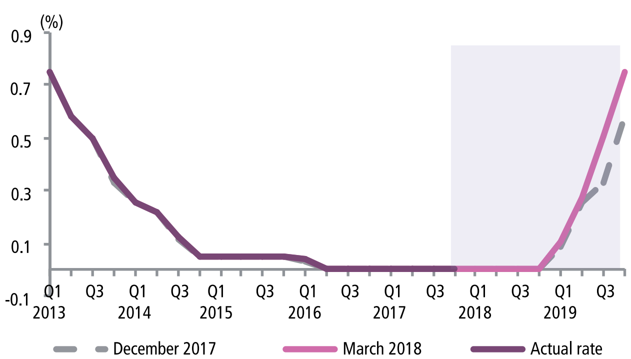


Chart 7.2: ECB policy rate



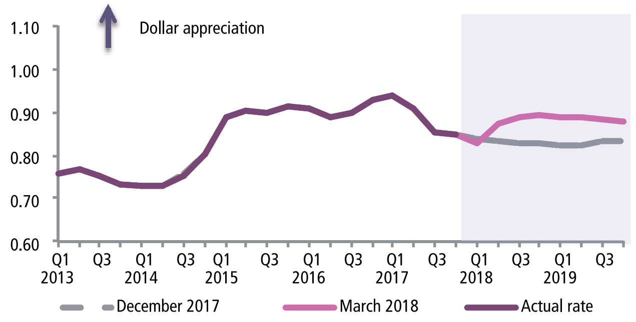
Source: GPM[1] forecasts of february 2018.

Slower appreciation of the euro in the medium term

At the beginning of 2018, the euro continued to strengthen against the dollar, reaching its highest level in three years. This appreciation reflects improved economic fundamentals of the euro area, renewed confidence in the strength of economic recovery and concerns about the stance of the US administration's policies. However, it should undergo a correction in favor of the dollar as of the second quarter of 2018 against a backdrop of widening divergence between the stance of the monetary policies of the FED and the ECB, which should persist until the beginning of 2019. Indeed, the Fed should continue to normalize its monetary policy, in conjunction with the gradual reduction of its balance sheet since October 2017, while the ECB should maintain its key rate unchanged until the first quarter of 2019 and continue to make its net purchases of assets until end-September 2018.

1 See Box 7.1

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of february 2018.

Expected increase of world Brent prices and decline of food prices

After rising from $44/bl in 2016 to $54.4/bl in 2017, the Brent price should continue its upward trends to $63.7/bl in 2018, reflecting, in addition to the production reduction agreement extension, the decline in US inventories, geopolitical tensions in the Middle East and, to a lesser extent, improved global demand. In 2019, it should decrease slightly to $61.8/bl, reflecting the anticipated increase in production in the United States, Canada and Brazil. Regarding fertilizers, the international market is experiencing an oversupply, especially from China, and prices ended the year 2017 with a decline for crude phosphate and TSP, while prices for the DAP were tilted to the upside. In the medium term, new output capacity is expected in Morocco and Saudi Arabia. The World Bank's commodity price projections remain those of October 2017, anticipating virtually stable prices of crude phosphate and TSP and a decrease in those of the DAP in 2018, while in 2019 a generalized increase would be registered. After rising 8.1 percent in 2017, food prices should drop by 2.8 percent in 2018 and by 4 percent in 2019, reflecting mainly slow demand from China.

Under these conditions and particularly considering the consolidation of domestic demand, inflation in the United States[2] should stabilize in the medium term at a level close to the FED's objective, or 2.3 percent on average between 2018 and 2019. However, it would continue to fluctuate around 1.5 percent in the euro area[3] , mainly because of moderate inflationary expectations.

2 This is the inflation rate as measured by the annual change in the consumer price index (CPI).

3 GPMN forecasts of February 2018. The ECB projected, in its March 8 forecast, an inflation rate of 1.4 percent in 2018 and 2019. Excluding energy and food prices, inflation is expected at 1.1 percent in 2018 and 1.5 percent in 2019.

Chart 7.4: Food commodity price index

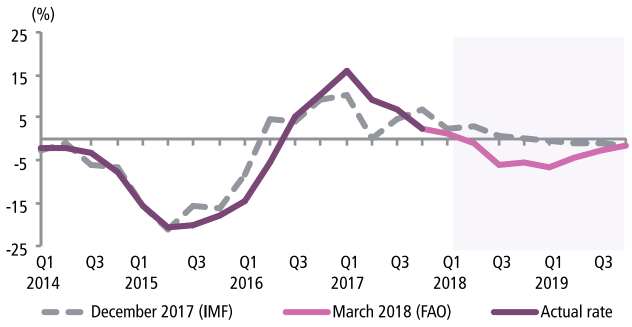


Chart 7.5: Crude oil price

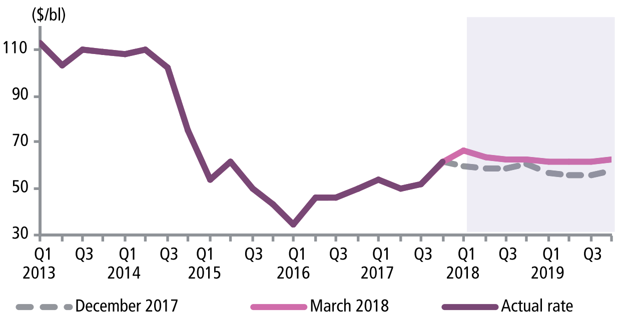


Chart 7.6: Inflation in the euro area

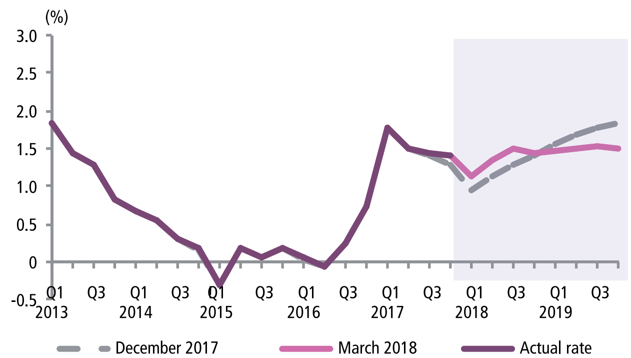
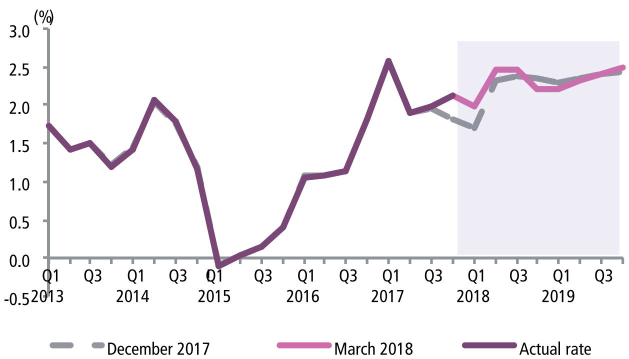


Chart 7.7: Inflation in the United states



Source: GPM forecasts of february 2018.

Box 7.1: Key changes made by the GPMN to the global economy projection model

Since March 2016[1], Bank Al-Maghrib has been preparing its national economic projections based on the global economy projection of the Global Projection Model Network (GPMN), a non-profit institute that provides monthly international economic projections using the Global Projection Model (GPM) developed by the IMF. The latter models the macroeconomic structure of the world's largest economies in the form of blocks, while ensuring overall macroeconomic coherence and taking into account the effects of the spread of economic and financial shocks from one economy to another. Its structure is relatively simple, focusing on the main variables of interest, including growth, inflation, the interest rate of monetary policy, the exchange rate and the unemployment rate.

In order to better reflect the global economic trends, the GPMN migrated as of January 2018 to a new version of this model called GPM++ which replaces its old version GPM7.

1See box 2.2.2 BAM 2015 Annual Report.

In order to better reflect the global economic trends, the GPMN migrated as of January 2018 to a new version of this model called GPM++ which replaces its old version GPM7.

Key improvements cover several aspects, including specification, variables used and data sources. In more detail the GPM++ offers:

1. A more disaggregated structure based on 9 economies (United States, euro area, Japan, China, India, United Kingdom, Russia, Mexico and Brazil) and one region "rest of economies" which now contains 23 countries. The model thus covers 83.4 percent of the world GDP;

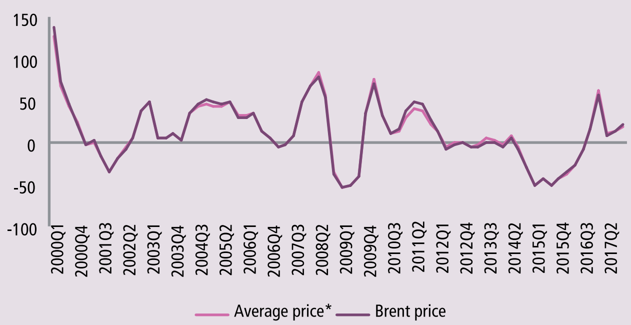
2. Finer modeling of the channels transmitting financial and commercial shocks between economies;

3. The integration of the effect of long-term interest rates on the business cycle and the transmission of short-term rates to long-term ones;

4. A better specification of inflation expectations taking account of the effect of unconventional monetary policies (forward-looking trends, quantitative easing, etc.);

5. The use of the Brent price, instead of the average oil price and the FAO food price index instead of the IMF one. It should be noted that the new and old indexes show differences that remain negligible (see charts below).

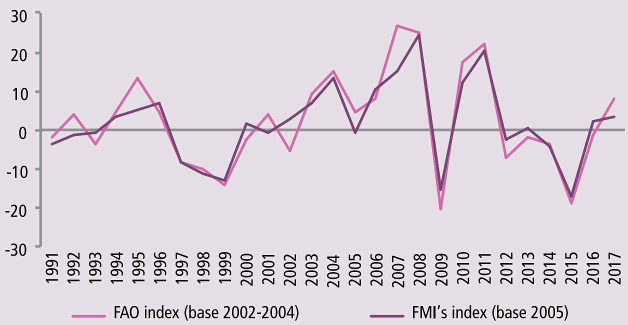
Chart B.7.1.1: Oil prices (% yoy)



* Average prices of the Brent, Dubai Fateh and WTI

Source: World Bank.

Chart B 7.1.2: Food price index ** (% Yoy)



** The IMF food price index consists of an average of the price indices of cereals, vegetable oils, meat, seafood, sugar, bananas and oranges. The FAO's index includes price indices for meat, dairy products, cereals, vegetable oils and sugar.

Sources : FAO, IMF.

[2] The GPM7 covered 85% of the global economy and has 7 regions (US, Euro area, China, Japan, emerging Asia, Latin American countries adopting an inflation targeting regime and the Rest of the Economy).

Continued budget adjustment

Nationally, fiscal year 2017 ended in a deficit of 37.8 billion, in excess of 4.9 billion compared to the budget law target, but easing compared to 2016, due to a greater execution of revenue compared to that of expenditure despite the accelerated execution of investment spending. On this basis, after stopping in 2016, the fiscal adjustment should continue in the medium term.

Thus, for 2018, the budget deficit was slightly revised upwards by 0.1 point of GDP to 3.2 percent, mainly due to the upward revision of non-tax revenue and the downward revision of spending on other goods and services. However, capital expenditure was revised upwards to reflect the momentum of investment observed in recent years. Donations from GCC countries were maintained at 7 billion dirhams, corresponding to the remainder of the $5 billion agreement reached between Morocco and the Gulf countries in 2012.

In 2019, a deficit of 3.2 percent of GDP is forecast compared with 2.8 percent in the December forecast exercise, assuming that the current stance of fiscal policy would remain, focusing mainly on controlled current expenditure and resource mobilization.

A cereal production close to 80 million quintals for the 2017-2018 crop year

For the 2016-2017 crop year, cereal production stood at 95.6 million quintals, from 33.5 million a year earlier. For other plant crops, production would have performed well, with increases of 16.1 percent for citrus fruits, 3.4 percent for date palms and 1.2 percent for sugar crops, while the production of olive trees fell by 26.6 percent.

In the 2017-2018 crop year, according to estimates based on rainfall and plant cover data as at March 10, the cereal harvest is expected to be close to 80 million quintals from 70 million assumed in December.

In 2019, an average cereal production of 70 million quintals is expected, assuming a continued trending performance of other crops.

7.2 Macroeconomic projections

Slight widening of medium-term current account deficit

Preliminary 2017 data show an easing in the current account deficit to 3.8 percent of GDP, as against 4.4 percent in 2016, upwardly revised from 0.2 point compared to the December projections. This trend is attributed to a larger-than-expected increase in imports which more than offset the acceleration of exports, particularly those of phosphates and derivatives.

In the medium term, the current account deficit is expected to widen slightly to almost 4 percent of GDP. The pace of export growth, although decelerating, would be sustained at 6.1 percent in 2018 before accelerating to 7.5 percent in 2019, with notably a significant increase in automotive sales following the announced start-up of the Peugeot plant. Imports should rise by 7.1 percent in 2018, reflecting a significant increase in capital goods purchases and an increase in the energy bill, albeit at a slower pace than in 2017. In 2019, they would decelerate, mainly due to lower energy purchases and slow imports of capital goods.

After a significant increase in 2017, travel receipts should grow further to 5.7 percent in 2018 and 5.2 percent in 2019, while remittances from Moroccan expatriates would improve by 5 percent in 2018 and 4.1 percent in 2019. Given inflows of FDI equaling 4.4 percent of GDP in 2018 and 3.5 percent of GDP in 2019 and an inflow of donations from GCC countries, which would amount to 7 billion dirhams in 2018, net international reserves should be around 257.3 billion in 2018 before decreasing to 244.4 billion by the end of 2019. They would cover 5 months and 26 days of imports in 2018 and 5 months and 17 days in 2019.

Table 7.1: Main components of the balance of payments

	Actual rates						Forecasts		Gap (march/dec.)		
	2012	2013	2014	2015	2016	2017	2018	2019	2017	2018	2019
Exports of goods* (change in %)	5.7	-0.1	8.8	8.6	2.7	9.4	6.1	7.5	0.3	-0.7	-0.8
Imports of goods* (change in %)	8.2	-1.5	2.6	-4.9	9.9	6.4	7.1	4.2	1.3	1.0	-0.3
Travel receipts (change in %)	-1.8	-0.5	7.7	-1.4	5.0	8.5	5.7	5.2	3.6	1.7	1.3
Expatriate remittances (change in %)	0.6	-1.5	-0.8	4.8	4.0	4.5	5.0	4.1	2.1	1.2	0.5
Current account balance (% of GDP)	**-9.5**	**-7.7**	**-6.0**	**-2.1**	**-4.4**	**-3.8**	**-4.1**	**-4.0**	**-0.2**	**-0.5**	**-0.7**
Net international reserves in months of goods and services' imports	**4.2**	**4.4**	**5.1**	**6.6**	**6.3**	**5.7**	**5.9**	**5.6**	**-0.1**	**0.3**	**0.1**

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

Accommodative monetary conditions and continued slow recovery of lending to the nonfinancial sector

Monetary conditions should continue to ease in 2018 and remain accommodative in the medium term. The depreciation of the real effective exchange rate is expected to increase in 2018, due to an appreciation of the euro and, to a lesser extent, a domestic inflation lower than that of partners and competitors. In 2019, it should ease, mainly reflecting the dissipation of the appreciation of the euro.

Given the revised forecasts for net international reserves and the trending increase of currency in circulation, the liquidity deficit should ease to 35.5 billion dirhams at the end of 2018 before widening to 59.4 billion dirhams in 2019. After improving in the first eleven months of 2017, the growth of bank lending to the nonfinancial sector decelerated sharply in December, reflecting the slowdown in loans to corporations, especially state-owned enterprises. For 2017 as a whole, it should move up 3.7 percent from 3.9 percent in 2016. Given this trend and forecasts for the nonagricultural value added, the growth of credit to the nonfinancial sector was slightly adjusted downwards to 4.5 percent in 2018 and 2019. Against this backdrop, considering the change in the other counterparts of the money supply, the M3 aggregate growth should fall to 5.4 percent in 2018 and 3.8 percent in 2019.

Table 7.2: Money supply and bank lending

	Actual rates				Forecasts		Gap (march/dec.)		
	2014	2015	2016	2017	2018	2019	2017	2018	2019
Bank lending to the nonfinancial sector (change in %)	3.8	0.3	3.9	3.7	4.5	4.5	-0.8	-0.5	-0.5
M3 (change in %)	6.2	5.7	4.7	5.8	5.4	3.8	0.9	1.6	-0.1
Liquidity surplus or deficit, in billion dirhams	-40.6	-16.5	-14.7	-40.9	-35.5	-59.4	-2.1	15.1	3.3

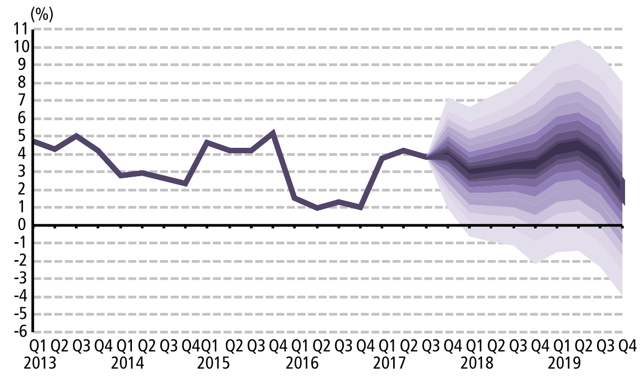
Source : BAM.

Continued slow recovery of nonagricultural activities

After having reached 1.2 percent in 2016, growth should accelerate to 4 percent in 2017, a forecast slightly adjusted downwards from the one reported in December, given national accounts data for the third quarter of 2017. This trend covers a rebound in the agricultural value added to 14.8 percent and a slight improvement in nonagricultural activities whose value added would grow 2.7 percent. On the demand side, net exports should contribute positively to growth, thanks to the anticipated fast growth of exports of goods and services and the sharp deceleration in growth of imports of goods and services, due to slow increase in purchases of capital goods. The domestic demand growth should remain robust, albeit decelerating, due to higher incomes, especially farm incomes.

In the medium term, growth should stand at 3.3 percent in 2018 and 3.5 percent in 2019, covering respective increases of 2.3 percent and 1.8 percent in the agricultural value added and 3.2 percent and 3.6 percent in nonagricultural activities. On the demand side, this slowdown is expected to reflect a negative contribution from net exports, due to the rebound in the momentum of imports of goods and services, in conjunction with improved domestic demand and the expectedly continued implementation of major projects. Exports of goods and services should maintain a steady pace, benefiting from the expected consolidation of foreign demand and the depreciation of the real effective exchange rate. Domestic demand should continue to support growth, driven mainly by a recovery in investment and sustained momentum in household final consumption. However, general government consumption should maintain a moderate growth rate, in a context of continuing control of operating expenditure.

Chart 7.8: Growth outlook over the forecast horizon (Q4 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 (march /dec.)		
	2012	2013	2014	2015	2016	2017	2018	2019	2017	2018	2019
National growth	**3.0**	**4.5**	**2.7**	**4.5**	**1.2**	**4.0**	**3.3**	**3.5**	**-0.1**	**0.3**	**-0.1**
Agricultural VA	-9.1	17.2	-2.2	11.9	-12.8	14.8	2.3	1.8	0.1	3.3	-1.7
Nonagricultural VA	4.5	1.8	2.7	1.8	2.2	2.7	3.2	3.6	0.0	-0.2	0.0
Taxes on products net of subsidies	6.8	14.6	9.7	18.1	8.5	2.0	4.9	4.1	-0.7	1.0	0.0

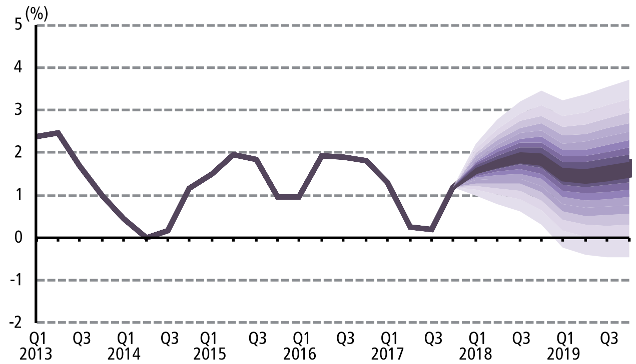
Sources: HCP data, and BAM forecasts.

Core inflation expected to pick up gradually while remaining moderate

Core inflation is expected to gradually increase to 1.9 percent in 2019, reflecting the anticipated consolidation of domestic demand and the depreciation of the real effective exchange rate.

Regarding the other components of the CPI, fuel and lubricant prices should continue to rise in 2018, although decelerating compared to 2017, before declining in 2019, in connection with expected changes in world prices for Brent and the dollar. Prices for regulated products should rebound in 2018, reflecting the upturn in the DCT on dark tobaccos and stamp duties.

Chart 7.9: Inflation forecast over the horizon (Q1 2018 - 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 (march /dec.)		
	2015	2016	2017	2018	2019	Horizons of 8 quarters (Q1 2018 - Q4 2019)	2017	2018	2019
Inflation	**1.6**	**1.6**	**0.7**	**1.8**	**1.5**	**1.7**	**0.0**	**0.3**	**-0.1**
Core inflation	1.4	0.8	1.3	1.4	1.9	1.6	0.0	-0.1	0.0

Sources: HCP data, and BAM forecasts and calculations.

Overall, after slowing down from 1.6 percent in 2016 to 0.7 percent in 2017, inflation should accelerate to 1.8 percent in 2018 then fall to 1.5 percent in 2019, representing an average of 1.7 percent over the forecast horizon.

Chart 7.10: Change in core inflation and output gap

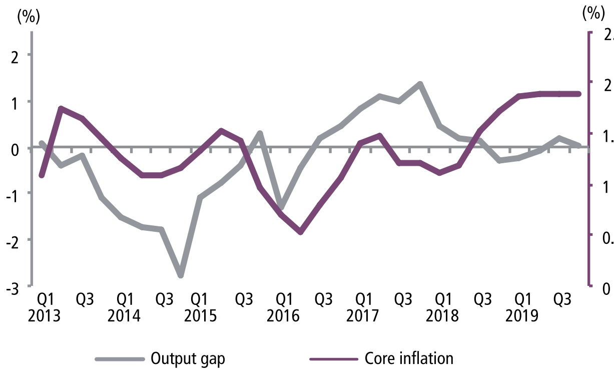
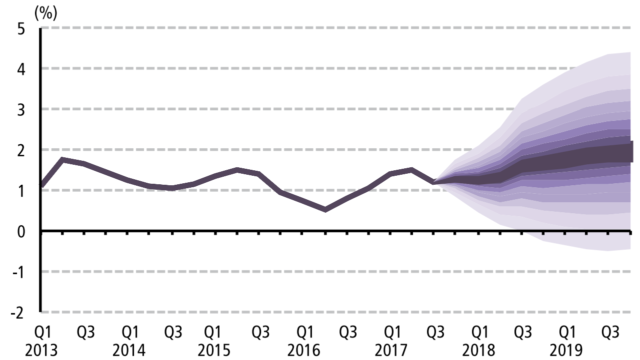


Chart 7.11: Projections of core inflation over the forecast horizon (Q1 2018 - Q4 2019)*



* 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

Several risks surround the baseline forecast scenario which, in the event of their materialization, may affect the central projection. The balance of risks is at equilibrium for growth and tilted to the upside for inflation.

The upside risks to the economic outlook remain linked to the further exchange rate depreciation in conjunction with to the euro-dollar parity, benefiting exports, and to greater-than-expected cereal production in the event of continued favorable weather conditions. In terms of downside risks, foreign demand could be negatively impacted by rising geopolitical tensions in the Middle East, heightened concerns about the stance of the US administration's trade policy as well as the fragility of the financial system in some euro area countries and in China. In addition, political uncertainties, particularly caused by the Brexit terms and the government coalition in Italy, and the risk of a faster deceleration of growth in China could weigh on the prospects for global growth.

Regarding inflation forecasts, the risks identified may lead to a higher-than-expected inflation rate. Inflationary pressures could come from a more pronounced increase in international energy prices. The latter could, indeed, have a direct impact on fuel prices and cause second-round effects on consumer prices through the production costs. In addition, the increase in wages as part of the social dialogue could lead to faster-than-expected price increases.

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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