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.