BANK AL-MAGHRIB

MONETARY POLICY REPORT

No. 47 / 2018

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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, June 19, 2018

1. The Board of Bank Al-Maghrib held its second quarterly meeting of the year on Tuesday, June 19.

2. At this meeting, it examined and approved the Annual Report 2017 on the country's economic, monetary and financial situation as well as on the Bank's activities.

3. The Board also analyzed the recent economic developments and the macroeconomic forecasts prepared by the Bank for the next eight quarters.

4. Based on these assessments, particularly those of medium-term inflation and growth prospects, the Board considered that the current level of the key rate at 2.25 percent remains appropriate and decided to keep it unchanged.

5. The Board noted that inflation has markedly accelerated over the first four months of the year. This change reflects the impact of the review of the CPI basket structure last March by the High Commission for Planning as well as significant increases in volatile food prices and regulated prices. Spurred by these temporary shocks, inflation is expected to reach 2.4 percent in 2018, before returning to 1.4 percent in 2019. Core inflation, which measures the fundamental price trend, would remain subdued, reaching about 1.1 percent in 2018 and 1.6 percent in 2019.

6. Internationally, despite a relative moderation in some advanced economies in the first quarter of 2018, global growth remains strong. Its medium-term outlook remains broadly favorable, but is surrounded by a number of risks related in particular to U.S. trade policy, geopolitical tensions and political difficulties in some European countries. In the euro area, GDP growth would be 2.3 percent in 2018 before decelerating to 1.8 percent in 2019, impacted by the expected tightening of monetary conditions. In the United States, growth would reach 2.7 percent, boosted by tax measures, and then return to 2 percent in 2019. In the labor market, the situation also continues to improve, with a decline in unemployment in the euro area and continued strong job creation in the United States. In emerging countries, activity is benefiting from the consolidation of demand from advanced countries and, for some of them, from higher oil prices and the depreciation of their currencies. Growth would thus pick up in Russia and Brazil, strengthen in India and slow down in China in connection with the economic rebalancing policy.

7. On the commodity market, prices overall trended upward during the first five months of 2018. More particularly, Brent oil price is expected to end the year on an average price of $67.2/bl, up 23.5 percent, as a result of

the production reduction agreement, the geopolitical tensions and higher demand. In 2019, reflecting the projected increase in production in the United States, it is expected to drop to $62.5/bl. Phosphate and derivatives' prices also trended upward, particularly due to higher production costs and continued demand. Hence, prices rose year-on-year by 14.3 percent to $407/mt in May for DAP, by 18.5 percent to $326/mt for TSP and by 3 percent to $103/mt for crude phosphate. In the medium term, they would remain close to these levels.

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

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

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

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

12. With regard to external accounts, exports kept momentum in the first five months of the year, mainly driven by a marked increase in the sales of the automotive industry and travel receipts. Meanwhile, goods' imports maintained a steady pace, particularly capital goods and energy products. Looking ahead, goods' exports would rise by 5.8 percent in 2018 and 6.9 percent in 2019, mostly due to the continuing good performance of the automotive industry, with the announced start of production of the Peugeot plant. Similarly, travel receipts

would improve by 8 percent in 2018 and 4 percent in 2019. On the opposite, goods' imports are expected to increase by 7.2 percent, driven by the rise in the energy bill and capital goods' purchases, and then slow to 3.7 percent in 2019. Expatriates remittances would maintain momentum in 2018 with a projected increase of 6 percent, before slowing to 4.1 percent in 2019. Taking into account the remaining 7 billion dirhams of GCC grants predicted for 2018, the current account deficit would reach about 4.1 percent of GDP by the end of this year and would ease to 3.6 percent in 2019. Against this background, and assuming FDI inflows equal to 4.4 percent and 3.5 percent of GDP respectively, foreign exchange reserves would reach 255.4 billion dirhams as at-end 2018 and 245.9 billion as at-end 2019, covering 5 months and 25 days and then 5 months and 18 days of goods and services' imports.

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

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

OVERVIEW

In the first quarter of the year, economic activity continued to strengthen in major advanced economies. Growth in the United States accelerated again to 2.8 percent, and remained strong in the euro area, albeit decelerating. This performance impacted labor market conditions, which continued to improve. The unemployment rate continued its decline in the United States to 3.8 percent in May, the lowest level since 2001, as 223 thousand jobs were created. Similarly, this rate fell to 8.5 percent in April in the euro area, with a slight decline in Germany and Spain.

In key emerging countries, economic activity showed contrasting trends. Growth stabilized again at 6.8 percent in China and improved from 6.6 percent to 7.6 percent in India and from 0.9 percent to 1.3 percent in Russia, while it slowed from 2.1 percent to 1.2 percent in Brazil.

On the stock markets, the advanced economies' main indexes were tilted to the upside between April and May, despite the heightened geopolitical tensions and protectionist trends. In emerging economies, the MSCI EM was down, with particularly a significant decrease of 14.7 percent in Turkey's index.

In sovereign debt markets, the rising risk aversion led to a pullback toward safe havens, mainly the U.S. 10-year yields. These yields fell to 2.8 percent at the end of May, after having reached their highest level since 2011 at 3.1 percent in the same month. In the main European economies, these yields stabilized in France and Germany and grew in Spain and Italy, particularly due to the political difficulties faced by these two countries.

Regarding foreign exchange markets, the euro depreciated by 3.7 percent against the dollar between April and May, particularly due to the political crisis in Italy, while it slightly appreciated by 0.7 percent versus the pound sterling. The main emerging countries' currencies depreciated against the dollar, with particularly a weakening of 9.1 percent in the Turkish lira. The annual bank lending growth slowed slightly between March and April, from 3.4 percent to 3.3 percent in the United States, while it accelerated from 3 percent to 3.1 percent in the euro area.

In commodity markets, prices rose almost everywhere in May. The Brent price grew 50.7 percent, year on year, to $76.65 per barrel on average, owing to rising geopolitical tensions and contraction of stocks in the United States. Similarly, non-energy prices rose by 8.8 percent, with particularly increases of 3 percent for crude phosphate, 14.3 percent for DAP, 18.5 percent for the TSP and 19.2 percent for urea. In this context, inflation accelerated in May to 1.9 percent in the euro area and 2.8% in the United States.

Regarding other monetary policy decisions, the ECB decided on June 14 to keep its rates unchanged, while pointing out that it continues to expect that these rates will remain at their present levels at least through the summer of 2019 and, in any case, for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path.

The Bank also stated that it plans to reduce, as from September 2018, the monthly pace of net purchases of assets from 30 billion euros to 15 billion euros and to stop these purchases at the end of December 2018.

The FED, following its meeting of June 12-13, decided to raise the target range for the federal funds rate by one quarter percentage point to 1.75 percent-2 percent and reiterated that the stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return of inflation to its objective.

Nationally, provisional external accounts data at the end of April attest to continued export momentum, essentially reflecting improvements of 20.6 percent in car manufacturing and 22 percent in aeronautics, while shipments of phosphates and derivatives dropped by 4.2 percent. At the same time, imports increased by 9.6 percent, driven mainly by increases of 15.1 percent in capital goods purchases and 10.2 percent in consumer goods ones. Regarding other main components of the current account, the momentum in travel receipts and remittances from Moroccan expatriates continued, with respective increases of 18.2 percent and 12.9 percent. Given these developments and those of the main financial transactions, particularly a net FDI flow of 6.6 billion dirhams, foreign exchange reserves amounted to 229.4 billion dirhams, equaling 5 months and 13 days of imports of goods and services.

The bank liquidity deficit worsened to 55.6 billion dirhams in April. Bank Al-Maghrib thus increased the volume of its injections, bringing it up to 55.4 billion and the weighted average rate on the interbank market remained consistent with the key rate. Monetary conditions were also marked by a depreciation of the real effective exchange rate and lower lending rates. In this context, lending to the nonfinancial sector grew by 4.1 percent in April from 3.8 percent in December 2017. Also, considering the strengthening of claims on the central government and the slow decline in foreign exchange reserves, the M3 aggregate rose by 4.4 percent.

On the public finance side, end-April 2018 data show a budget deficit of 14.2 billion, widening by 1.4 billion compared to the same period of 2017, in conjunction with a decline of 3.4 billion in the positive balance of the Treasury special accounts to 7.2 billion. Overall expenses eased by 1.1 percent with particularly a reduction in investment spending, debt interests and subsidy costs. At the same time, current receipts moved up 1.1 percent, mainly reflecting an improvement in tax revenues. Given a 215 million cut in payment arrears, the Treasury registered a cash deficit of 14.4 billion, almost stable from one year to the next. This requirement as well as the negative external net flow of 3.4 billion were covered by domestic resources, amounting to 17.8 billion. As a result, direct public debt would have risen by 1.9 percent at the end of April compared to December 2017.

In terms of national accounts, growth would have slowed to 3.4 percent in the first quarter of 2018 compared to the same period last year, with a sharp deceleration in the agricultural value added to 4.4 percent. Nonagricultural activities would continue to grow at a moderate pace. On the demand side, this trend would particularly reflect the slow growth in household final consumption and investment.

Against this backdrop, labor market conditions were marked by the creation of 116 thousand jobs in the first quarter of 2018 compared to the same quarter of 2017, with an increase of 50 thousand jobs in services, 43 thousand in the agriculture, forestry and fishing sector and 32 thousand in the construction branch, while industry including crafts lost 9 thousand jobs. Considering a net inflow of 92 thousand jobseekers, the participation rate fell from 47.5 percent to 47.1 percent and the unemployment rate dropped from 10.7 percent to 10.5 percent. However, this decline did not affect young people aged 15 to 24, whose rate reached 25.7 percent nationally and 43.5 percent in urban areas.

In the asset market, real estate prices virtually stabilized in the first quarter of 2018, with slight increases for residential and commercial property and a decline for urban land. At the same time, transactions declined by 2.3 percent, particularly reflecting lower sales of residential assets and urban land. In the Casablanca Stock Exchange, the benchmark index posted a performance of 5.4 percent in the first quarter and the volume of transactions in the central market amounted to 11.9 billion dirhams, down 16.2 percent compared to the same quarter of 2017.

Inflation accelerated significantly from 2 percent in the first quarter of 2018 to 2.7 percent in April. This trend is mainly attributed to increases of 10.4 percent in volatile food prices as against 5 percent, as well as 5 percent in fuel and lubricant prices, as opposed to 2.2 percent. Core inflation continued to evolve at a moderate pace, with a rate of 1 percent from 0.9 percent and prices for regulated goods kept their growth pace at 2.8 percent.

In terms of outlook, global economic activity is expected to continue to strengthen but with rising uncertainty. Growth would accelerate in the United States to 2.7 percent in 2018, particularly thanks to tax reforms, before returning to 2 percent in 2019 and should consolidate in the euro area to 2.3 percent in 2018 and 1.8 percent in 2019. Under these conditions, the unemployment rate should fall to 4.1 percent in 2018 before rising to 4.2 percent in 2019 in the United States and would move down to 8.5 percent respectively in the euro area. In key emerging countries, economic activity would continue to improve in Russia and Brazil, while in China, it would keep slowing down due to the economic rebalancing policy.

In commodity markets, world oil prices would continue their upward trend in 2018, mainly reflecting a larger-than-expected reduction in production and heightened geopolitical tensions. The Brent price should thus stand at $67.2/bl before falling back to $62.5/bl in 2019, mainly due to the expected increase in extractions, particularly in the United States. Food prices declined in the first months of the year and should remain low in the medium term. As to phosphate and derivatives, prices are expected to increase to $390/mt in 2018 and $395/mt in 2019 for DAP, to $315/mt and to $320/mt for TSP, respectively. Crude phosphate prices would fall to $95/mt in 2018 before rising to $97/mt in 2019.

Under these conditions, taking particular account of the consolidation of domestic demand, inflation in the United States should stabilize in the medium term at a level close to the Fed’s objective, and would continue to hover around 1.5 percent in the euro area, mainly due to a moderate underlying price trend.

Nationally, the export momentum observed in 2017 should continue in the medium term, with growth of 5.8 percent in 2018 and 6.9 percent in 2019, mainly driven by higher sales of the automotive sector, following the planned start-up of the Peugeot plant. Meanwhile, imports would grow 7.2 percent, particularly with higher energy bill and capital goods purchases, before returning to 3.7 percent in 2019. Travel receipts would continue their momentum, albeit at a slower pace, with an increase of 8 percent in 2018 and 4 percent in 2019, and growth of expatriate remittances would accelerate to 6 percent in 2018, before consolidating to 4.1 percent in 2019. Also, considering a CCG donation of 7 billion dirhams in 2018, the current account should widen to 4.1 percent of GDP in 2018, before returning to 3.6 percent in 2019. Overall, assuming a FDI inflow equaling 4.4 percent of GDP in 2018 and 3.5 percent in 2019, net international reserves would reach 255.4 billion in 2018 before falling back to 245.9 billion in 2019. They would provide coverage of imports for 5 months and 25 days and 5 months and 18 days, respectively.

Given these developments and the increase in currency in circulation, banks' liquidity deficit should stand at 39.8 billion dirhams at the end of 2018, before worsening to 59.6 billion by 2019.

Monetary conditions would remain accommodative in the medium term, owing to the expected depreciation of the real effective exchange rate, particularly in 2018. In these circumstances, and taking account of recent developments, including loans to real estate development, growt of lending to the nonfinancial sector was revised downwards to 4 percent in 2018 and kept unchanged at 4.5 percent in 2019.

In terms of public finances, assuming a continued revenue mobilization, a controlled spending and a realization of the expected GCC grant inflows, the fiscal adjustment is expected to continue in the medium term, albeit at a slower pace than expected in March, with a deficit of 3.4 percent of GDP in 2018 and 3.3 percent in 2019.

In this context, as opposed to 4.1 percent in 2017, growth would slow to 3.6 percent in 2018 and 3.1 percent in 2019. The agricultural value added would rise to 5.7 percent, from 2.3 percent forecast previously, taking into account a first estimate of cereal production of 98.2 million quintals reported by the Ministry of Agriculture. Nonagricultural activities would continue to recover, albeit at a slow pace, with increases of 3.2 percent in 2018 and 3.5 percent in 2019. On the demand side, its domestic component would continue to support growth, while the contribution of net exports to growth would be negative.

Considering the HCP's revision of the CPI basket structure in March and the temporary rise in the components excluded from core inflation, inflation should grow significantly from 0.7 percent to 2.4 percent in 2018, before falling back to 1.4 percent in 2019. Its core component should, however, decelerate slightly in 2018, taking account of a short-term decrease in the contribution of certain foodstuffs included therein, before moving down to 1.6 percent in 2019.

BAM central scenario forecasts remain surrounded by several risks, with a balance tilted to the downside for growth and upside for inflation. Growth could be negatively impacted by the weakening of foreign demand addressed to Morocco, because of several factors, including rising geopolitical tensions, the US administration’s restrictive trade policies, political instability in some euro area countries and risk of a rapidly slow growth in China. Nationally, the last boycott campaign targeting certain sectors could constitute a significant source of downward pressure on economic activity. With regard to inflation, rising oil prices on the international market and higher wages as part of social dialogue would cause prices to trend upward.

1.INTERNATIONAL DEVELOPMENTS

The international economic data available at end-April show overall a continued momentum of economic activity in the main advanced countries. Indeed, growth strengthened in the United States and remains robust in the euro area, despite a deceleration in the first quarter. In the United Kingdom, it continued to slow down since the beginning of 2017, and in Japan it posted a second successive decline. In key emerging economies, growth stagnated in China, accelerated in India and Russia, and decelerated significantly in Brazil. In the labor market, the unemployment rate fell to 3.8 percent in May in the United States, following a sharp rise in job creation. Similarly, in the euro area, it declined to 8.5 percent in April, its lowest level since December 2008. Financial markets were impacted in May by a climate of uncertainty and rising geopolitical tensions. This context fostered a renewed appetite for safe havens, including the US 10-year bonds, whose yields have been declining since the second week of May. Foreign exchange markets were characterized by the depreciation of the euro against the dollar, mainly due to the political crisis in Italy and Spain. Meanwhile, international commodity prices showed a rise in almost all components. More particularly, oil prices continued to grow, particularly due to the heightened geopolitical tensions and contraction of US stocks. Against this backdrop, inflation accelerated in the euro area to 1.9 percent and to 2.8 percent in the United States, while it remained unchanged at 2.4 percent in the United Kingdom. Overall, these developments point to the emergence of risks of external inflationary pressures for the Moroccan economy, particularly owing to the rising commodity prices.

1.1 Economic activity and employment

1.1.1 Economic activity

In the first quarter of 2018, growth in the United States has been accelerating since the second quarter of 2016. Indeed, GDP grew by 2.8 percent, year on year, as against 2.6 percent, driven mainly by the uptrend of investment and consumption. In the euro area, growth remained robust, despite a deceleration to 2.5 percent from 2.8 percent in the previous quarter. By country, it fell from 2.9 percent to 2.3 percent in Germany, from 2.8 percent to 2.2 percent in France, from 1.6 percent to 1.4 percent in Italy and from 3.1 percent to 3.0 percent in Spain.

In contrast, in the United Kingdom, economic activity slowed again, with growth falling back to 1.2 percent from 1.4 percent. This trend is largely attributed to the depreciation of the pound sterling, which weighed on real household incomes leading to lower consumption. Similarly, Japan's growth slowed down from 1.8 percent to 1 percent, reflecting lower investment and household consumption.

Table 1.1: YoY change in quarterly growth

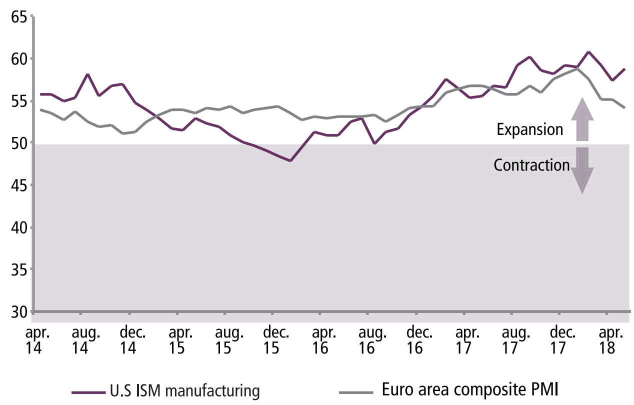
	2016			2017				2018
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Advanced economies								
United States	1.2	1.5	1.8	2.0	2.2	2.3	2.6	2.8
Euro area	1.8	1.7	2.0	2.1	2.4	2.7	2.8	2.5
France	1.1	0.9	1.2	1.4	2.3	2.7	2.8	2.2
Germany	1.9	1.9	1.9	2.1	2.3	2.7	2.9	2.3
Italy	0.8	0.9	1.0	1.3	1.6	1.7	1.6	1.4
Spain	3.4	3.2	3.0	3.0	3.1	3.1	3.1	3.0
United Kingdom	1.8	2.0	2.0	2.1	1.9	1.8	1.4	1.2
Japan	0.8	1.0	1.5	1.3	1.6	1.9	1.8	1.0
Emerging economies								
China	6.7	6.7	6.8	6.9	6.9	6.8	6.8	6.8
India	8.3	7.2	6.9	6.0	5.6	6.1	6.6	7.6
Brazil	-3.4	-2.7	-2.5	0.0	0.4	1.4	2.1	1.2
Turkey	5.8	7.5	4.8	4.9	-0.8	4.2	5.2	5.1
Russia	-0.4	-0.2	0.4	0.6	2.5	2.2	0.9	1.3

Source : Thomson Reuters Eikon.

Regarding the main emerging countries, growth stabilized at 6.8 percent in China in the first quarter of 2018. It also improved in India to 7.6 percent from 6.6 percent and to 1.3 percent from 0.9 percent in Russia. In contrast, growth in Brazil slowed down from 2.1 percent to 1.2 percent.

As to the high-frequency indicators, the Eurozone composite PMI index continued its decline since February, standing at 54.1 points in May from 55.1 points in the previous month. However, data from the U.S. manufacturing ISM indicate an improvement to 58.7 points from 57.3 points recorded in April.

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

In the United States, the unemployment rate fell to 3.8 percent in May 2018 from 3.9 percent in the previous month, its lowest level since 2001, with an increase in job creation to 223,000 positions in May, compared with 159,000 in April. In the euro area, this rate fell to 8.5 percent in April, its lowest level since December 2008. By country, it stabilized at 9.2 percent in France, fell to 3.4 percent in Germany and 15.9 percent in Spain, while it rose to 11.2 percent in Italy. In the United Kingdom, February data indicate a month-to-month stability of the unemployment rate at 4.1 percent.

Table 1.2: Change in unemployment rate (%)

	2016	2017	2018		
			march	april	may
United States	**4.9**	**4.4**	**4.1**	**3.9**	**3.8**
Euro area	**10.0**	**9.1**	**8.6**	**8.5**	**n.a**
France	10.1	9.4	9.2	9.2	n.a
Italy	11.7	11.2	11.1	11.2	n.a
Germany	4.1	3.8	3.5	3.4	n.a
Spain	19.6	17.2	16.1	15.9	n.a
United Kingdom	**4.8**	**4.4**	**n.a**	**n.a**	**n.a**

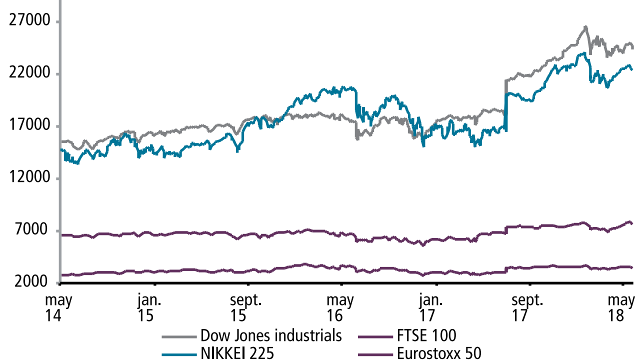
Source : Eurostat and BLS.

1.2 Monetary and financial conditions

In stock markets, despite the rise in geopolitical and commercial tensions, the advanced economies' main indexes were tilted to the upside between April and May. This trend is partly due to the publication of the minutes of the last Fed meeting, implying that an acceleration of inflation will not necessarily lead to a faster increase in the policy rate in the United States. Indeed, the Dow Jones industrials, Eurostoxx 50, FTSE 100 and NIKKEI 225 were up 1.2 percent, 2.7 percent, 5.6 percent and 3.3 percent, respectively. These trends were coupled with a decline in volatility in both the US and European markets. In emerging countries, the MSCI EM fell by 1.7 percent, reflecting particularly a 14.7 percent decrease in Turkey's index.

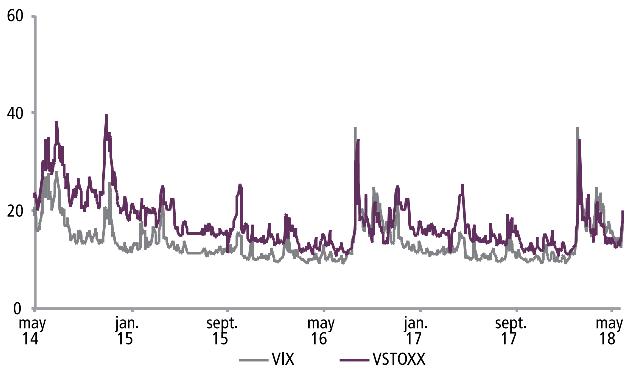
The renewed geopolitical and commercial tensions caused risk aversion to rise among investors and, therefore, a pullback towards safe havens, including mainly U.S. 10-year bonds. Their yields fell to 2.8 percent at end-May, after having reached their highest level since 2011 to 3.1 percent in the same month. On average, these yields stagnated at close to 3 percent between April and May. In the main European economies, the 10-year yields stabilized at 0.8 percent in France and 0.5 percent in Germany, while they moved up from 1.2 percent to 1.4 percent in Spain and from 1.8 percent to 2.1 percent in Italy, particularly owing to political difficulties facing both countries. In key emerging economies, 10-year sovereign yields rose between April and May from 7.5 percent to 7.8 percent in India, from 12.5 percent to 13.7 percent in Turkey and from 9 percent to 9.5 percent in Brazil, while they stagnated at 3.7 percent in China.

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



Source : Thomson Reuters Eikon.

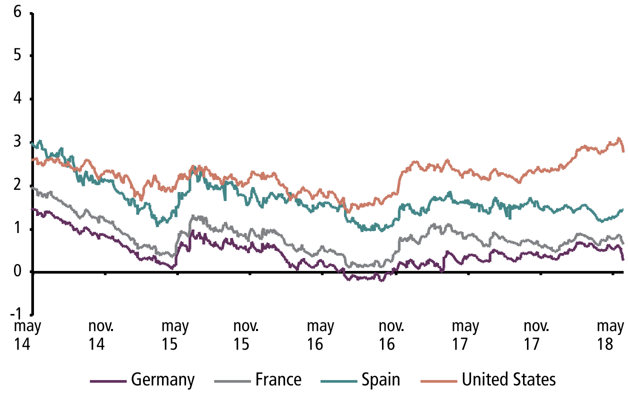
Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters Eikon.

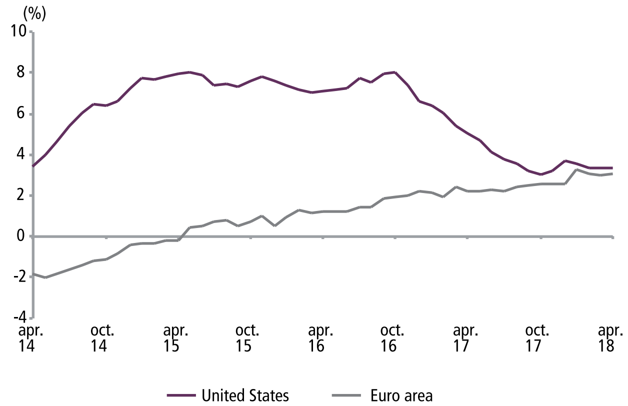
In the money markets, the 3-month Euribor remained unchanged at -0.3 percent and the same-maturity Libor at 2.3 percent. Meanwhile, annual bank lending growth slightly decelerated in the United States from 3.4 percent in March to 3.3 percent in April, while in the euro area, it accelerated from 3 percent to 3.1 percent over the same period.

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



Source: Thomson Reuters Eikon.

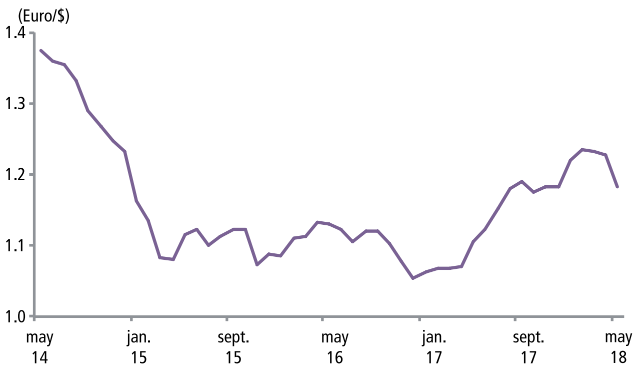
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

On the foreign exchange markets, risks caused by the political crisis in Italy and the adverse trends in certain economic indicators in the euro area weighed on changes in the euro, which depreciated between April and May by 3.7 percent against the dollar and 1.8 percent versus the Japanese yen. On the other hand, it appreciated slightly by 0.7 percent vis-à-vis the pound sterling. The main emerging countries' currencies depreciated against the dollar by 6.9 percent for the Brazilian real, 2.6 percent for the Indian rupee, 1 percent for the Chinese Yuan and 9.1 percent for the Turkish lira. It should be noted that the latter lost 20.1 percent of its value versus the dollar since the beginning of the year, suffering from the risk of overheating of its economy and fears of President Erdogan's interference in monetary policy. Under these conditions, the central bank of Turkey (CBRT) decided on May 23 to raise the overnight refinancing rate from 13.5 percent to 16.5 percent in order to stop the fall of the Turkish lira and to preserve price stability. This decision contributed to a 3.3 percent appreciation of the Turkish lira against the dollar between May 24 and May 30.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

Regarding other monetary policy decisions, the ECB decided on June 14 that the interest rate on the main refinancing operations, the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0 percent, 0.25 percent and -0.40 percent, respectively. It indicated that it expects these rates to remain at their present levels at least through the summer of 2019 and, in any case, for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path. As regards non-standard measures, it indicated that it will continue to make net purchases under the asset purchase program at the current monthly pace of €30 billion until the end of September 2018. It also anticipates that, after September 2018, subject to incoming data confirming its medium-term inflation outlook, the monthly pace of the net asset purchases will be reduced to €15 billion until the end of December 2018 and that net purchases will then end.

Following its meeting of 12-13 June and in view of realized and expected labor market conditions and inflation, the FED decided to raise the target range for the federal funds rate by one quarter percentage point to 1.75 percent-2 percent. It also reiterated that the stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to a 2 percent inflation. In addition, it indicated that it expects that further gradual increases in the target range for the federal funds rate will be consistent with a sustained expansion of economic activity, strong labor market conditions and inflation near 2 percent inflation objective over the medium term.

At its meeting on May 10, the Bank of England maintained its key rate unchanged at 0.5 percent and its stock of UK government bond purchases at £ 435 billion and that of sterling nonfinancial investment-grade corporate bond purchases at £ 10 billion.

In emerging countries, the Reserve Bank of India decided on June 6 to raise its policy rate by 25 basis points to 6.25 percent, a first increase for 4 years, due to the materialization of a major upside risk impacting the trajectory of inflation, namely the recent rise in oil prices which led to a sharp increase in the average oil price for the Indian consumer in April. It sees inflation as "early, strong and probably sustainable". The Central Bank of Brazil maintained its key interest rate on May 16 at 6.5 percent, while underlining that the latest economic indicators show a slowdown in the Brazilian economy and that the global economic context has become more complex and volatile. In the same vein, the Central Bank of Russia decided on June 15 to keep its key rate unchanged at 7.25 percent, stating that the rise in VAT could affect the consumer price momentum this year and will influence that of the next year.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

Boosted by the heightened geopolitical tensions, worries about a more pronounced decline in the Venezuelan production and the contraction of stocks in the United States, the Brent price rose 7 percent to $76.65 in May and brought its annual change up to 50.7 percent. At half-month, it peaked at $80, but has since lost momentum due to speculation around a downward revision of the supply reduction quota under the OPEC /non-OPEC agreement[1] .

Conversely, the natural gas price on the European market fell by 7.9 percent to 7.19 dollars per mBTU[2], due to a warmer climate, but rose by 34.4 percent, year on year.

Chart 1.7 : Brent prices in dollars

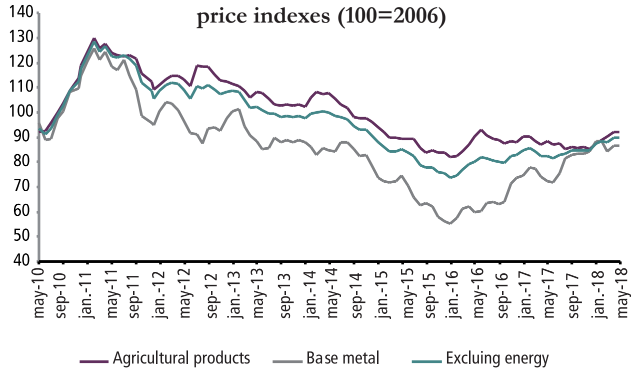
Source : World Bank.

1.3.2 Non-energy commodity prices

Non-energy commodity prices were up 8.8 percent year on year in May, reflecting increases of 20.1 percent for base metal and mining prices and 4.2 percent for agricultural commodities.

1 OPEC's regular meeting is scheduled for June 22, 2018 in Vienna.
2 mBTU: million British Thermal Unit.

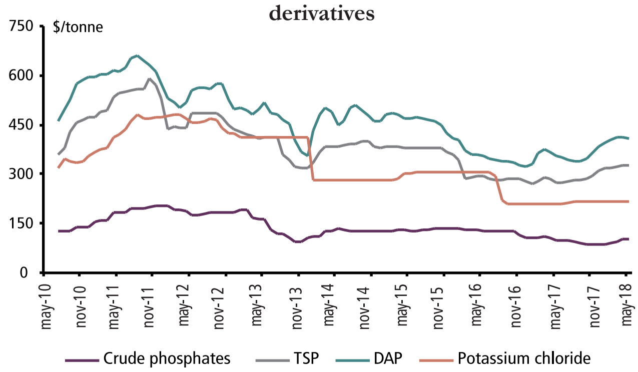
Chart 1.8: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

On the international market for phosphate and fertilizers, prices of TSP edged up 0.3 percent to $326 in May, while those of DAP and urea fell 1 percent to $407 and 2.8 percent to $217.7 dollars, respectively. Crude phosphate prices remained stable at $103 and the potassium chloride prices at $216. On an annual basis, data show a general price increase of 18.5 percent for TSP, 14.3 percent for DAP, 19.2 percent for urea, 3.3 percent for potassium chloride and 3 percent for crude phosphate.

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



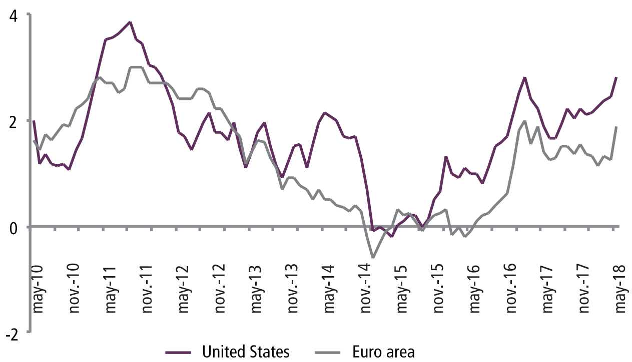
Source: World Bank.

1.3.3 Inflation in the world

According to Eurostat, inflation in the euro area accelerated to 1.9 percent in May from 1.3 percent, due to rising services costs and energy prices.

By country, it rose from 1.4 percent to 2.2 percent in Germany, from 1.8 percent to 2.3 percent in France, from 1.1 percent to 2.1 percent in Spain and from 0.6 percent to 1 percent in Italy. In the United States, inflation has been rising since the beginning of the year, reaching 2.8 percent, while in the United Kingdom it remained unchanged at 2.4 percent. In Japan, the latest data are those of April and show a drop in the inflation rate to 0.6 percent. In emerging economies, inflation stagnated at 1.8 percent in China and 2.4 percent in Russia, while it moved up to 4.9 percent in India and 2.9 percent in Brazil.

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	2018		
			march	april	may
United States	**1.3**	**2.1**	**2.4**	**2.5**	**2.8**
Euro area	**0.2**	**1.5**	**1.3**	**1.3**	**1.9**
Germany	0.4	1.7	1.5	1.4	2.2
France	0.3	1.2	1.7	1.8	2.3
Spain	-0.2	2.0	1.3	1.1	2.1
Italy	-0.1	1.3	0.9	0.6	1.0
United Kingdom	**0.7**	**2.7**	**2.5**	**2.4**	**2.4**
Japan	**-0.1**	**0.5**	**1.1**	**0.6**	**n.a**

Source : Thomson Reuters Eikon and IMF.

2. EXTERNAL ACCOUNTS

At end-March 2018, the trade deficit stood at 49 billion dirhams, widening by 5 billion compared to the same period of the previous year. Imports increased by 9.3 billion, driven by an increase in capital goods acquisitions, and exports grew by 4.3 billion, primarily as a result of improved sales in the automotive industry. The import coverage ratio thus dropped to 58.3 percent from 59.3 percent at the end of March 2017.

For the other main components of the current account, travel receipts continued their momentum with an increase of 19.8 percent and the growth of remittances from Moroccan expatriates accelerated by 13.4 percent. As for the main financial transactions, the net FDI inflow fell by 10.8 percent, reflecting an increase in disposal of investment greater than inflows. At the same time, the net flow of Moroccan investments abroad also increased by 26.7 percent. Under these conditions and taking into account other items of the balance of payments, net international reserves amounted to 231.4 billion dirhams, equaling 5 months and 14 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

Exports grew by 6.7 percent, following a continued momentum in the automotive and aeronautics sector, as their sales rose by 15.4 percent and 17.8 percent, respectively. However, exports of phosphates and derivatives decreased by 7.3 percent to 9.6 billion dirhams, mainly due to decreases of 11.7 percent in shipped quantities of natural and chemical fertilizers and 13.4 percent in those of phosphoric acid.

Table 2.1: Change in exports

Sectors/ Segments	march 2018	march 2017	Change (in millions of Dh)	
			Value	In %
Exports	**68 461**	**64 192**	**4 269**	**6.7**
Phosphates and derivatives	9 554	10 306	-752	-7.3
Automobile	17 100	14 808	2 292	15.5
Agriculture and Agribusiness	17 492	16 964	528	3.1
Textile and leather	9 499	9 278	221	2.4
Aeronautics	2 974	2 525	449	17.8
Electronics	2 460	2 441	19	0.8
Pharmaceutics	310	284	26	9.2
Others	9 072	7 586	1 486	19.6

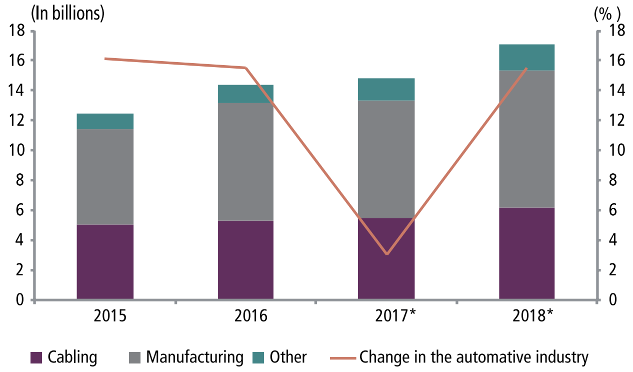
Source: Foreign Exchange Office.

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

	march 2018/march 2017		
	Value	Quantity	Price
Crude phosphates	-10.2	8.7	-17.4
Natural and chemical fertilizers	-9.0	-11.7	3.0
Phosphoric acid	-1.2	-13.4	14.1

Source: Foreign Exchange Office.

Chart 2.1: Breakdown of automotive industry's exports



* Preliminary data

Source: Foreign Exchange Office.

2.1.2 Imports

Imports grew by 8.6 percent, covering mainly a 13.1 percent growth to 30.6 billion in capital goods purchases and a 7.9 percent increase to 25.7 billion in consumer goods purchases. Similarly, the energy bill rose by 5.8 percent to 18.4 billion, reflecting increases of 45.8 percent for coal, coke and fuels and 3.9 percent for gas oils and fuel oils, while wheat imports grew by 29.3 percent to 3.3 billion.

In total, the trade deficit amounted to 49 billion dirhams, widening by 11.4 percent year on year, and the import coverage ratio fell from 59.3 percent to 58.3 percent.

Table 2.3 : Change in imports

Products group	march 2018	march 2017	Change	
			Value (in millions of Dh)	In %
Imports (CIF)	**117 497**	**108 214**	**9 283**	**8.6**
Energy products	18 368	17 367	1 001	5.8
Equipment goods	30 635	27 088	3 547	13.1
Raw products	5 921	4 756	1 165	24.5
Finished consumer goods	25 738	23 850	1 888	7.9
Semi- finished products	24 254	24 143	111	0.5
Food products	12 537	10 963	1 574	14.4

Source: Foreign Exchange Office.

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

	march 2018/march 2017		
	Value	Quantity	Price
Wheat	29.3	39.5	-7.3
Gas oils and fuel oils	3.9	-6.0	10.5
Petroleum gaz and other fuel	-3.8	0.2	-4.0
Crude and unrefined sulfur	-32.8	-1.3	-31.9

Source: Foreign Exchange Office.

2.2 Other components of the current account

In terms of the balance of services, travel receipts rose by 19.8 percent to 15.1 billion dirhams and relevant expenditure increased by 4.5 percent to 3.8 billion. As to transport services, revenues almost stagnated at 6.9 billion and expenditure moved up 2.6 percent to 9 billion. Overall, the balance of services posted a surplus of 1.2 billion dirhams, up 8.9 percent.

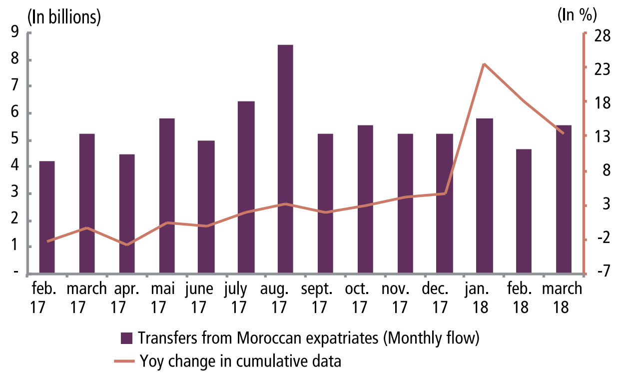
Regarding the current account balance, expatriate revenues reached 16 billion dirhams, representing a significant increase of 13.4 percent.

Table 2.5: Change in the balance of services

(In millions of dirhams)	march 2018	march 2017	Change	
			Value	In %
Importations	**23 124**	**22 174**	**950**	**4.3**
Service de transport	8 959	8 732	227	2.6
Voyages	3 829	3 664	165	4.5
Exportations	**37 792**	**35 642**	**2 150**	**6.0**
Service de transport	6 852	6 844	8	0.1
Voyages	15 141	12 634	2 507	19.8
Solde	**14 668**	**13 468**	**1 200**	**8.9**

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 decreased by 613 million to 5 billion dirhams, reflecting an increase of 985 million in the disposal of investments, greater than that of 372 million in receipts. The net flow of investments of Moroccans abroad grew by 372 million dirhams.

Preliminary data at end-April 2018 indicate a further widening of the trade deficit to 66.3 billion, reflecting an increase of 14 billion or 9.6 percent of imports and 6.7 billion or 7.7 percent of exports. Indeed, the latter continued their dynamic with an increase of 20.6 percent for the automotive industry and 22 percent for aeronautics. At the same time, capital goods purchases were up 15.1 percent and the energy bill rose by 9 percent. In addition, travel receipts and transfers from Moroccan expatriates grew by 18.2 percent and 12.9 percent, respectively. The net flow of FDI fell by 18.6 percent to 6.6 billion.

Overall, given changes in other headings of the balance of payments, net international reserves amounted to 229.4 billion dirhams at end-April, equaling 5 months and 13 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

During the first quarter of 2018, monetary conditions eased, reflecting both the depreciation of the real effective exchange rate and the decrease in lending rates. The growth of lending to the nonfinancial sector decelerated, reflecting slower loans to private corporations. As to other counterparts of the money supply, net claims on the central government continued to rise since the beginning of 2017 and net international reserves fell less sharply than in the previous quarter. Overall, the money supply growth slowed down to 5.1 percent from 5.7 percent a quarter earlier.

On the asset markets, the Real Estate Price Index almost stabilized in the first quarter of 2018, after declining 0.5 percent a quarter earlier. This trend covers slight increases for residential prices and commercial property ones as well as a price decline for urban land. At the same time, transactions declined by 2.3 percent, particularly reflecting lower sales of residential assets and urban land. In the stock market, the MASI was up 5.4 percent in the first quarter. Meanwhile, transactions amounted to 11.9 billion dirhams, down 16.2 percent compared to the same quarter of 2017.

3.1 Monetary conditions

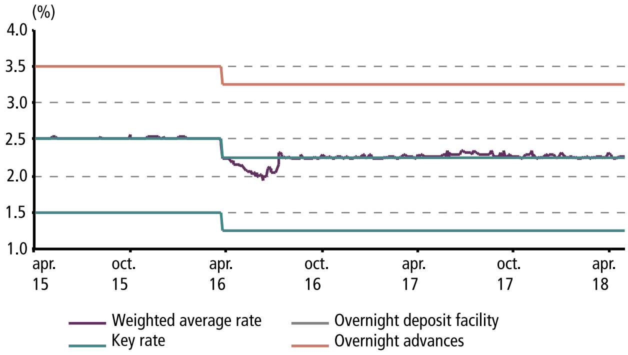
3.1.1 Bank liquidity and interest rates

In the first quarter of 2018, banks' liquidity needs eased slightly to 46.8 billion dirhams on average, due to higher foreign exchange reserves. Indeed, Bank Al-Maghrib reduced the amount of its injections to 47 billion, of which 43.6 billion as 7-day advances and 3.4 billion as secured loans granted under the program to support financing of VSMEs.

The latest data available for April and May 2018 indicate that liquidity deficit widened to 56.8 billion on average.

In the Treasury bill market, yields did not change significantly, both in the primary and secondary markets.

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

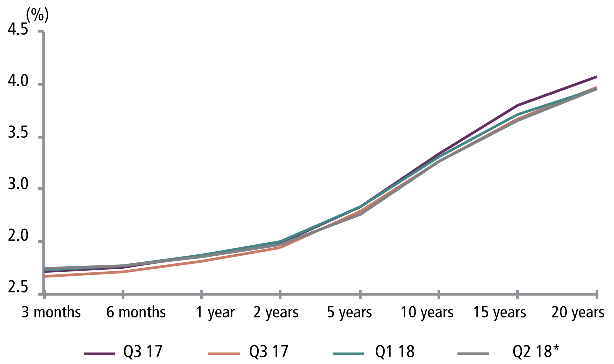


Source : BAM.

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

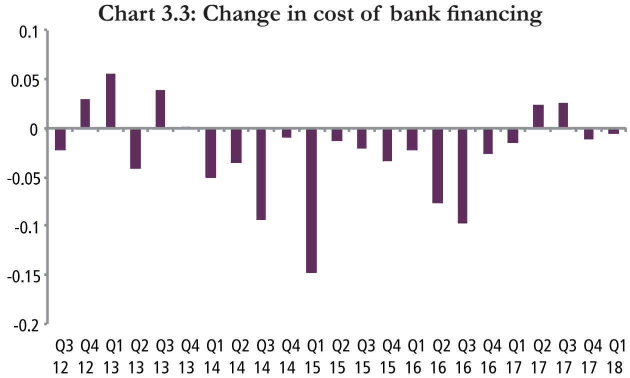
	2016			2017				2018	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4.	Q1	apr.
52 weeks	1.93	2.33	2.30	2.32	2.26	2.36	2.29	2.35	2.31
2 years	2.05	2.48	2.44	2.52	2.41	2.49	2.44	2.53	2.45
5 years	2.30	2.71	2.69	2.83	2.78	2.83	2.77	2.81	2.75
10 years	2.87	3.22	3.08	3.27	3.27	3.32	3.28	3.27	3.22
15 years	3.22	-	-	3.87	3.87	3.87	3.71	3.68	-

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



In the other markets, the issuance rates of the certificates of deposit remained almost stable during the first three months of 2018. Deposit rates remained almost unchanged at 2.79 percent for 6-month deposits and 3.10 percent for one-year deposits. Against this backdrop, banks' cost of financing[1] remained virtually stable in the first quarter of 2018.

Chart 3.3: Change in cost of bank financing



Regarding lending rates, Bank Al-Maghrib's survey for the first quarter of 2018 shows a decrease of 15 basis point in the overall average rate to 5.62 percent. This change reflects a drop of 19 basis points in rates on loans to businesses, with particularly declines of 150 points for real estate loans and 22 points for cash advances. Similarly, rates on loans to individuals fell by 7 basis points, owing to the 13-point decline in rates on housing loans.

Table 3.2 : Change in lending rates

	2016			2017				2018
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Overall rate	**5.25**	**5.08**	**5.17**	**5.48**	**5.26**	**5.60**	**5.77**	**5.62**
Personal loans	**5.72**	**5.78**	**5.71**	**5.88**	**5.76**	**5.69**	**5.92**	**5.85**
Real estate loans	4.96	4.94	4.83	4.88	4.75	4.68	4.94	4.81
Consumer loans	6.63	6.64	6.64	6.71	6.67	6.60	6.56	6.59
Enterprises	**5.15**	**4.98**	**5.08**	**5.41**	**5.17**	**5.56**	**5.76**	**5.57**
Cash advances	5.11	4.94	5.19	5.44	5.19	5.65	5.81	5.59
Equipment loans	4.94	4.87	4.40	4.76	4.87	5.09	5.30	5.27
Real estate loans	6.10	5.73	5.69	5.86	5.78	5.82	6.95	5.45
Individual entrepreneurs	**7.54**	**6.89**	**7.44**	**8.08**	**7.82**	**8.14**	**5.57**	**6.02**

Source : BAM.

Table 3.3: Deposit rates

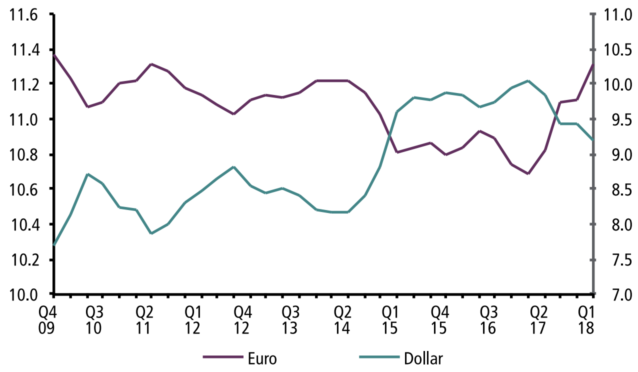
	2016			2016			2017				2018
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
6 months	3.56	3.46	3.31	3.18	2.94	2.9	2.86	2.8	2.81	2.8	2.79
12 months	3.74	3.78	3.67	3.55	3.33	3.3	3.2	3.1	3.09	3.1	3.1

3.1.2 Exchange rate

In the first quarter of 2018, the euro appreciated by 4.4 percent against the US dollar. Against this backdrop, the national currency depreciated by 1.8 percent versus the euro and appreciated by 2.5 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham appreciated by 2.8 percent against the Turkish lira and by 2.4 percent vis-à-vis the Brazilian real, while it depreciated by 1.5 percent against the Chinese yuan. As a result, the effective exchange rate depreciated by 0.9 percent in nominal terms and by 0.8 percent in real terms.

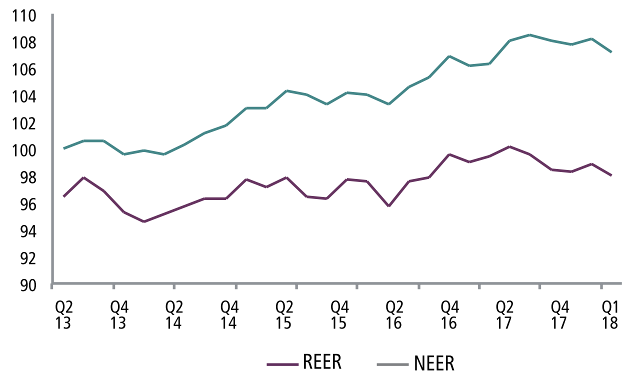
1 The cost of financing is the weighted average of the costs of banks' liabilities.

Chart 3.4: Change in the exchange rate of the dirham



Source : BAM.

Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Sources : BAM calculations.

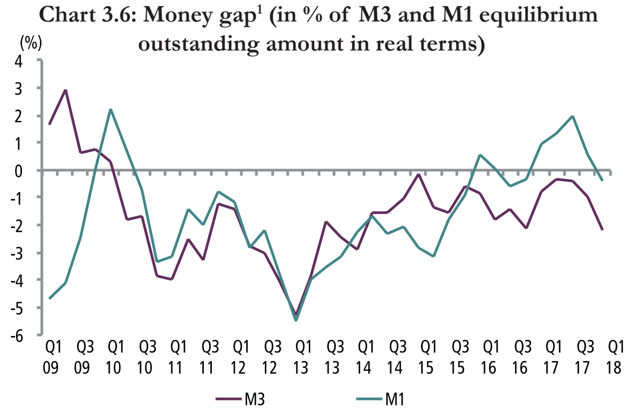
In the foreign exchange market, banks' volume of spot operations in the first quarter declined by 18.1 percent for sales to 19.3 billion dirhams and 13.2 percent for purchases to 20.5 billion. However, forward transactions recorded increases of 23.2 percent for sales to 3.5 billion and 5.6 percent for purchases to 10.8 billion. As to banks' operations with Bank Al-Maghrib, purchases averaged 2.4 billion dirhams, from 372 million a quarter before. Under these conditions, the banks' net foreign exchange position stood at 6.1 billion at end-March 2018, from 2.7 billion at end-December 2017.

3.1.3 Monetary position

The M3 aggregate growth slowed down from 5.7 percent in the fourth quarter of 2017 to 5.1 percent in the first quarter of 2018. Analysis of money supply components shows a deceleration from 7.4 percent to 7.2 percent in demand deposits, mainly reflecting a slowdown from 20.1 percent to 4.3 percent for those of the public sector and from 6 percent to 5.1 percent for those of the private companies. In contrast, the annual growth of household demand deposits accelerated from 6.9 percent to 8.2 percent from one quarter to the next. For the other monetary components, money market fund shares/units declined 6.4 percent in the first quarter, after a 4.6 percent rise in the previous quarter, while currency in circulation grew faster from 7.3 percent to 7.9 percent, quarter on quarter. Similarly, time deposits posted a slow fall from 7 percent to 1.4 percent, reflecting less pronounced decreases than those observed in the fourth quarter for the holdings of all nonfinancial sectors.

By main counterparts, the change in M3 reflects an acceleration from 12.4 percent to 13.4 percent of net claims on the central government, a slow fall from 5 percent to 4.6 percent in net international reserves and a deceleration from 4.4 percent to 3.4 percent in bank credit.

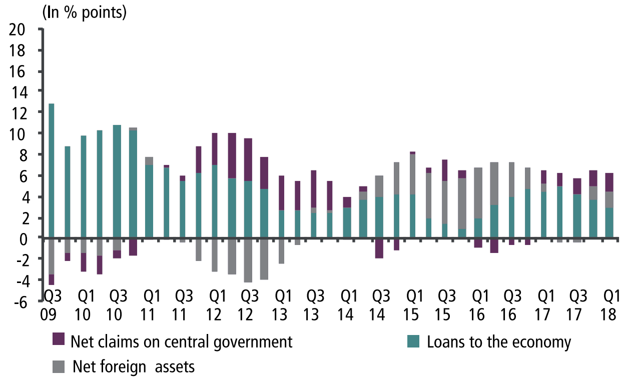
Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



1:The money gap, calculated in real terms, is the difference between the recorded money stock and the equilibrium level. The latter, defined based on the quantity equation of money, corresponds to the growth of the potential economic activity in real terms, minus the average pace of decrease in the velocity of currency in circulation.

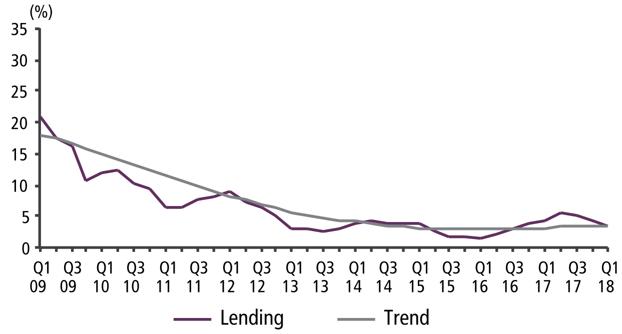
Source : BAM.

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



Source : BAM.

Chart 3.8: YoY change in credit



Source : BAM.

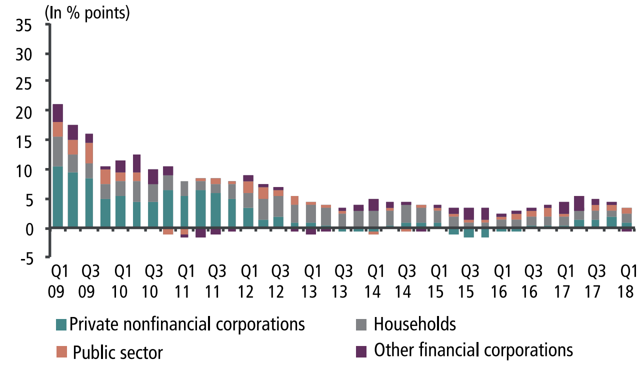
The growth of credit to the nonfinancial sector moved down from 4.8 percent to 4.1 percent, reflecting a slower growth in loans to private companies. The latter rose 2.2 percent compared to 4.3 percent in the fourth quarter, in conjunction with a 2.3 percent decline in cash advances after a rise of 0.2 percent and a decrease from 9.4 percent to 1.3 percent in the growth of loans to real estate development. In contrast, equipment loans grew faster from 5.6 percent to 7.1 percent. The growth of lending to state-owned enterprises moved up from 11.9 percent to 16.1 percent, covering a slow decline from 42.4 percent to 14.9 percent in cash advances and a slower growth from 34.1 percent to 25.1 percent in equipment loans.

Loans granted to individual entrepreneurs grew by 3.4 percent, as against 2.2 percent. This acceleration is attributed to increases of 6 percent for cash advances and 3.1 percent for loans to real estate development, after respective decreases of 2.9 percent and 21.2 percent. On the other hand, equipment loans slowed down from 11.4 percent to 3.9 percent.

By branch of activity, the quarterly data at end-March 2017 show decelerations from 14 percent to 10 percent in credit allocated to the transport and communication sector and from 9.7 percent to 6.8 percent in loans accorded to "food and tobacco industries". Conversely, the growth of lending to the building and public works sector accelerated from 2.2 percent to 5.6 percent. In the same vein, loans to "the agriculture and fishing branch" and "metallurgical, mechanical, electrical and electronic industries" grew by 4.5 percent and 3.2 percent, respectively, as opposed to decreases of 3.5 percent and 5.1 percent.

The growth of loans to individuals moved up from 4.4 percent to 4.7 percent in the first quarter, reflecting faster growth in consumer loans from 4.7 percent to 5.2 percent, while that of housing loans stabilized at 4.2 percent.

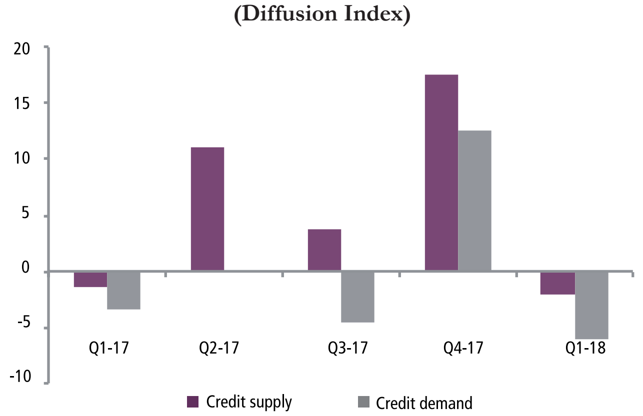
Chart 3.9: Institutional sectors' contribution to YoY change in credit



Nonperforming loans (NPLs) posted an increase of 3.3 percent from 2.7 percent one quarter earlier and their ratio to bank lending moved up from 7.6 percent to 7.8 percent. NPLs of private nonfinancial enterprises grew 2.8 percent after a 0.4 percent decline, while the growth of NPLs of households fell from 10.3 percent to 4.7 percent.

The lending conditions survey of the first quarter of 2018 indicates that supply conditions remained broadly unchanged for both businesses and individuals across all loan categories. Demand would have dropped quarter on quarter for businesses and would have remained stable for individuals.

Chart 3.10: Change in supply and demand (Diffusion Index)

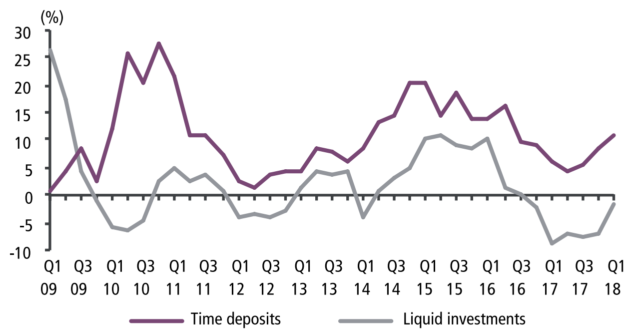


Loans granted by nonbank financial corporations to the nonfinancial sector grew 4.7 percent at end-March 2018 compared to 6.5 percent at end-December 2017. This trend covers a deceleration from 5 percent to 4.3 percent in loans distributed by finance companies and an increase of 1.8 percent in those granted by offshore banks, after a decrease of 4.8 percent.

The latest data available for April 2018 indicate that the bank credit growth slowed down to 2.6 percent. The growth of loans to the nonfinancial sector stabilized at 4.1 percent, covering an acceleration of loans to public enterprises, a slight slowdown in those accorded to private enterprises and a virtual stagnation in those granted to households.

Liquid investment aggregates grew by 11.1 percent from 8.7 percent, owing to faster growth from 13.9 percent to 23.1 percent in bond UCITS and from 1.6 percent to 2.2 percent in Treasury bills. However, equity and diversified UCITS registered a slowdown from 44.2 percent to 28.3 percent.

Chart 3.11: YoY change in liquid investments and time deposits



3.2 Asset prices

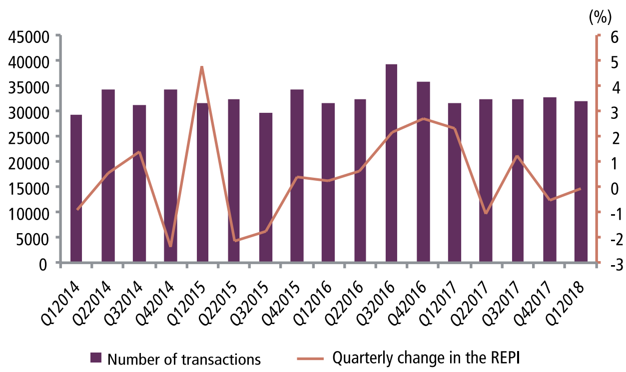
3.2.1 Real estate assets

In the first quarter of 2018, the real estate asset price index almost stabilized, covering slight increases of 0.2 percent for residential property and 0.1 percent for commercial property, as well as a decline of 1.1 percent for urban land.

Meanwhile, the number of transactions posted a quarterly decrease of 2.3 percent, which affected residential assets with 3.3 percent and urban land with 4.9 percent, while commercial property sales grew by 13.8 percent.

In the main cities, prices grew by 2 percent in Agadir and 1.6 percent in Tangier, while they recorded decreases of 6.6 percent in Marrakech and 2 percent in El Jadida. As for transactions, the decline in sales was particularly registered in Casablanca with a rate of 13.1 percent, in Marrakech with 39.9 percent and in Oujda with 7.8 percent.

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



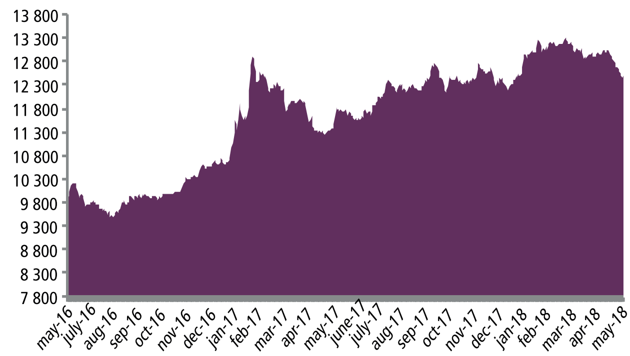
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

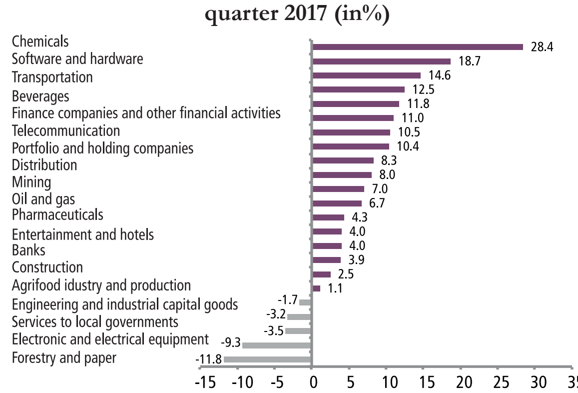
At the end of the first quarter of 2018, the MASI posted a performance of 5.4 percent, after that of 6.4 percent throughout the previous year. The increase involved most sector indexes, with particularly increases of 11 percent for "telecommunications", 4 percent for "banks" and 3.9 percent for "buildings and construction materials". On the other hand, the real estate sector index fell by 9.3 percent.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

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



Source : Casablanca Stock Exchange.

The volume of transactions stood at 11.9 billion dirhams in the first quarter of the year, compared with 14.2 billion dirhams in the same period last year. More than three quarters of the transactions were conducted through the central market, which is an average monthly volume of 3 billion, as against 4.2 billion a year earlier. Transactions on the block market amounted to 2.4 billion dirhams.

Under these conditions, the market capitalization stood at 660.6 billion at the end of March 2018, up 5.4 percent since the beginning of the year.

According to the latest available data[2], the MASI recorded consecutive declines of 0.3 percent and 4.9 percent during the first two months of the second

2 Data as at May 30, 2018.

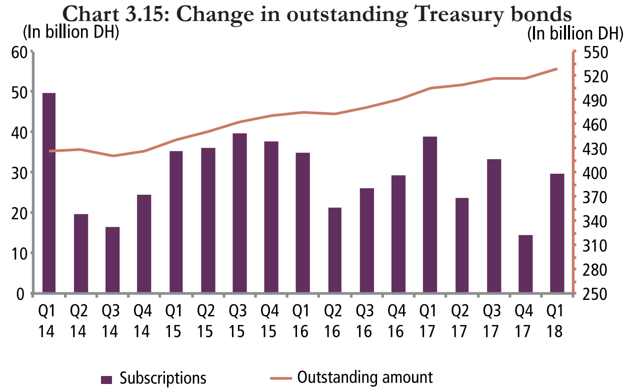
quarter, representing almost no annual performance at the end of May. The average monthly volume of transactions in the central market also fell to 2.2 billion. Market capitalization stood at 631.2 billion at the end of May, up 0.7 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

Treasury issues in the domestic market amounted to 29.9 billion dirhams, up 15.3 billion quarter on quarter. A rate of 61 percent of them concerned medium-term maturities, while 25 percent focused on short-term ones, and were performed at virtually stagnant rates.

The latest available data for April indicate that Treasury issues reached 6.8 billion dirhams and 64 percent of them concerned medium-term maturities. Taking into account repayments of 6.9 billion, outstanding Treasury bills stood at 528.3 billion, up 2.2 percent compared to end-December.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

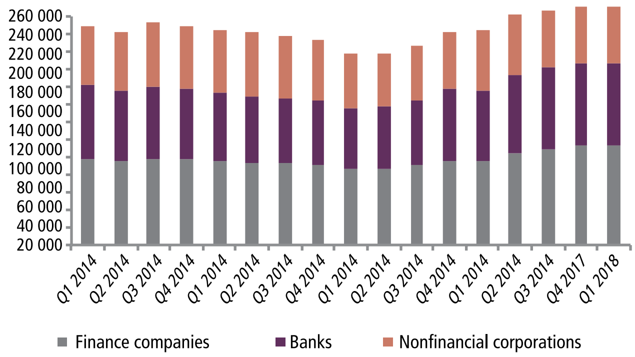
3.2.2.3 Private debt market

In the private debt market, issues stood at 12.8 billion dirhams, as against 20.9 billion in the previous quarter and 68.5 percent of the them were performed by banks, as certificates of deposits.

Issues of nonfinancial businesses were limited to 2.4 billion dirhams, of which 2 billion as bonds and the rest as commercial papers.

Emissions in April amounted to 2.9 billion dirhams. Taking into account repayments, the outstanding amount of private debt stood at 175.9 billion, down 1 percent compared to December 2017.

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

In the first quarter of 2018, subscriptions to mutual fund shares/units recorded a quarterly increase of 9.6 percent to 225.5 billion, covering a significant increase for medium and long-term bond UCITS and to a lesser extent contractual ones, as well as a decline for all other categories.

Taking into account a redemption amount of 211.6 billion and a quarterly performance of 2.8 percent, UCITS recorded a net inflow of 13.9 billion and their net assets amounted to 434.5 billion at-end March, up 16 percent, year on year.

4. FISCAL POLICY STANCE

Budget execution in the first four months of 2018 shows a deficit of 14.2 billion, widening by 1.4 billion from the same period in 2017, partly due to a decline of 3.4 billion in the positive balance of the Treasury special accounts. Current revenue grew by 1.1 percent, mainly due to improved tax and non-tax receipts. Indeed, indirect tax revenues were up 6.4 percent, mainly due to the rising proceeds from import VAT. Direct tax receipts dropped by 7.2 percent, in conjunction with the decline in corporate tax proceeds. At the same time, overall expenditure eased by 1.1 percent, driven by the decrease in some current expenses and investment spending. Meanwhile, payroll and transfers to local governments increased.

Given a 215 million cut in payment arrears, the cash deficit stood at 14.4 billion, virtually stable compared to the same period of 2017. This need and the negative external net flow of 3.4 billion were covered by domestic resources amounting to 17.8 billion. Indeed, direct public debt would have increased by 1.9 percent compared to its level of December 2017. The Treasury's financing conditions on the auction market are favorable, as the weighted average rates were broadly lower from January to April 2018 compared to the same period of 2017.

4.1 Current revenues

In the first four months of 2018, current revenues improved by 1.1 percent compared to the same period in 2017 to 83.3 billion. Their change reflects increases of 0.8 percent in tax receipts to 79.3 billion, executed at 33.4 percent, and 9.7 percent in non-tax revenues to 3.4 billion.

Direct tax revenues fell 7.2 percent to 31.2 billion, due to a 15.2 percent decline in corporate tax proceeds to 15.9 billion and a 2.3 percent increase in revenue from income tax (IT) to 14.7 billion. The change in corporate tax proceeds is largely attributed to the year-on-year decline in the adjustment installment under the tax paid in the previous year. IT receipts cover a 6.3 percent increase to 2.8 billion in revenue from IT on salaries paid by the Personnel Expenditure Department and a 0.5 percent decrease to 1.4 billion in IT proceeds from real estate profits.

Indirect taxes improved by 6.4 percent to 37.6 billion dirhams, covering increases of 6.9 percent in VAT receipts to 28.9 billion and 4.7 percent in domestic consumption tax (DCT) to 8.7 billion. Domestic VAT revenues grew by 3.6 percent to 10.9 billion and takes account of the refund of VAT credits amounting to 2.3 billion, as against 2 billion at end-April 2017. Similarly, import VAT receipts improved by 9.1 percent to 18 billion, reflecting increases of 9 percent in VAT on energy products and 9.7 percent on other products.

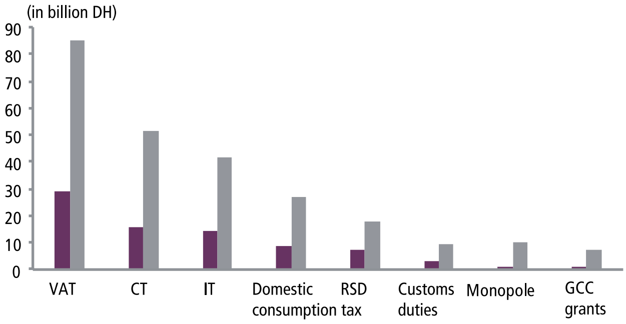
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan.-apr. 2017	Jan.-apr. 2018	Change in %	FA 2018	Achievements against the FA (%)
Current revenues	**82.4**	**83.3**	**1.1**	**262.4**	**31.7**
Tax revenues	**78.7**	**79.3**	**0.8**	**237.0**	**33.4**
- Direct taxes	33.7	31.2	-7.2	97.1	32.2
Including CT	18.7	15.9	-15.2	51.2	31.0
I.T	14.3	14.7	2.3	41.7	35.2
- Indirect taxes	35.3	37.6	6.4	112.7	33.3
VAT*	27.0	28.9	6.9	85.5	33.8
DCT	8.3	8.7	4.7	27.3	32.0
- Customs duties	2.9	3.4	17.3	9.7	35.6
- Registration and stamp duties	6.7	7.0	3.7	17.5	39.9
Nontax revenues*	**3.1**	**3.4**	**9.7**	**22.1**	**15.2**
- Monopoles	0.8	1.2	51.8	9.8	12.5
- Other receipts	2.3	2.1	-5.3	12.3	17.4
Including GCC grants	0.3	0.1	-57.8	7.0	2.1
Recettes des CST	**0.7**	**0.7**	**-1.9**	**3.3**	**20.2**

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

DCT drained a total of 8.7 billion, up 4.7 percent, following increases of 8.1 percent in DCT on tobacco to 3.3 billion and 3.2 percent in DCT on energy products to 4.9 billion. Similarly, customs duties as well as registration and stamp fees grew by 17.3 percent and 3.7 percent, respectively, compared to the same period in 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 stood at 3.4 billion, up 9.7 percent, marked by an increase of 809 million in monopoly revenues to 1.2 billion, coming mainly from the National Land Registry and Mapping Agency at 500 million and Bank Al-Maghrib at 272 million. Donations from the GCC countries stood at 147 million at end-April 2018, as against 348 million a year earlier.

4.2 Public expenditure

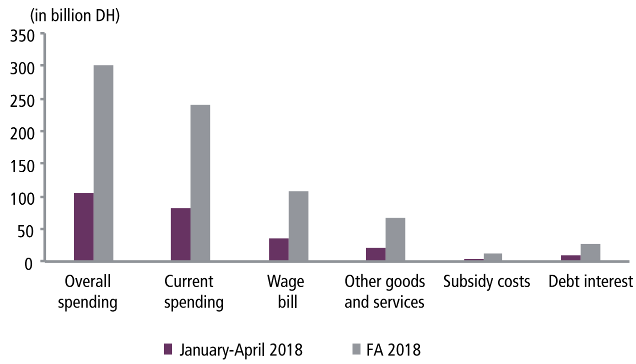
Overall expenditure decreased by 1.1 percent to 104.7 billion, covering a 0.6 percent drop to 81.8 billion in current expenses and a 2.7 percent decline to 22.9 billion in investment spending. Operating expenses rose 0.8 percent to 57.3 billion, covering a 2.2 percent increase to 36.1 billion in payroll and a 1.6 percent decrease to 21.3 billion in spending on other goods and services. The latter takes particularly account of declines of 6.6 percent to 7.1 billion in transfers to public institutions and 0.9 percent to 4.4 billion in those to the Moroccan Pension Fund, while payments to the Treasury special accounts grew by 3.6 percent to 923 million dirhams. Change in the payroll covers increases of 133.9 percent in back pays and 0.5 percent in structural payroll.

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

	Jan.-apr. 2017	Jan.-apr. 2018	Change in %	FA 2018	Achievements against the FA (%)
Dépenses globales	**105.8**	**104.7**	**-1.1**	**301.7**	**34.7**
Dépenses ordinaires	**82.4**	**81.8**	**-0.6**	**241.5**	**33.9**
Biens et services	56.9	57.3	0.8	175.0	32.8
Personnel	35.3	36.1	2.2	108.9	33.2
Autres biens et services	21.6	21.3	-1.6	66.1	32.1
Intérêts de la dette	11.5	10.6	-7.4	27.1	39.2
Compensation	5.9	5.2	-11.7	13.7	38.0
Transferts aux CT	8.1	8.7	6.9	25.6	33.8
Investissement	**23.5**	**22.9**	**-2.7**	**60.3**	**37.9**

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

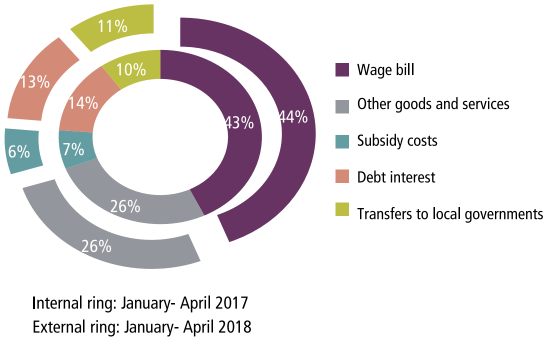
Chart 4.2: spending execution compared to the FA



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

Debt interest charges eased by 7.4 percent to 10.6 billion, covering an 8.6 percent decrease to 9.9 billion in interest on domestic debt and a 13 percent increase to 686 million in interest on external debt.

Chart 4.3: Structure of current spending

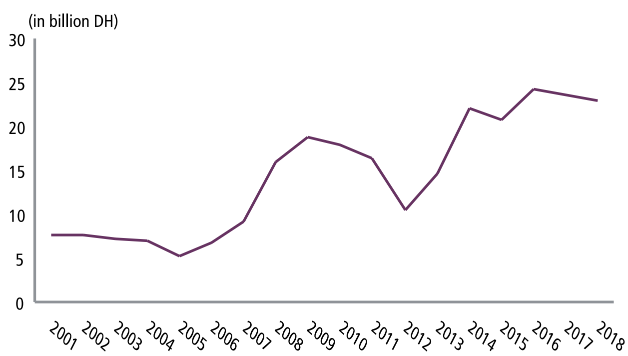


Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Subsidy costs amounted to 5.2 billion, down 11.7 percent compared to end-April 2017. According to data available from the Subsidy Fund, butane gas subsidies in the first quarter of 2018 stood at 2.7 billion, down 4.8 percent, while sugar subsidies amounted to 824 million, as against 826 million a year earlier.

Executed at 37.9 percent of the finance law forecast, investment spending fell by 2.7 percent to 22.9 billion, following decreases of 5.6 percent in common expenses to 10.9 billion and 3.9 percent in expenditure of ministries to 11.6 billion.

Chart 4.4: Investment spending, January to April total

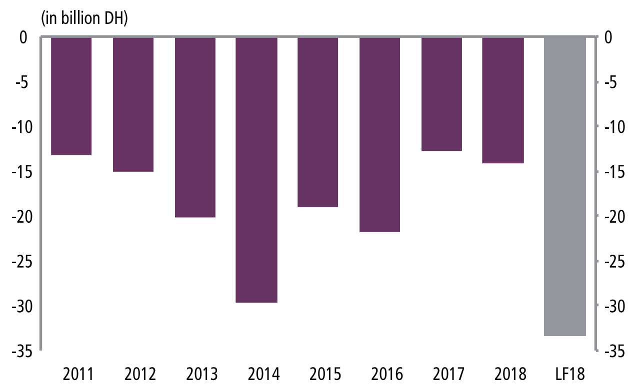


Source : Ministry of Economy and Finance (TEFD).

4.3 Treasury deficit and financing

Considering a positive balance of 7.2 billion in the Treasury special accounts, down 3.4 billion compared to end-April 2017, budget execution resulted in a deficit of 14.2 billion, widening by 1.4 billion. In addition, the Treasury reduced its stock of payment arrears by 215 million, as against 1.6 billion a year earlier. The cash deficit thus stood at 14.4 billion, almost stable from one year to the next.

Chart 4.5: Fiscal balance, January to April total



Source : Ministry of Economy and Finance (TEFD).

The negative external financing flow of 3.4 billion and the financing needs were covered by domestic resources amounting to 17.8 billion dirhams, up 1.3 billion.

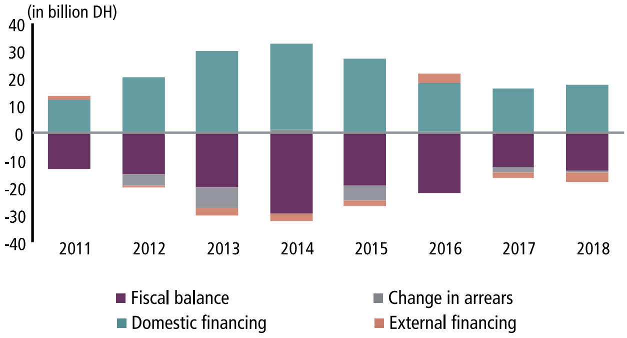
Table 4.3: Absolute gap FA (in billions of dirhams)

	Jan.-apr. 2017	Jan.-apr. 2018	FA 2018	Absolute gap FA/ Jan.-apr. 2018
Current balance	**0.1**	**1.5**	**21.0**	**19.5**
Balance of TSA	10.6	7.2	6.0	-1.2
Primary balance	-1.3	-3.6	-6.2	-2.6
Fiscal balance	**-12.8**	**-14.2**	**-33.3**	**-19.1**
Change in arrears	-1.6	-0.2	0.0	
Financing requirements	**-14.4**	**-14.4**	**-33.3**	**-18.9**
Domestic financing	16.4	17.8	13.5	-4.2
External financing	-2.0	-3.4	19.8	23.1

Source : Ministry of Economy and Finance (TEFD).

In terms of domestic financing, the use of the auction market concerned a net amount of 11.6 billion, as against 8.6 billion a year earlier. Net subscriptions concerned mainly 2-year bills for 5.6 billion, 10-year bills for 4.6 billion and 5-year bills for 2.7 billion. At the same time, net repayments concerned 52-week and 26-week bills for 1.2 billion and 665 million dirhams, respectively.

Chart 4.6: Fiscal balance and financing , January to April 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 are broadly positive. The weighted average rates (WAR) decreased by 20 basis points to 2.86 percent on average. This result covers slight changes across maturities. The WAR on issues posted declines of 3 bps for 26-week bills, 2 bps for 5-year bills and 19 bps for 15-year bills. On the other hand, rates on 52-week and 2-year issues almost stabilized.

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

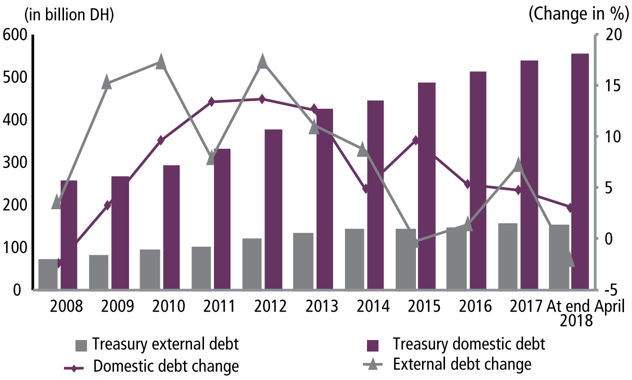
	2013	2014	2015	2016	2017	At end apr. 2018*
Treasury external debt	**129.8**	**141.1**	**140.8**	**142.8**	**153.1**	**149.7**
Change in %	11.1	8.7	-0.2	1.4	7.2	-2.2
Treasury domestic debt	**424.5**	**445.5**	**488.4**	**514.7**	**539.1**	**555.8**
Change in %	12.6	5.0	9.6	5.4	4.8	3.1
Outstanding direct debt	**554.3**	**586.6**	**629.2**	**657.5**	**692.2**	**705.5**
Change in %	12.3	5.8	7.3	4.5	5.3	1.9

Source : Ministry of Economy and Finance (TEFD).

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

Under these conditions, outstanding direct public debt would have grown by 1.9 percent at end-April 2018, compared to its end-December 2017 level. This change covers a 3.1 percent increase in its domestic component and a 2.2 percent decline in its external component.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

The national accounts data for the fourth quarter of 2017 show a growth of 4.1 percent, with a positive contribution of 2.3 percentage points of net exports and 1.8 percentage point of domestic demand. Growth for the whole year of 2017 stood at 4.1 percent from 1.1 percent a year earlier. The agricultural value added would have rebounded 15.4 percent, after a sharp decline a year earlier, and nonagricultural activities improved by 2.7 percent from 2.2 percent in 2016.

Prospects for the first half of 2018 show a 4 percent increase in final household consumption, due to higher farm incomes and expatriate remittances, as well as relatively improved labor market conditions. Meanwhile, investment should grow 5.7 percent, as evidenced by rising imports of capital goods. However, the contribution of net external demand to growth should be negative. Against this backdrop, economic growth would stand at 3.6 percent, from 4 percent in 2017. Indeed, the agricultural value added should slow down markedly, reflecting a base effect, and nonagricultural activities would accelerate from 2.6 percent to 3.1 percent, particularly thanks to the improved activity in the processing industries, electricity, trade and "hotels and restaurants".

In the labor market, the national economy created 116 thousand jobs in the first quarter of 2018, with an increase of 50 thousand jobs in services, 43 thousand in agriculture and 32 thousand in construction, while industry, including crafts, lost 9 thousand posts. Considering a net entry of 92 thousand jobseekers, the unemployment rate fell from 10.7 percent to 10.5 percent nationally and from 15.7 percent to 15.6 percent in the cities. With regard to the cost of labor, data for the first quarter show that the private sector wage index increased by 3.3 percent as opposed to 1.9 percent, year on year, in nominal terms, and by 1.2 percent from 0.6 percent in real terms.

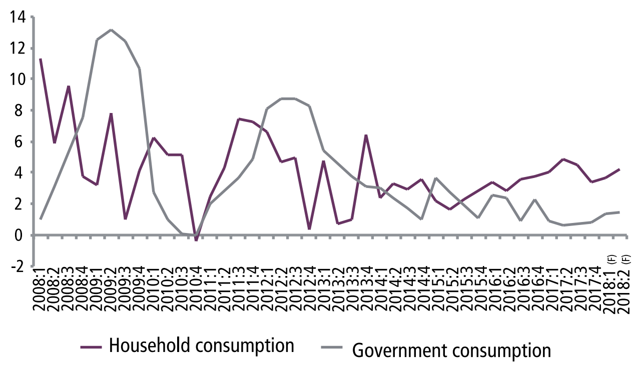
5.1 Domestic demand

5.1.1 Consumption

The national accounts data for the fourth quarter of 2017 show a slowdown from 3.7 percent to 3.4 percent in household consumption, compared to the same period of 2016. Its contribution to growth fell from 2.1 percentage points to 1.9 percentage point. Throughout 2017, household consumption stood at 3.5 percent.

For the first half of 2018, available indicators point to an increase of 4 percent in household consumption, supported by an acceleration of remittances from Moroccan expatriates, as well as a tangible increase in farm incomes. In addition, labor market conditions improved relatively, driven mainly by the services sector. Consumer loans rose by 4.7 percent at end-March 2018, as against 4.4 percent a year earlier. HCP's quarterly household survey indicates that the confidence index improved to 87.3 points from 78.2 points in the same quarter of the previous year.

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



Sources: HCP, and BAM forecasts.

The growth of government final consumption slowed in the fourth quarter from 2.3 percent to 0.8 percent, maintaining its growth in 2017 at 1.5 percent.

During the first two quarters of 2018, it should increase by an average of 1.5 percent, particularly owing to the faster pace of operating expenses.

5.1.2 Investment

Investment declined by 2.3 percent in the fourth quarter of 2017, as against an increase of 13.8 percent a year ago. Its contribution to growth was negative at 0.3 percentage point, as opposed to 4 points. For the year as a whole, its growth decelerated sharply from 11.6 percent to 4 percent.

In the first half of 2018, the pace of investment should accelerate to 5.7 percent, as indicated by the significantly higher imports of capital goods and faster equipment loans. In addition, Bank Al-Maghrib's quarterly survey for the first quarter indicates that the business climate was deemed «normal» by two-thirds of the surveyed manufacturers and investment spending stagnated. In the real estate market, the number of transactions increased for urban land and commercial property, while it declined for residential properties.

5.2 Foreign demand

In the fourth quarter of 2017, external demand continued its improvement since the beginning of the year, generating a positive contribution of 2.3 percentage points, as against a negative participation of 5.5 points over the same period a year ago. The pace of exports of goods and services accelerated from 7.4 percent to 11.9 percent, while imports recorded a sharp deceleration from 19 percent to 4.2 percent. Over the year as a whole, net exports contributed positively to growth by 0.5 percentage point, after a negative contribution of 4.3 points.

This trend is not expected to continue in the first half of 2018, as imports of goods and services should grow faster than exports. Indeed, imports should accelerate by 8.8 percent, thanks to higher purchases of capital goods, foodstuffs and finished consumer goods. Regarding exports, despite the increase in sales of the automotive sector, agricultural and agri-food commodities and the uptrend of tourism receipts, they should decelerate to 9 percent. As a result, the contribution of external demand to growth should be negative.

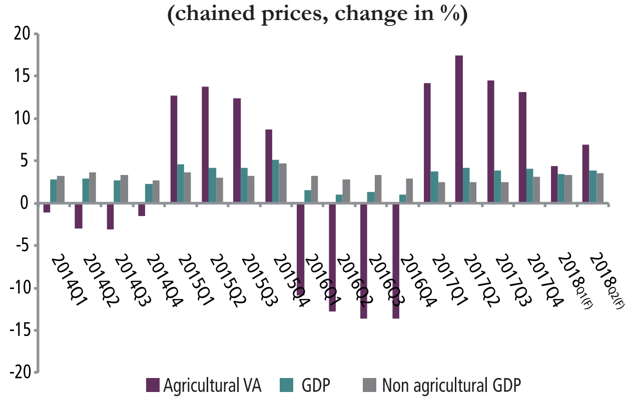
Overall, national growth is expected to average around 3.6 percent in the first half of 2018 compared with 4 percent a year earlier.

5.3 Supply

In 2017, economic growth improved from 1.1 percent to 4.1 percent, with a rebound of 15.4 percent in the agricultural value added, after a sharp decline a year earlier, and an increase of 2.7 percent in nonagricultural activities, as against 2.2 percent.

In the first half of 2018, growth should decelerate, year on year, from 4 percent to 3.6 percent. Agricultural value added is expected to slow sharply from 15.9 percent to 5.7 percent. This change essentially reflects a cereal harvest of 98.2 million quintals, up 2.7 percent as against 185.2 percent a year earlier. Nonagricultural activities would accelerate again from 2.6 percent to 3.1 percent. Given an increase in taxes net of subsidies, nonagricultural growth would increase from 2.5 percent to 3.4 percent.

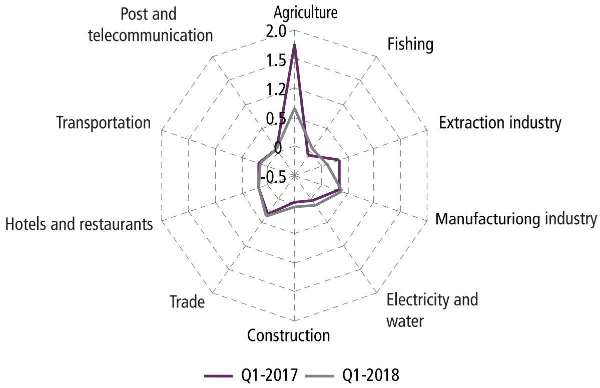
Chart 5.2: GDP per component (chained prices, change in %)



Sources: HCP data, and BAM forecasts.

By sector of activity, the secondary sector should maintain its growth recorded over the same period a year earlier, or 2.6 percent. This trend covers an acceleration of activity from 2.1 percent to 2.5 percent in the processing industries, and from 2.1 percent to 5.3 percent in the electricity and water sector, as well as a strong deceleration from 17.3 percent to 6.3 percent in the extractive industries, while the construction branch should continue to be sluggish with a 0.6 percent increase in its value added after a decline of 0.8 percent.

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



Sources: HCP data, and BAM forecasts.

In the tertiary sector, growth should move up from 2.8 percent to 3.3 percent. Activity in the "hotels and restaurants" sector would continue to grow, with a rate of 8.5 percent, as against 8.2 percent, as evidenced by the improvement in the sector's main indicators. Similarly, the value added is expected to rise by 4.7 percent in the "trade" sector from 3.9 percent, by 4.4 percent in transport services from 4.7 percent, and by 2.7 percent in the postal and telecommunications sector from 2.6 percent.

5.4 Labor market and output capacity

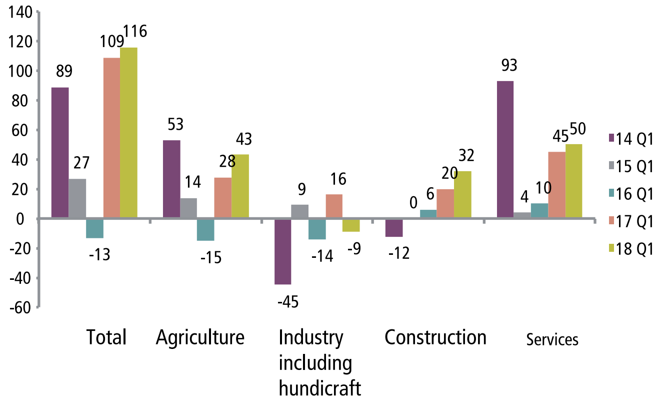
5.4.1 Activity and employment

Labor market conditions in the first quarter of 2018 were characterized by a rise of 0.8 percent in the labor force aged 15 and over to 12.2 million people, with an increase of 1.2 percent in cities and 0.2 percent in rural areas. Considering a 1.7 percent increase in the working-age population, the participation rate continued to fall from 47.5 percent to 47.1 percent. By area of residence, it decreased by 0.7 point to 42.4 percent in urban areas, while it increased by 0.5 point to 55.4 percent in rural areas.

At the same time, the national economy created 116,000 jobs, nearly two-thirds of which are in urban areas. The employed labor force thus grew by 1.1 percent and the employment rate, however, fell by 0.2 point to 42.2 percent, with a decline of 0.5 point in cities to 35.8 percent and an increase of 0.8 point in rural areas to 53.5 percent.

By sector of activity, services created 50 thousand jobs, agriculture 43 thousand and construction 32 thousand. Conversely, industry, including crafts, lost 9,000 jobs.

Chart 5.4: Job creation by sector (in thousands)



Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force fell by 1.9 percent to almost 1.3 million people. Given the change in the labor force, the unemployment rate thus fell from 10.7 percent to 10.5 percent nationally, from 15.7 percent to 15.6 percent in urban areas and from 4.1 percent to 3.5 percent in rural areas. However, the decrease in unemployment did not affect young people aged 15 to 24, whose rate stood at 25.7 percent overall and at 43.5 percent in the cities.

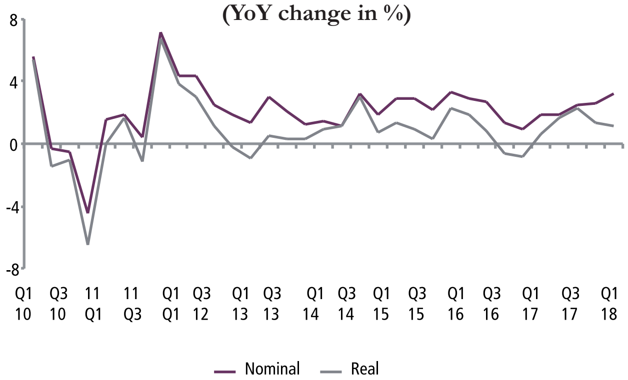
With regard to underemployment[1], an indicator measuring the degree of underutilization of output capacity, the rate rose from 9.8 percent to 10 percent nationally and from 10.3 percent to 10.7 percent in rural areas, while it stagnated at 9.4 percent in the cities.

3.4.3 Productivity and wages

Growth of the apparent labor productivity in nonagricultural activities accelerated from 1.2 percent to 2 percent, under the combined effect of an increase from 2.4 percent to 3.1 percent in the value added and a slight slowdown from 1.2 percent to 1.1 percent in the scale of employment.

In terms of wage costs, data for the first quarter of the year show increases of 3.3 percent in nominal terms in the average wage index, calculated on the basis of the CNSS data, as against 1.9 percent a year earlier, and 1.2 percent in real terms as opposed to 0.6 percent.

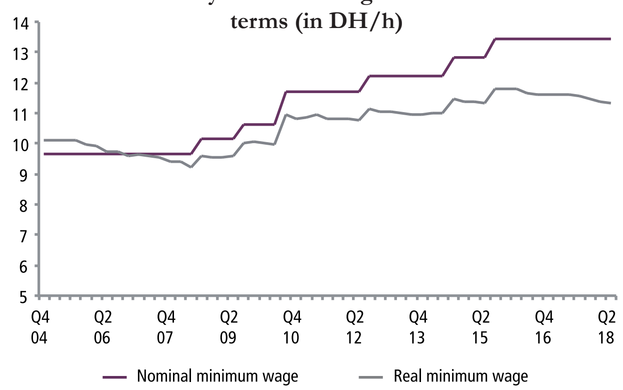
Chart 5.5: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The guaranteed minimum industrial wage (SMIG) remained in the first quarter of 2018 at 13.46 dh/h in nominal terms. Taking account of a 2 percent increase in the consumer price index, the SMIG posted a year-on-year decrease of 2 percent, in real terms, and should fall by 2.5 percent in the second quarter of 2018.

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

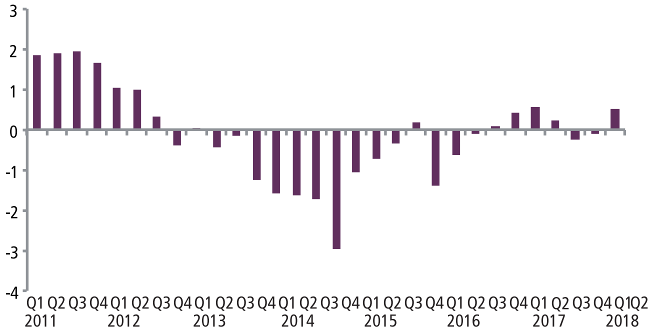


Sources: Ministry of Employment and Social Affairs, and BAM calculations.

1 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.

Against this backdrop, the output-gap should remain positive on average in the first half of the year.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates based on HCP data.

Table 5.1 : Labor market main indicators

		Q1 2017	Q1 2018
Participation rate (%)		**47.5**	**47.1**
Urban		43.1	42.4
Rural		54.9	55.4
Unemployment rate (%)		**10.7**	**10.5**
Youth aged between 15 and 24 years old		25.5	25.7
Urban		15.7	15.6
Youth aged between 15 and 24 years old		41.5	43.5
Rural		4.1	3.5
Job creation (in thousands)		109	116
Urban		86	77
Rural		23	39
Sectors			
- Agriculture		28	43
- Industrie y compris l'artisanat		16	-9
- BTP		20	32
- Services		45	50
Nonagricultural apparent productivity (change in %)		**1.2**	**2.0**
Average wage index (change in %)	**Nominal**	**1.9**	**3.3**
	Real	**0.6**	**1.2**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

The projected acceleration of inflation in the first quarter of 2018 was confirmed, albeit at a faster rate than predicted in the latest Monetary Policy Report (MPR). This gap is essentially attributed to the effect of the HCP's update of the Consumer Price Index (CPI) weighting structure in March 2018. Indeed, after standing at 1.2 percent in the fourth quarter of 2017, inflation rose to 2 percent in the first quarter before reaching 2.7 percent in April. This trend is attributable to increases of 10.4 percent in volatile food prices in April, as against 5 percent in the first quarter, and 5 percent in fuel and lubricant prices from 2.2 percent under the effect of the significant rise in international prices of petroleum products. Prices for regulated goods grew almost at the same pace as in the previous quarter, or 2.8 percent, in the absence of a new government decision on the prices of these products. Core inflation remains weak at 1 percent in April, as against 0.9 percent in the first quarter and 1.2 percent in the fourth quarter of 2017.

In the short term, inflation should accelerate again to 2.6 percent in the second quarter, while its core component would remain close to 1 percent.

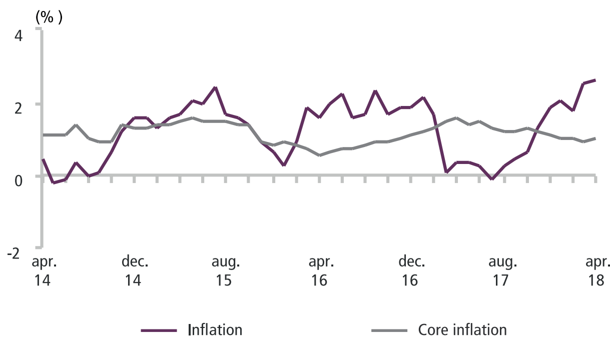
6.1. Inflation trends

In the first quarter of 2018, inflation stood at 2 percent from 1.2 percent in the fourth quarter of 2017, before reaching 2.7 percent in April. Its acceleration was attributed to higher volatile food prices and the significant rise in fuel and lubricant prices.

Prices for regulated products continue to evolve at a steady pace, but almost stable compared to the previous quarter, reflecting the effect of previous increases in prices for "tobacco" and "stamp duties".

Core inflation continues to be moderate, standing at 1 percent in April 2018 from 0.9 percent in the first quarter and 1.2 percent in the fourth quarter 2017.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

Table 6.1: Change in inflation and its components

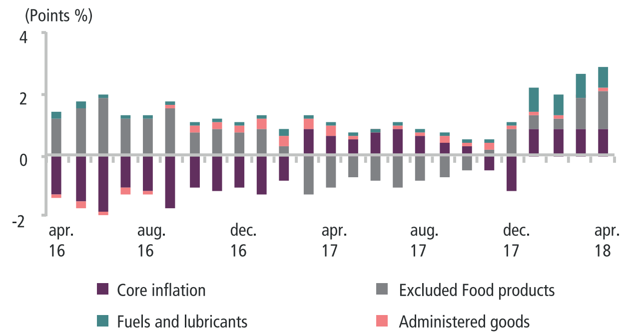
(In %)	MoM			YoY		
	feb. 18	march 18	apr. 18	feb. 18	march 18	apr. 18
Headline inflation	**-0.5**	**0.1**	**0.3**	**1.8**	**2.5**	**2.7**
- Volatile food prices	-3.5	0.9	2.3	2.8	8.7	10.4
- Fuels and lubricants	0.3	-2.1	2.8	3.0	0.7	5.0
- Administered prices	0.0	0.0	0.0	2.9	2.8	2.8
Core inflation	**0.1**	**-0.1**	**0.2**	**1.0**	**0.9**	**1.0**
- Food products	0.0	-0.1	0.1	0.9	0.8	0.7
- Clothing and footwear	-0.3	0.1	-0.3	0.8	0.9	0.7
- Housing, water, gas, electricity and other fuels[1]	0.1	0.3	0.2	1.4	1.7	1.7
- Furnishings, household equipment and routine house maintenance	0.2	0.0	0.1	0.5	0.5	0.6
- Health[1]	0.0	0.0	0.0	0.5	0.3	0.3
- Transportation[2]	-0.1	0.1	-0.1	-0.4	-0.1	-0.3
- Communication	0.0	0.0	0.0	0.0	0.0	0.0
- Entertainment and culture	0.0	0.1	0.4	0.9	1.1	1.4
- Education	0.0	0.0	0.0	2.0	2.0	2.0
- Restaurants and hotels	0.1	0.2	0.5	2.2	1.6	1.9
- Miscellaneous goods and services	0.0	0.2	0.4	1.7	1.9	2.0

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

6.1.1. Prices of goods excluded from core inflation

Volatile food prices have continued to trend upwards. After rising 1.1 percent in the fourth quarter of 2017, volatile food prices rose by 5 percent in the first quarter of 2018 and by 10.4 percent in April due to lower supply of some of these products. In addition to the effect of a change in the CPI basket weighting structure, this trend reflects increases of 18.3 percent in fresh vegetable prices, as against 7.6 percent in the first quarter, and 8.8 percent in fresh fish prices, as opposed to 4.3 percent as well as a slow fall to 1.3 percent from 4.8 percent in fresh fruit prices.

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

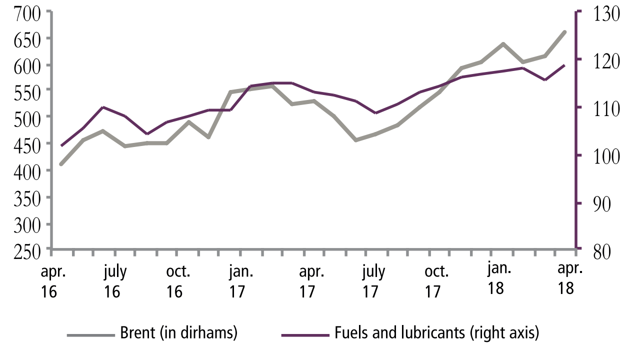


Sources: HCP, and BAM calculations.

Fuel and lubricant prices rose 5 percent in April from 2.2 percent in the first quarter, owing to the significant increase in international prices for petroleum products, with Brent prices exceeding for the first time since December 2014 $70 per barrel.

At the same time, the dirham's exchange rate did not change significantly between the first quarter and April.

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



Sources: World Bank, HCP, and BAM calculations.

Prices for regulated products grew 2.8 percent in April, almost unchanged from the previous quarter, due to the continued effect of last January's increases of 20.2 percent for prices of "other services" following higher "stamp duties" as well as 10.7 percent in "tobacco" prices, following the second rise in the DCT on certain categories of this product.

Box 6.1 : Update of the CPI weighting structure

Inflation is calculated as the change in the cost of a basket of consumer goods and services representing the consumption pattern of households. Its composition is estimated on the basis of a household survey.

The reference basket used up to December 2017 to calculate the consumer price index is based on data from the 2001 national survey on household consumption and expenditure, taking into account also information from the 2007 household living standards survey.

In March 2018, the HCP updated the weighting structure of goods included in the consumer price index (CPI) basket based on new data from the 2013-2014 national household consumption and expenditure survey.

Thus, as of January 2018, the consumer price index is developed taking account of this new structure with December 2017 as the intermediate base. However, the CPI›s reference base remains the year 2006.

Compared to the previous consumption structure, the most pronounced declines were observed in "food and non-alcoholic beverages" whose share in the household consumption basket fell from 39.3 percent to 37.3 percent, while the proportion of "non-food products", rose for "education" to 6.3 percent from 3.9 percent and for "health" to 7.7 percent from 5.5 percent previously.

These changes led to a drop from 65.2 percent to 63.1 percent in the share of Bank Al-Maghrib's core inflation indicator in the overall CPI. Similarly, the weight of volatile food products fell from 12.4 percent to 11.3 percent. However, the proportions strengthened for fuels and lubricants and regulated products, particularly stamp duties and medical and paramedical services.

This update included an HCP's upward revision of inflation in January to 2 percent from 1.8 percent published previously.

Table B 6.1.1 : CPI Weighting structure

	Old weightings	New weightings
Food products excluded from the IPCX	12.1	11.3
including fresh vegetables	4.1	3.4
Regulated products	20.4	22.9
including paramedical services	1.0	1.8
Books	0.1	0.7
Other services	1.2	2.1
Fuels and lubricants	2.4	2.7
Core inflation	65.2	63.1
Tradables	34.9	32.3
Non tradables	30.3	30.8

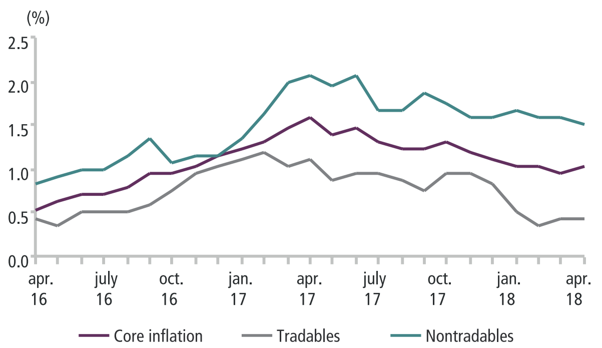
Source : HCP.

In the absence of the most detailed official data on prices and new weights of products and varieties included in the constitution of the CPI, Bank Al-Maghrib's estimate of the impact of this revision on inflation at the end of the first quarter of 2018 is 0.3 percentage point. Thus, inflation would have stood at 1.7 percent in the first quarter of 2018 as against 2 percent recorded on the basis of this new weighting structure.

6.1.2. Core inflation

Core inflation remains moderate at 1 percent in April from 0.9 percent in the first quarter, averaging 1 percent in the first four months from 1.2 percent in the last quarter of 2017. This deceleration was largely due to a slow growth of prices for tradable goods, while those for nontradables remained almost unchanged over the entire period.

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



Sources: HCP, and BAM calculations.

Indeed, inflation of tradables stabilized at 0.4 percent between the first quarter and April, as against 0.9 percent in the fourth quarter of 2017. This deceleration is attributed only to the slowdown from 8.5 percent to 2.6 percent in the growth of "oils" prices. Their contribution to core inflation fell from 0.5 point in the fourth quarter of 2017 to 0.2 percentage point in the first quarter.

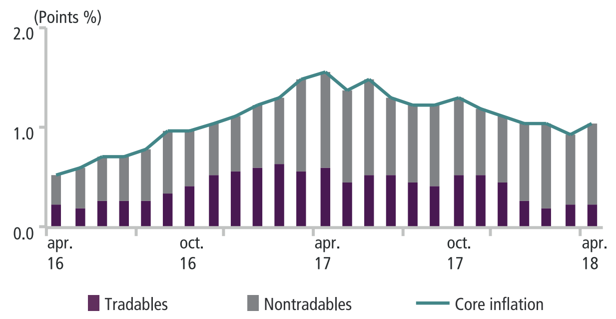
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	feb. 18	march. 18	apr. 18	feb. 18	march. 18	apr. 18
Tradables	-0.1	-0.1	0.0	0.3	0.4	0.4
Nontradables	0.3	0.1	0.2	1.6	1.6	1.5
Core inflation	0.1	-0.1	0.2	1.0	0.9	1.0

Sources: HCP, and BAM calculations.

However, nontradable goods prices grew 1.5 percent in April, as against 1.6 percent in the last two quarters maintaining their contribution to core inflation at 0.7 percentage point.

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



Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

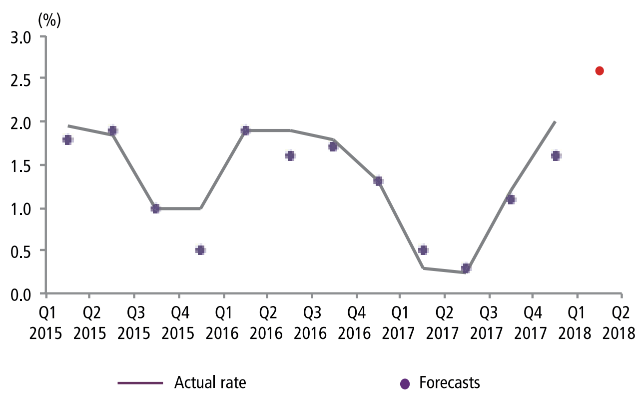
Inflation is expected to continue to accelerate in the second quarter to 2.6 percent, driven mainly by continued increase in volatile food prices and fuel and lubricant prices. However, core inflation would remain relatively moderate at around 1 percent.

Thus, volatile food prices should grow by 6.9 percent in the second quarter, a pace much higher than the previous quarter, due to the combined effect of projected monthly increases over the next two months but also the base effect caused by their relatively low level a year ago.

Prices for fuels and lubricants should move up 6.8 percent on average during the next quarter, in conjunction with the expected increase in international prices of petroleum products.

However, in the absence of new decisions on the prices for regulated goods, these prices should continue to grow at almost the same rate observed in April, or 2.7 percent.

Chart 6.6: Inflation short-term forecasts and actual rates

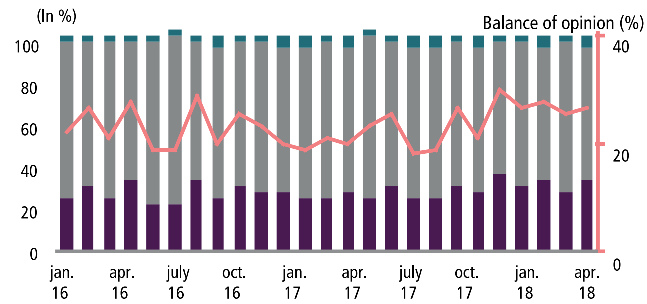


Source: BAM.

6.3. Inflation expectations

The findings of Bank Al-Maghrib's business survey for April 2018 indicate that the share of the manufacturers surveyed who anticipate a stagnation of inflation over the next three months remains high at 63 percent, while 31 percent expect an increase and 6 percent of them predict a decline.

Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

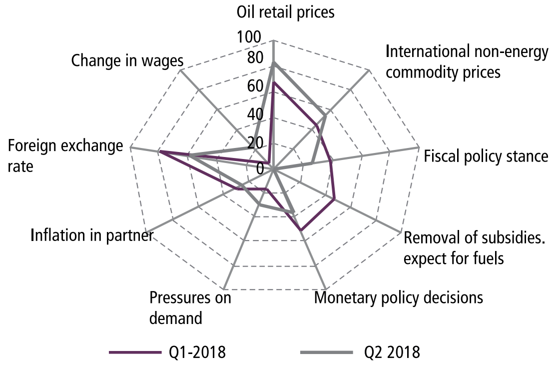
Bank Al-Maghrib's inflation expectations survey for the second quarter of 2018 point to a further increase in inflation expected by financial experts over eight quarters to 2.1 percent from 1.9 percent.

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 believe that changes in prices at the pump, the exchange rate and world non-oil commodity prices should have a significant influence on the future inflation trend over this period.

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



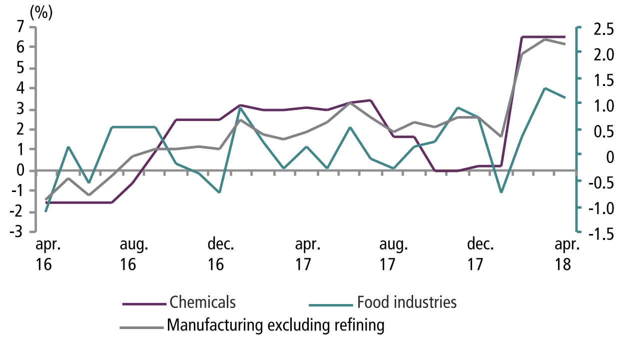
Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Import and producer prices

Producer prices of manufacturing industries excluding oil refining posted a monthly decline of 0.2 percent in April, while they had risen by 0.5 percent on average during the first three months of the year. This trend is mainly attributable to drops of 0.3 percent in producer prices in food industries and 0.5 percent in the clothing industry, which more than offset the increase of 0.7 percent in producer prices in the textile manufacturing industry.

Year on year, non-refining producer prices grew 2.2 percent, up from 1.5 percent on average in the first quarter of 2018.

Chart 6.10: YoY change major import price indexes



Sources: Foreign Exchange Office, and BAM calculations.

7. MEDIUM-TERM OUTLOOK

Summary

Global economic activity is expected to remain resilient and maintain a sustained momentum in 2018, despite signs of moderation at the beginning of the year in some advanced economies. A slowdown is however expected in 2019 and the outlook remains surrounded by several risks, mainly due to geopolitical tensions and the rise of protectionism.

In the United States, the economy should continue to post robust growth in 2018, particularly thanks to tax reforms, before slowing down in 2019. By contrast, in the euro area, economic activity should decelerate in the medium term, impacted partly by the uncertainties surrounding global trade relations and the expected tightening of monetary conditions. In emerging economies, the recovery is expected to continue, benefiting from improved demand from advanced economies, rising energy commodity prices for exporting countries and currency depreciation for some economies. In particular, economic activity should continue to improve in Russia and Brazil, while in China, it would continue to decelerate owing to the rebalancing of its economy.

In commodity markets, world Brent prices should continue their upward trend in 2018, mainly reflecting the larger-than-expected reduction in output and the heightened geopolitical tensions. In 2019, they would decline, mainly due to the expected increase in extractions, particularly in the United States. Food prices almost stagnated over the first five months of the year and would remain low in the medium term.

Against this backdrop and taking particular account of the consolidation of domestic demand, inflation in the United States should stand in the medium term at a level close to the FED's objective, and would continue, however, to hover around 1.5 percent in the euro area, mainly due to moderate core inflationary pressures.

Nationally, export momentum should continue in the medium term, mainly due to an increase in car manufacturing sales in 2019, with the announced start-up of the Peugeot plant. Imports would accelerate in 2018, particularly owing to continued higher acquisitions of capital goods and a significant increase in purchases of passenger cars, before decelerating in 2019. Moreover, travel receipts and remittances from Moroccan expatriates would maintain a sustained momentum in 2018, before decelerating in 2019, and donations from GCC partners would amount to 7 billion dirhams in 2018. Under these conditions, the current account deficit would widen to 4.1 percent of GDP in 2018, before falling to 3.6 percent in 2019.

Considering these developments and inflows of FDI equaling 4.4 percent of GDP in 2018 and 3.5 percent in 2019, net international reserves would stand at 255.4 billion dirhams in 2018 and 245.9 billion in 2019. Thus, they would cover 5 months and 25 days of imports and 5 months and 18 days, respectively.

Monetary conditions would remain globally appropriate. In particular, the depreciation of the real effective exchange rate (REER) should continue in 2018, but at a slower pace than expected in March, due to the greater depreciation of certain emerging currencies and the upward revision of domestic inflation to a level higher than that of partners and competitors. In 2019, the REER would depreciate slightly as a result of an inflation differential in favor of Morocco. Credit to the nonfinancial sector would continue its slow pace, rising by 4 percent in 2018 and by 4.5 percent in 2019.

In terms of public finance, budgetary adjustment should continue in the medium term, albeit at a slower pace than expected in March. Indeed, according to BAM's projections, the budget deficit should stand at 3.4 percent of GDP in 2018 and 3.3 percent in 2019.

National growth should slow down from 4.1 percent in 2017 to 3.6 percent in 2018, reflecting a slow growth from 15.4 percent to 5.7 percent in the agricultural value added, while nonagricultural activities should continue to recover, albeit at a moderate pace of 3.2 percent from 2.7 percent. On the demand side, this change covers a strengthening of domestic demand and a negative contribution from net exports. In 2019, growth would continue to slow down to 3.1 percent, covering a 1.7 percent decline in the agricultural value added, assuming a return to a normal crop year, and a continued recovery of nonagricultural activities, which would grow by 3.5 percent. By component of demand, this deceleration is mainly attributed to slower momentum of domestic demand, while the negative contribution from net exports is expected to ease.

In this context, inflation should accelerate from 0.7 percent in 2017 to 2.4 percent in 2018, reflecting significantly rising prices of products excluded from its core component, before falling to 1.4 percent in 2019. However, its fundamental trend should slightly decelerate in 2018, particularly taking into account the slow increase in oils and pulse prices observed during the first months of the year, before returning to 1.6 percent in 2019.

7.1 Underlying assumptions

Continued expansion of global economic activity, albeit in light of rising uncertainty

In a context of heightened risks, global economic activity should remain resilient and maintain a sustained momentum in 2018, despite signs of moderation observed at the beginning of the year in some advanced economies, before slowing down in 2019. In particular, after standing at 2.3 percent in 2017, growth in the United States should stand at 2.7 percent in 2018, benefiting particularly from tax reforms, before moving down to 2 percent in 2019. By contrast, growth in the euro area showed signs of moderation in the beginning of the year and is expected to decelerate from 2.5 percent to 2.3 percent in 2018 and to 1.8 percent in 2019, impacted partly by uncertainties surrounding global trade relations and the tightening of ECB's monetary policy expected as of 2019. In the emerging countries, activity should benefit from the recovery of demand from advanced economies, rise in energy commodity prices for exporting countries and depreciation of currencies for some economies. In particular, economic activity should continue to improve in Russia and Brazil. In addition, growth in China would remain robust, approaching the Government's target of 6.5 percent in 2018, and continue to decelerate in 2019 with the rebalancing of the economy.

However, these prospects remain surrounded by significant risks, which are growing in scale. In particular, the protectionist stance of US trade policy, rising geopolitical tensions, political instability in some euro area countries, fragility of the financial system, particularly in China, and uncertainties surrounding the Brexit modalities weigh on the outlook for global activity.

Chart 7.1: Growth in the euro area

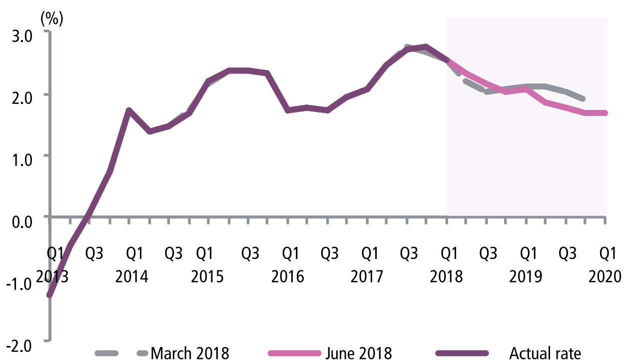
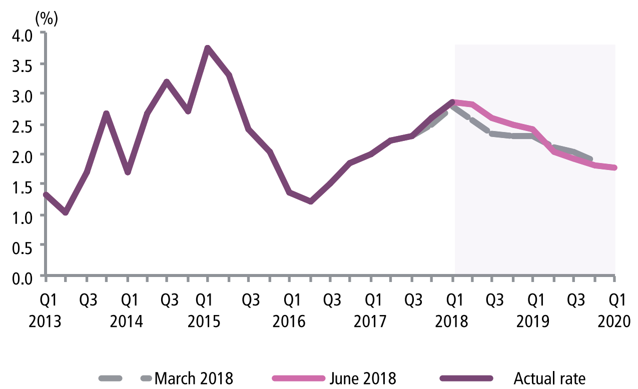


Chart 7.2: ECB policy rate



Source: GPM[1] forecasts of May 2018.

The euro expected to maintain an appreciated level in the medium term

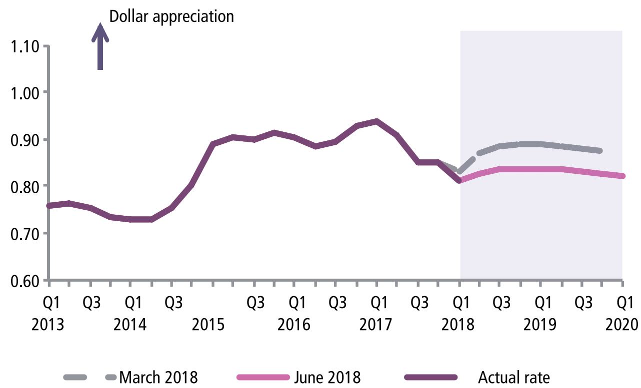
Over the first three months of the year, the euro strengthened against the dollar, reaching its highest levels since 2015. Its trend reflects both the improvement of economic fundamentals in the euro area, the renewed confidence about the strength of economic recovery and concerns about the stance of the US administration's

1 See Box 7.1

policies. In the medium term, after the recent strengthening of the dollar, particularly due to a moderate activity in the euro area and political uncertainties in some euro area countries, the euro should remain at an appreciated level against the dollar.

At the same time, the divergence across the stances of the monetary policies of the FED and ECB should ease as of 2019. Indeed, the ECB would begin to raise its policy rate in 2019 and put an end to its purchases of assets at end-December 2018. The Fed should continue to normalize its monetary policy, with another increase expected in 2018, along with the gradual reduction of its balance sheet, which began in October 2017.

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of May 2018.

Expected increase of world Brent prices and decline of food prices

The improvement in world demand, combined with the larger-than-expected reduction in output, particularly following the disruption of the Venezuelan industry, and the rising geopolitical tensions, with particularly the suspension of the US-Iranian nuclear agreement and the reinstatement of sanctions against Iran, exerted upward pressure on oil prices at the beginning of the year. After peaking at around $80/bl, the uptrend of Brent prices decelerated as of late May and should average $67.2/bl for the full year, representing an upward revision of $3.4 compared to March projections. In 2019, it would fall to $62.5/bl, mainly due to the expected increase in extractions in the United States.

With regard to fertilizer prices, the World Bank substantially revised upward its projections for DAP, TSP and, to a lesser extent, crude phosphate prices. These revisions are mainly due to higher production costs and expected continuation of a sustained level of demand, although large new capacities are predicted particularly in Morocco and Saudi Arabia. DAP and TSP prices would thus show respective increases of 9.9 percent to $390/mt and 11.2 percent to $315/mt in 2018, while crude phosphate prices would decline by 2.2 percent. In 2019, prices are forecast to rise by 1.3 percent for DAP, 1.6 percent for TSP and 2.1 percent for crude phosphate. For food prices, the FAO index almost stagnated over the first five months of the year and should remain low in the medium term.

Under these conditions, and taking particular account of the consolidation of domestic demand, inflation in the United States should stabilize in the medium term at a level close to the FED's objective. However, it would continue to hover around 1.5 percent in the euro area2, mainly because of moderate core inflationary pressures.

Chart 7.4: Food commodity price index

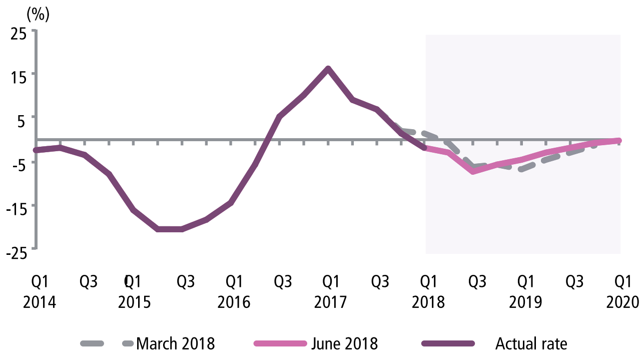


Chart 7.5: Crude oil price

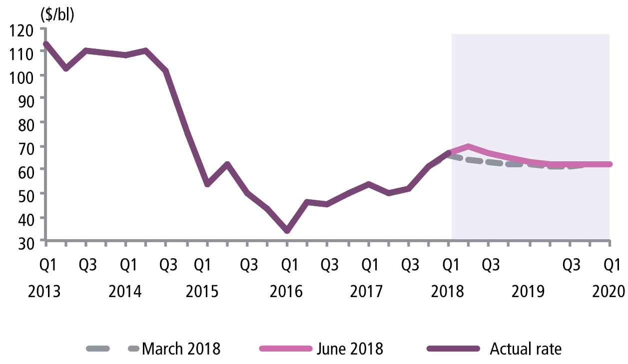


Chart 7.6: Inflation in the euro area

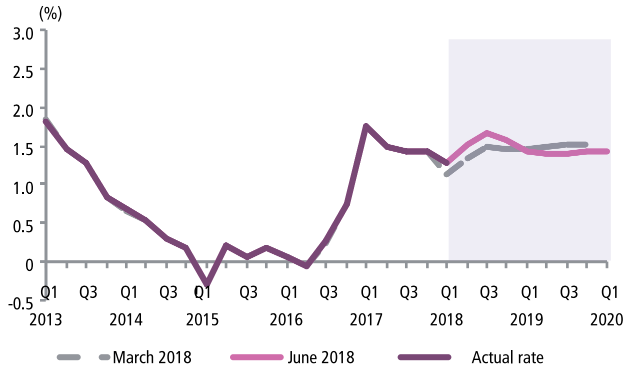
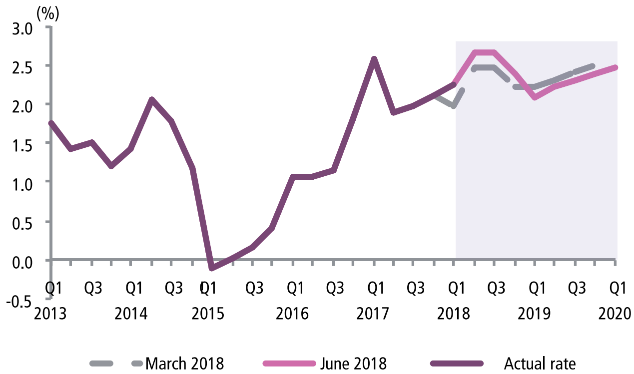


Chart 7.7: Inflation in the United states



Source: GPM forecasts of May 2018.

Continued budget adjustment

Nationally, the budget deficit in 2018 should stand at 3.4 percent of GDP in 2018, revised upwards compared to the March MPR, mainly taking into account budget execution and BAM's macroeconomic projections. Indeed, corporate tax revenues were revised downwards, due to the decline in the amount collected at end-March 2018 under the adjustment installment of the corporate tax paid in 2017. In parallel, expenses were slightly revised downwards, covering the execution of the first quarter of 2018 and the assumptions about oil prices and exchange rate.

In 2019, the deficit is projected at 3.3 percent of GDP, as against 3.2 percent assumed in the March MPR, considering the Government's announcement to increase family allowances. Regarding expenditure, subsidy costs were also adjusted upwards. At the same time, revenues were slightly adjusted upwards, notably those from DCT.

2 GPMN forecasts of May 2018. The ECB projected, in its June 14 forecast, an inflation rate of 1.7 percent in 2018 and 2019. Excluding energy and food prices, inflation is expected at 1.1 percent in 2018 and 1.6 percent in 2019.

A cereal production of 98.2 million quintals for the 2017-2018 crop year and a return to normal in 2019

Cereal production for the 2017-2018 crop year would have totaled 98.2 million quintals, according to preliminary estimates by the Ministry of Agriculture. In 2019, a cereal production of 70 million quintals is assumed, with a continued trending performance of other crops.

7.2 Macroeconomic projections

Current account deficit projected to widen in 2018 and ease in 2019

The current account deficit is expected to widen from 3.6 percent of GDP in 2017 to 4.1 percent of GDP in 2018, mainly due to higher energy bill. In 2019, it should ease to 3.6 percent, with a marked increase in exports of the automotive industry.

After increasing by 10.1 percent in 2017, exports should grow by 5.8 percent in 2018, with particularly a further improvement in sales of phosphates and derivatives, considering performances over the first four months of the year and the revision of the DAP price projections. Thanks to the start-up of the Peugeot plant, the growth of global exports would accelerate to 6.9 percent in 2019. At the same time, imports should increase faster to 7.2 percent in 2018, mainly owing to a continued steady pace of purchases of capital goods and a significant increase in purchases of passenger cars, before slowing to 3.7 percent in 2019, due to lower energy purchases and slow acquisition of capital goods.

Although slowing, the momentum of travel receipts should continue in the medium term with increases of 8 percent in 2018 and 4 percent in 2019. Remittances from Moroccan expatriates should accelerate from 5.7 percent in 2017 to 6 percent and consolidate to 4.1 percent in 2019.

Given in particular inflows of FDI of 4.4 percent of GDP in 2018 and 3.5 percent in 2019 and an inflow of 7 billion dirhams as donations from GCC countries in 2018, net international reserves should be around 255.4 billion dirhams in 2018 before returning to 245.9 billion at the end of 2019. They should provide 5 months and 25 days of imports of goods and services and 5 months and 18 days, respectively.

Table 7.1: Main components of the balance of payments

	Actual rates				Forecasts		Gap (june/march)	
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2018**	**2019**
Exports of goods* (change in %)	8.3	8.6	3.5	10.1	5.8	6.9	-0.2	-0.6
Imports of goods* (change in %)	2.0	-4.9	10.3	6.5	7.2	3.7	0.1	-0.5
Travel receipts (change in %)	7.7	-1.4	5.0	11.9	8.0	4.0	2.3	-1.2
Expatriate remittances (change in %)	-0.8	4.8	4.0	5.7	6.0	4.1	1.0	0.0
Current account balance (% of GDP)	**-6.0**	**-2.1**	**-4.2**	**-3.6**	**-4.1**	**-3.6**	**0.0**	**0.4**
Net international reserves in months of goods and services' imports	**5.4**	**6.0**	**6.2**	**5.7**	**5.8**	**5.6**	**0.0**	**0.0**

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

Broadly appropriate monetary conditions and a still moderate growth of bank lending to the nonfinancial sector

The depreciation of the real effective exchange rate (REER) should continue in 2018, although at a slower pace than expected in March due to the greater-than-expected depreciation of certain emerging currencies, mainly the Turkish lira, and the upward revision of domestic inflation to a level higher than that of partners and competitors. In 2019, the REER would depreciate slightly, particularly as a result of an inflation differential in favor of Morocco.

Given the expected change in net international reserves and the increase in currency in circulation, the liquidity deficit should stand at 39.8 billion dirhams at the end of 2018 before widening to 59.6 billion dirhams at the end of the year of 2019. The growth of bank lending to the nonfinancial sector was revised downwards to 4 percent in 2018, taking account of recent developments, particularly trends in loans to real estate development, and was maintained unchanged at 4.5 percent in 2019.

Table 7.2: Money supply and bank lending

	Actual rates				Forecasts		Gap (june/march)	
	2014	2015	2016	2017	2018	2019	2018	2019
Bank lending to the nonfinancial sector (change in %)	3.8	0.3	3.9	3.8	4.0	4.5	-0.5	0.0
M3 (change in %)	6.2	5.7	4.7	5.5	5.2	4.2	-0.2	0.4
Liquidity surplus or deficit, in billion dirhams	-40.6	-16.5	-14.7	-40.9	-39.8	-59.6	-4.3	-0.2

Source : BAM.

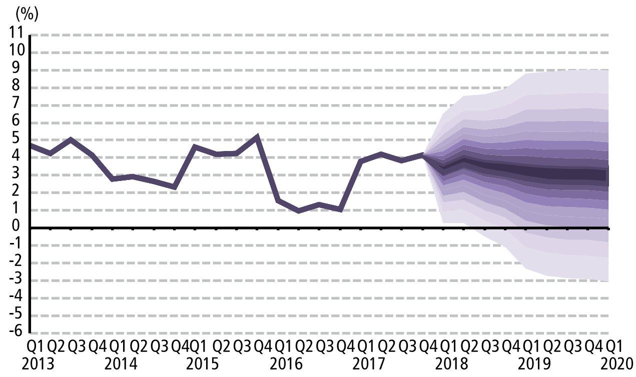
Continued recovery of nonagricultural activities, albeit at a slow pace

Thanks to a good crop year for the second consecutive year, national growth should stand at 3.6 percent in 2018 from 4.1 percent in 2017. This slowdown eased compared to the March forecasts, following the upward revision of the growth of the agricultural value added to 5.7 percent from 2.3 percent. Nonagricultural activities should continue to recover, albeit at a moderate pace of 3.2 percent.

On the demand side, this trend covers a marked strengthening of domestic demand, driven mainly by the uptrend of household final consumption, supported itself by the continued improvement in farm incomes and expatriate remittances. In addition, investment should maintain sustained growth, especially in light of the larger-than-expected rise in imports of capital goods in the first four months of the year. The increase in the Government final consumption should remain moderate, in conjunction with the continued efforts to control operating expenses. Net exports would contribute negatively to growth, due to a continued momentum in imports of goods and services, which is itself attributed to the strengthening of domestic demand. Exports, albeit under slowdown, would maintain a sustained growth, benefiting from the expected consolidation of foreign demand and the depreciation of the real effective exchange rate.

In 2019, growth would continue to slow down to 3.1 percent, reflecting a 1.7 percent decline in the agricultural value added, assuming a return to an average cereal production, while the growth of nonagricultural activities should consolidate to 3.5 percent. By demand component, this trend reflects a decline in the positive contribution of domestic demand, with the expected slowdown in both growth of household final consumption, particularly due to a projected decline in farm incomes, and investment, reflecting an unfavorable base effect. Growth of general government consumption should accelerate, thanks to the expected increase in family allowances. At the same time, the drop in net exports is expected to ease, due to slower growth in imports. Exports should remain dynamic, thanks to sustained foreign demand and the start-up of the Peugeot plant.

Chart 7.8: Growth outlook over the forecast horizon (Q1 2018 - Q1 2020), (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 (%)

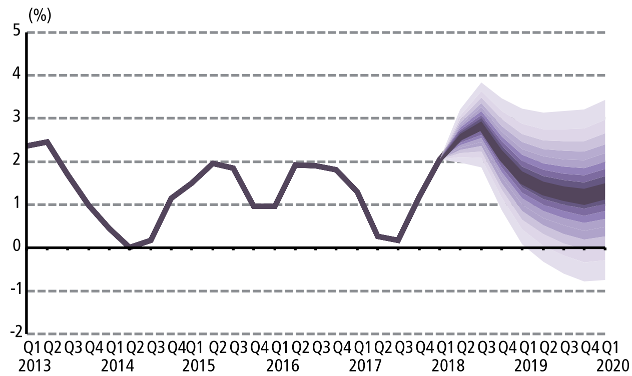
	Actual rates				Forecasts		Gap (june/march)	
	2014	2015	2016	2017	2018	2019	2018	2019
National growth	**2.7**	**4.5**	**1.1**	**4.1**	**3.6**	**3.1**	**0.3**	**-0.4**
Agricultural VA	-2.2	11.9	-13.7	15.4	5.7	-1.7	3.4	-3.5
Nonagricultural VA	2.7	1.8	2.2	2.7	3.2	3.5	0.0	-0.1
Taxes on products net of subsidies	9.7	18.1	8.8	2.8	5.3	5.0	0.5	0.9

Sources: HCP data, and BAM forecasts.

Higher inflation in 2018

Inflation should accelerate from 0.7 percent in 2017 to 2.4 percent in 2018, revised upwards by 0.6 percentage point from the March projections, reflecting a significant increase in the components excluded from core inflation. Indeed, the increase in prices for regulated products is expected to accelerate sharply, reflecting the uptrend in DCT on brown tobaccos and stamp duties. Similarly, after a drop a year ago, volatile food prices are forecast to rebound. On the other hand, although decelerating compared to 2017, fuel and lubricant prices should continue to rise, due to the expected changes in world Brent prices. Conversely, core inflation should slow slightly from 1.3 percent to 1.1 percent, particularly in light of the slow growth of oils and pulse prices observed at the beginning of the year.

Chart 7.9: Inflation forecast over the horizon (Q2 2018 - Q1 2020)*



* 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 (june/march)	
	2014	2015	2016	2017	2018	2019	Horizons of 8 quarters	2018	2019
Inflation	**0.4**	**1.6**	**1.6**	**0.7**	**2.4**	**1.4**	**1.8**	**0.6**	**-0.2**
Core inflation	1.2	1.4	0.8	1.3	1.1	1.6	1.4	-0.2	-0.3

Sources: HCP data, and BAM forecasts and calculations.

In 2019, assuming the dissipation of increases in food and energy prices, inflation should decelerate to 1.4 percent. However, its core component is expected to accelerate to 1.6 percent, essentially reflecting the continued depreciation of the real effective exchange rate.

Chart 7.10: Change in core inflation and output gap

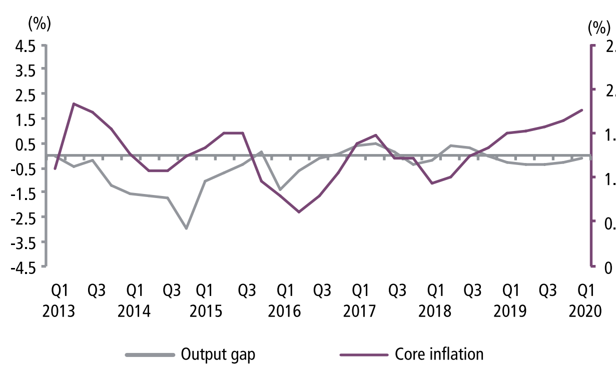
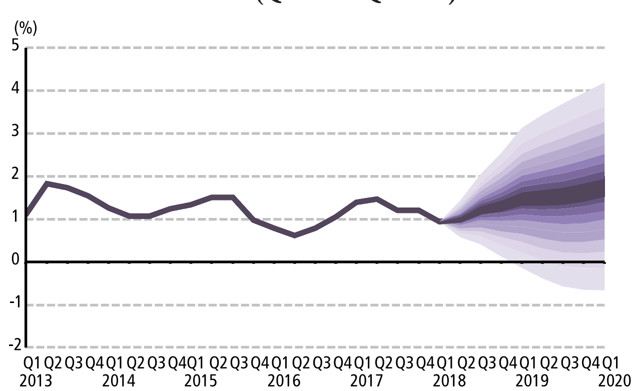


Chart 7.11: Projections of core inflation over the forecast horizon (Q2 2018 - Q1 2020)*



* 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

This exercise takes place in a context of heightened risks surrounding the central forecasting scenario which, in the event of their materialization, may affect the central projection. The balance of risks is tilted downward for growth and upward for inflation.

With regard to growth, risks of a deterioration in the outlook for global economic activity remain high and could weigh on foreign demand addressed to Morocco, given the protectionist stance of the US administration's trade policy, rising geopolitical tensions and political instability in some euro area countries. Nationally, the boycott campaign targeting certain sectors could constitute a significant source of downward pressure on economic activity.

Regarding inflation forecasts, the risks identified may lead to a higher-than-expected level. Inflationary pressures could come from a more pronounced increase in international energy prices. The latter could have a direct impact on fuel prices and cause second-round effects on consumer prices through production costs. In addition, the implementation of the Government's proposal for an increase in public sector wages 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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