PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 25, 2018

1. The Board of Bank Al-Maghrib held its third quarterly meeting of the year on Tuesday, September 25.
2. At this meeting, it analysed recent economic developments as well as the macroeconomic forecasts prepared by the Bank for the next eight quarters.
3. 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.
4. The Board noted that, after its low levels of 2017, inflation rose significantly in the first half of 2018, mainly driven by the increase in volatile food prices and regulated prices. It is expected to decelerate in the second half of the year to average 2.1 percent by year-end. In 2019, as these shocks dissipate, inflation would drop to 1.2 percent. As to core inflation, which measures the fundamental price trend, it is expected to stay moderate at around 1 percent in 2018 and 1.2 percent in 2019.
5. Internationally, the global economy remained robust despite the downward trend risks weighing on its prospects, mainly due to the intensification of trade tensions, the strong pressure on the currencies of some emerging countries and the Brexit terms. In the United States, growth would stand at 2.8 percent in 2018, benefitting from the fiscal measures undertaken, before slowing down to 2 percent in 2019. In addition, labor market is expected to continue its momentum with unemployment rates below their natural level. In the euro area, activity is expected to be relatively moderate, with growth falling to 2.1 percent in 2018 and 1.7 percent in 2019. However, labor conditions would continue to improve, and the unemployment rate is expected to decrease to 8.4 percent in 2018 and 2019, its lowest level since the beginning of the crisis. In the main emerging countries, the Chinese economy is expected to remain resilient to trade tensions, while decelerating slightly on account of the rebalancing policy implemented by the authorities. In India, growth is projected to accelerate, as the impact of the demonetisation and the introduction of the new tax on goods and services start to dissipate. In turn, Russia would continue to benefit from the high level of world oil prices, while the Brazilian economy is expected to improve less significantly than expected, particularly due to the transports strikes.
6. On the commodity market, oil prices are expected to trend downward in 2019. After an average of \$54.4/bl in 2017, the Brent price would average \$69.8/bl in 2018 before dropping to \$63.8/bl in 2019. With regard to phosphates and derivatives, prices were overall on an upward trend over the first months of 2018. For the year as a whole, World Bank April projections indicate that the DAP, the TSP, and crude phosphate would increase to \$390/mt, 315 dollars/mt and \$95/mt, respectively. In 2019, prices are expected to record new, albeit slight, increases.
7. Under these conditions, inflation would continue to hover below the ECB's target in the euro area, reaching 1.7 percent in 2018 and 1.4 percent in 2019. In the United States, it would stand at a level close to the FED target of 2 percent.
8. As regards monetary policy decisions, the ECB decided, during its meeting held on September 13, to keep its rates unchanged, while indicating that it still expects them to remain at their

present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2 percent. It also reiterated that it will reduce, after September, the amount of its net asset purchases to 15 billion euros and expects to end these purchases by the end of the year. On the other hand, the FED decided on August 1 to keep the target range of the federal funds rate unchanged at 1.75 percent to 2 percent and reiterated that its policy stance remains accommodative, thus supporting favourable conditions in the labor market and a sustained return to 2 percent inflation.

9. Nationally, the recent national accounts data for the first quarter of 2018 indicate a year-on-year slowdown of GDP from 3.5 percent to 3.2 percent, covering a slower rise in agricultural value added at 2.5 percent, down from 14.8 percent, and higher increase in nonagricultural activities to 3.4 percent, up from 2 percent. These trends would continue over the medium term, as domestic growth is expected to fall from 4.1 percent in 2017 to 3.5 percent in 2018 and to 3.1 percent in 2019, according to Bank Al-Maghrib's projections. Agricultural value added would increase by 5.1 percent this year then, assuming a normal crop year, would decline by 1.6 percent in 2019. Conversely, nonagricultural activities would continue to recover, with a 3.3 percent growth in 2018 and 3.7 percent in 2019.

10. Labor market conditions improved relatively in the second quarter compared to the same quarter of 2017. The economy generated 117 thousand jobs, including 53 thousands in services. Taking into account a net entry of 97 thousand jobseekers, the participation rate continued its decline, and fell from 47.3 percent to 47 percent. The unemployment rate decreased from 9.3 percent to 9.1 percent at the national level. However, this improvement did not benefit urban youth, aged 15 to 24, among which the unemployment rate edged up to 40.5 percent.

11. With regard to external accounts, preliminary data for the first eight months of the year indicate that exports continued to gain momentum, driven by higher sales in the automotive sector and phosphates and derivatives. Their growth would reach, following BAM forecasts, 8.2 percent at the end of the year and would decelerate to 6.8 percent in 2019. At the same time, due mainly to an increase in capital goods purchases and in the energy bill, imports would reach 7.3 percent for the whole of the year, before slowing down to 3.4 percent in 2019. In turn, after a marked increase in 2017, travel receipts and remittances of Moroccan expatriates would almost stabilize in 2018 and increase by nearly 4 percent in 2019. Taking into account inflows of grants from GCC partners expected at 4.8 billion dirhams this year and 2.1 billion the following year, current account deficit is expected to widen to 4 percent of GDP in 2018 and to decrease to 3.7 percent in 2019. Net international reserves are expected to almost stabilize at around 240.8 billion dirhams by end-2018 and to reach 252.3 billion by end-2019. Their coverage in months of goods and services' imports would thus reach 5 months and 10 days and then 5 months and 18 days respectively.

12. On the monetary side, the dirham appreciated by 1.9 percent against the euro over the first 8 months of the year and dropped by 0.9 percent against the US dollar. Under these conditions, the effective exchange rate rose during the second quarter by 1.4 percent in nominal terms and 0.9 percent in real terms. As to lending rates, they recorded a quarterly decline of seven basis points, as a result of the decrease in rates applied to businesses, with in particular a drop by 31 points for loans to very small, small and medium-sized enterprises. Conversely, loans to individuals rose by 31 points. Regarding bank lending to the nonfinancial sector, its growth remained almost stable from one month to the next at 3.5 percent in July. It is expected to increase by 4 percent at the end of the year and to slightly accelerate to 4.5 percent in 2019.

13. Regarding public finance, data as at end-August show a fiscal deficit of 27.8 billion dirhams, up 1.9 billion compared to the same period in 2017. Overall expenditure increased by 2.2 percent, reflecting mainly higher spending on goods and services and transfers to local authorities. At the same time, current revenues growth was limited to 0.4 percent, due to the improvement of tax revenues and a decline in non-tax revenues. Under these conditions, BAM revised its forecasts for the fiscal deficit upward to 3.7 percent of GDP in 2018. In 2019, this deficit would fall to 3.3 percent of GDP, assuming the continuation of efforts to keep spending under control and to mobilize resources.