MONETARY POLICY REPORT

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BANK AL-MAGHRIB
Head office
277, Avenue Mohammed V - P.O. 445 - Rabat
Tel. : (212) 5 37 57 41 04 / 05
Fax : (212) 5 37 57 41 11
E mail : deri@bkam.ma
www.bkam.ma

@BankAlMaghrib

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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

Mrs. Miriem BENSALAH CHAQROUN

Mr. Bassim JAI-HOKIMI

Mr. Mustapha MOUSSAOUI

بنك المغرب

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 19, 2019

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

2. At this meeting, it analyzed 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, growth and external accounts 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 inflation ended up the year at an average of 1.9 percent, mainly driven by the rise in volatile food prices. Based on Bank Al-Maghrib forecasts, it is expected to slow down to 0.6 percent in 2019 before rebounding to 1.1 percent in 2020, driven by the expected rise of core inflation. The latter, after its projected drop by 0.8 percent in 2019, would reach 1.4 percent in 2020, in conjunction with the expected improvement of domestic demand.

5. Internationally, the slowdown of the global economy continues and its outlook remains surrounded by high uncertainties, mainly related to trade and geopolitical tensions as well as Brexit terms. In the United States, supported mainly by the expansionary fiscal stance, growth is set to reach 2.9 percent in 2018, but would fall to 2.1 percent in 2019 and 1.6 percent in 2020. In the euro area, it is expected to continue its slowdown, from 1.8 percent to 1.3 percent in 2019 before picking up to 1.7 percent in 2020. Labor market conditions would remain favorable, with low and falling unemployment rates in the United States and the Euro Area respectively. In the main emerging economies, growth would overall post a drop in 2019 before accelerating slightly in 2020. In China in particular, growth stood at 6.6 percent in 2018, its lowest rate in three decades and is expected to further drop to 6.1 percent in 2019 and 6.2 percent in 2020. In India, following a 7.5 percent rise in 2018, growth would remain buoyant, driven by domestic demand and the expected fall in energy prices, to stand at 7.2 percent in 2019 and 7.5 percent in 2020.

6. On the commodity market, after rebounding by 30.7 percent in 2018 to reach $71.1/bl on average, Brent oil prices fell to $61.7/bl over the first two months of 2019. It is expected to stand at $63.2/bl over the whole of the year and to further decrease to $61.7/bl in 2020. Prices for phosphates and derivatives in 2018 increased by 21.8 percent to $393.4/mt for DAP and by 22.4 percent to

$346.7/mt for TSP, while prices of rock phosphate declined by 2 percent to $87.9/mt. Over the medium term, upward pressures on prices would be contained, in view of the expected increase in production capacities, namely in Morocco and Saudi Arabia.

7. The easing in oil prices drove inflation downward in the main advanced economies. In the euro area, after ending up the year 2018 on an average of 1.7 percent, it is set to weaken to 1.3 percent in 2019 and to stand at 1.5 percent in 2020. In the United States, it reached 2.4 percent in 2018, and is projected to stand at 1.7 percent this year and close to the FED target in 2020.

8. As regards monetary policy decisions, the ECB kept, during its meeting of March 7, its key interest rates unchanged, while indicating that it still expects them to remain at their present levels at least through the end of 2019, and in any case for as long as necessary. It also announced its decision to launch a new series of quarterly targeted longer-term refinancing operations, starting in September 2019 and ending in March 2021, in order to help preserve favorable bank lending conditions and the smooth transmission of monetary policy. In turn, the FED decided at the end of its meeting on January 30 to keep unchanged the target range of the federal funds rates at 2.25 to 2.5 percent, announcing that it will be patient regarding future adjustments to this band.

9. Nationally, the latest data published by the HCP indicate a slowdown in GDP in the third quarter of 2018 at 3 percent as against 3.9 percent in the same period a year earlier. Taking into account the available infra-annual indicators, growth for the whole of 2018 would stand, according to Bank Al-Maghrib projections, at 3.1 percent as against 4.1 percent in 2017, with a deceleration in agricultural value added from 15.4 percent to 4.3 percent and a slight increase in the pace of non-agricultural activities from 2.7 percent to 2.9 percent. The latter would continue to improve, albeit slowly, as their value added is set to increase by 3.4 percent in 2019 and by 3.8 percent in 2020. For the agricultural sector, based on the available climate data on March 10, the Bank projects a cereal production of around 60 million quintals and a decline in agricultural value added by 3.8 percent. The latter would increase by 6 percent in 2020, assuming a crop year of around 80 million quintals. Overall, national growth is expected to remain limited to 2.7 percent in 2019 before accelerating to 3.9 percent in 2020.

10. In the labor market, the situation relatively improved in 2018 in terms of job-creation, with the generation of 112 thousand new jobs, 65 thousand of which in the services sector. Taking into account the net entry of 64 thousand job-seekers, the activity rate continued its downward trend, falling from 46.7 percent to 46.2 percent. Under these circumstances, the unemployment rate dropped from 10.2 percent to 9.8 percent at the national level and from 14.7 percent to 14.2 percent in urban areas, where it remained, nonetheless, very high among youth aged 15-24 years, at 43.2 percent.

11. 11. With regard to external accounts, the provisional data of 2018 show a notable performance of exports of goods across all sectors, including phosphate and derivatives, automotive, construction as well as agricultural products and agri-food. At the same time, imports were marked by the rise in the

energy bill and in capital goods' purchases. Concerning the other main items of the current account, and after posting important increases in 2017, travel receipts rose 1.5 percent to 73.2 billion dirhams while remittances of Moroccan expatriates dropped 1.7 percent to 64.8 billion dirhams. Taking also account of an inflow of 2.8 billion dirhams as GCC grant, after 9.5 billion a year earlier, the current account deficit worsened from 3.6 percent of GDP in 2017 to 5.2 percent in 2018. It would ease to 4.1 percent in 2019 and 3.4 percent in 2020, particularly owing to an expected decline in energy imports and a slowdown in capital goods' purchases. This trend also implies an entry of GCC grants of 2 billion dirhams in 2019 and 1.8 billion in 2020. In terms of financial transactions, FDI inflows reached the equivalent of 4.1 percent of GDP in 2018 and are expected to drop to 3.4 percent of GDP in 2019 and in 2020. Under these conditions and taking into account the expected borrowings of the Treasury from international markets, net international reserves would rise from 231 billion dirhams in 2018 to 239 billion in 2019 before dropping to 236 billion in 2020, continuing, thus, to cover slightly over 5 months of imports of goods and services.

12. With regard to monetary conditions, after remaining stable in 2018, the real effective exchange rate is expected to appreciate by 0.7 percent in 2019, the inflation gap between Morocco and its main partners and competitors should only partially offset the anticipated nominal appreciation of the dirham. In 2020, with the expected dissipation of the latter, it should depreciate by 0.5 percent. As to lending rates, they continued their decline, dropping to an average of 5.06 percent during the fourth quarter of 2018, with in particular quarterly declines of 28 basis points in loans to businesses and 11 basis points in personal loans. Concerning loans to the non-financial sector, they slowed down to 3.1 percent in 2018, reflecting mainly a sharp deceleration of loans to private companies, and should keep this pace in 2019 before accelerating to 4.4 percent in 2020.

13. In terms of public finance, data as at end-2018 show an improvement in current revenues by 1.8 percent, due to a 4.2 percent rise in tax revenues to 234.9 billion, and a decline of non-tax revenues owing mainly to declining GCC grants. Overall spending rose 2.4 percent, covering mainly increases by 5.5 percent in expenditures on other goods and services to 62.2 billion and by 15.6 percent in subsidy costs to 17.7 billion, as well as a drop in investment by 2 percent to 65.7 billion. Overall, budget execution resulted in a widening deficit at 41.4 billion or the equivalent of 3.7 percent of GDP as against the 3 percent target in the Finance Act. Over the medium-term, fiscal consolidation should, according to Bank Al-Maghrib's projections, slow down, as the deficit, excluding privatization receipts, is expected at 4.1 percent of GDP in 2019 before dropping to 3.5 percent of GDP in 2020.

OVERVIEW

Against a backdrop of strong and persistent uncertainties, the global economy continues to show signs of running out of steam. In the euro area, growth slowed to 1.1 percent in the fourth quarter from 1.6 percent a quarter earlier, mainly due to a sharp deceleration in Germany, Italy and France. Similarly, in the United Kingdom, it dropped from 1.6 percent to 1.3 percent, owing to lower corporate investments and deteriorating net exports. By contrast, US growth regained strength, reaching 3.1 percent in the fourth quarter, which reflects in particular the good performance of consumer and investment spending.

In the main emerging countries, growth slowed slightly, to 6.4 percent, in China in the fourth quarter, mainly in connection with weakening domestic demand. It also slowed down quarter-on-quarter, from 6.8 percent to 6.3 percent in India and from 1.3 percent to 1.1 percent in Brazil. In comparison, data for the third quarter indicate a decline in growth to 1.5 percent in Russia, particularly in relation to a sharp contraction in agricultural production.

The situation on labor markets remained generally favorable in advanced countries. In the United States, unemployment rate fell to 3.8 percent in February from 4 percent a month earlier. Job creations, however, dropped to 20,000 from 311,000. In the euro area, this rate remained stable at 7.8 percent in January 2019, its lowest since October 2008.

In the stock markets, the indexes of the main advanced economies trended upwards between January and February, with performances of 5.7 percent for the Dow Jones and 4 percent for the EuroStoxx 50. In emerging economies, the MSCI EM index grew by 4.1 percent, backed in particular by the rise of 7.4 percent in the index of China and 9 percent in that of Turkey.

In sovereign debt markets, yields on 10-year bonds generally fell in February, standing at 0.1 percent for Germany and 1.3 percent for Spain, and stagnated at 0.6 percent for France and 2.8 percent for Italy. Yield on US Treasury bonds also stagnated at 2.7 percent. In emerging economies, with the exception of India, where it edged slightly up to 7.6 percent, sovereign bond yield for the same maturity declined in Brazil, China and Turkey.

In currency markets, the euro depreciated between January and February by 0.7 percent vis-à-vis the dollar and lost 1.2 percent against the pound sterling. As for the currencies of the main emerging countries, the Brazilian real and the Chinese yuan stabilized against the dollar, while the Indian rupee depreciated by 0.8 percent and the Turkish lira appreciated by 1.6 percent. As to bank credit, its annual growth rate accelerated in the United States from 4.2 percent in December to 4.9 percent in January, while it decelerated in the euro area from 3.4 percent to 3 percent.

In commodity markets, the Brent price rebounded by 8.2 percent in February compared to the month before, to $ 64.1/bl, following a decline in OPEC production and lower American inventories at the end of the month. On a year-on-year basis, this price fell slightly, by 2 percent. Prices for nonenergy products dropped 9.6 percent year-on-year for metals and ores and 5.4 percent for agricultural products. Prices of phosphates and derivatives declined slightly year-on-year, by 24.2 percent for crude phosphate to $102.5/t, 7.5 percent for TSP to $344/t and 7.8 percent for urea to $250.6/t, while DAP prices declined 3.4 percent to $357.4/t.

Against this background, inflationary pressures generally weakened, especially in advanced countries. In the United States, inflation went slightly down, from 1.6 percent in January to 1.5 percent in February, while in the euro area, it accelerated slightly from 1.4 percent to 1.5 percent. In the United Kingdom, the latest data for January indicate an inflation rate at 1.8 percent against 2.1 percent in December.

As regards monetary policy decisions, the ECB kept its rates unchanged on 7 March, indicating that they will remain at their current levels at least until the end of 2019 and as long as necessary to ensure the continued sustainable convergence of inflation to levels that are below, but close to, 2 percent over the medium term. It also indicated that it will continue reinvesting, in full, principal repayments of maturing securities acquired under the Asset Purchase Programme (APP) for an extended period of time after the date on which it will begin to raise rates and, in any event, as long as necessary to maintain favorable liquidity conditions and a high degree of monetary support. It also announced that it will take more accommodating measures, particularly with the launch of a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), each with a maturity of two years, between September 2019 and March 2021. Similarly, in January, the Fed kept the targeted range for federal funds rate unchanged at 2.25 percent-2.50 percent, while indicating that future adjustments are not to be made any time soon.

At the national level, provisional external accounts data for 2018 indicate continued export momentum, particularly with an improvement of 17 percent to 51.7 billion dirhams in the sales of phosphates and derivatives and 10.7 percent to 65 billion of automotive exports. In parallel, imports gained 9.6 percent, mainly due to an increase of 18.3 percent to 82.2 billion in the energy bill and a rise of 9.5 percent to 119.8 billion in imports of capital goods. As regards the other major components of the current account, travel receipts gained 1.5 percent to 73.2 billion dirhams, expatriate remittances fell 1.7 percent to 64.8 billion dirhams, and GCC grants reached 2.8 billion dirhams. Net FDI inflows went up 6.7 billion to 32.8 billion. Given these developments and those of the other items of the balance of payments, outstanding net international reserves stood at 230.9 billion at end-2018, the equivalent of 5 months and 4 days of goods and services imports.

At the monetary level, the bank liquidity requirement averaged 72 billion dirhams in January and February 2019. Bank Al-Maghrib increased its injections to 72.8 billion on average, thus maintaining the weighted average rate on the interbank market close to the key rate. Monetary conditions were also marked, in the fourth quarter of 2018, by a 0.3 percent rise in real effective exchange rate and a 29 basis point decrease in lending rates to 5.06 percent. Credit to the nonfinancial sector continues to grow at a moderate pace, with a rise of 3.1 percent at end-2018, covering increases of 0.5 percent for private nonfinancial corporations, 5.3 percent for households and 4.2 percent for public nonfinancial corporations.

At the level of public finance, the 2018 fiscal year resulted in a budget deficit up 4.2 billion, to 41.4 billion. Current revenues improved by 1.8 percent, covering increasing tax revenues and a decline in nontax ones, mainly due to the fall in donations from GCC countries to $2.8 billion from $9.5 billion a year earlier. In comparison, overall spending were up 2.4 percent, reflecting in particular increases by 5.5 percent for the other goods and services, by 15.6 percent in subsidization expenses to $17.7 billion, or 129.1 percent of the Finance Act forecasts, and 6 percent in transfers to local governments, while investment fell 2 percent to 65.7 billion. Taking into account the reconstitution of outstanding payments amounting to 3.2 billion, the Treasury's financing requirement stood at 38.1 billion, up 0.17 billion. This requirement and the negative net external flow of 1.9 billion were covered by domestic resources amounting to 40 billion. As a result, direct public debt would have increased by 4.7 percent at end-2018 to 65 percent of the GDP. As regards the budget execution in the first month of 2019, it shows a surplus of 738 million dirhams instead of 978 million a year ago. This development covers an improvement of 12.8 percent in current revenue and an increase of 17.5 percent in overall spending, mainly due to the rise in goods and services and Treasury's investments.

At the national accounts level, data for the third quarter of 2018 show a deceleration of growth to 3 percent as against 3.9 percent in the same quarter of last year. Agricultural value added gained 3.8 percent instead of 15 percent and that of nonagricultural activities improved by 3 percent instead of 2.5 percent. As regards demand, household final consumption went up 3.8 percent instead of 2.4 percent and general government consumption 2.3 percent after 1.7 percent. Investment, in turn, rose 6.5 percent after falling 1.4 percent. On the other hand, the contribution of net exports of goods and services to growth was negative at 1.7 percentage points against a positive contribution of 2.6 points a year earlier.

In the labor market, job creations amounted to 112 thousand as against 86 thousand in 2017, driven by an increase of 65 thousand positions in services. Taking into account a net inflow of 64 thousand jobseekers, employment rate fell from 46.7 percent to 46.2 percent and unemployment rate dropped from 10.2 percent to 9.8 percent. The latter, however, remains high among urban youth, at 43.2 percent.

In the real estate market, prices posted a quarterly increase of 0.3 percent in the fourth quarter and transactions number rebounded 11.2 percent. For the year as a whole, after a rise of 5.3 percent in 2017, prices stabilized in 2018 and transactions increased by 4.5 percent, covering rises of 2.9 percent for residential property, 8.4 percent for land and 9.1 percent for property intended for professional use. On the Casablanca Stock Exchange, after an underperformance of 8.3 percent at year-end, latest data for the month of February indicate a 2 percent drop in the MASI since the beginning of the year. In this context, market capitalization rose to 574.9 billion dirhams during the first two months of 2019, down 1.2 percent compared to December 2018.

Under these conditions, inflation stood at 1.9 percent for the whole of 2018 compared to 0.7 percent in 2017, driven mainly by the acceleration of the rise in volatile food prices, as core inflation dropped from 1.3 percent to 1.1 percent. Recent data point to a drop in inflation to -0.5 percent in January, reflecting a bigger decrease in the prices of volatile food products to 7.8 percent and fuels and lubricant to 10.7 percent. Core inflation showed a slight deceleration to 1 percent, mainly in connection with the slowdown of its food component.

In terms of outlook, global growth is still surrounded by downside risks, particularly in connection with geopolitical tensions, the rise of protectionism and the uncertainties surrounding the Brexit. In the euro area, GDP growth would be limited to 1.3 percent in 2019 before recovering moderately to 1.7 percent in 2020. In the United States, growth is expected to slow down from 2.9 percent in 2018 to 2.1 percent in 2019 and 1.6 percent in 2020, mainly in relation to continued monetary tightening and the fading effects of the fiscal stimulus packages. In the labor market, the situation would remain favorable, as unemployment rate would remain low in the United States and would continue to drop in the euro area, with yet widely different levels depending on the country.

In emerging economies, economic growth in China is expected to edge down, at a yet muted pace, from 6.6 percent in 2018 to 6.1 percent in 2019 and 6.2 percent in 2020, thanks to tax measures and monetary incentives. In India, growth would remain particularly supported by vigorous domestic demand and the expected fall in energy product prices.

On commodity market, Brent world prices are expected to fall, mainly under the assumption of a slowdown in world demand for the expected increase of production in the United States. After an average price of $71.1/bl in 2018, Brent price would stand at $63.2/bl on average in 2019 and $61.7/bl in 2020. Food prices are expected to increase gradually over the medium term, after a dip of 3.5 percent in 2018. The prices of phosphates and derivatives would stand at $404/t on average in 2019, $408 in 2020 for DAP, and $343/t and $346/t, respectively, for TSP. Similarly, crude phosphate prices would rise slightly to $89/t in 2019 and $92/t in 2020.

Against this background, global inflation is expected to decelerate overall in 2019 before returning to levels close to those of 2018 over the rest of the forecast horizon. It would stand in the United States at 1.7 percent in 2019 and 2.3 percent in 2020, and is expected to fall in the euro area to 1.3 percent in 2019 and then to 1.5 percent in 2020.

At the national level, export growth rate would slow down in 2019 to 4.8 percent, with decelerating sales in the automotive industry, as the Peugeot plant would only start up from July 2019. In 2020, the dynamics of exports would accelerate to 6.1 percent. In parallel, import growth rhythm is expected to slow to 2.9 percent in 2019 and 3.2 percent in 2020, as a result of the projected ease in the energy bill and a slower rise in the imports of capital goods. In terms of travel receipts and expatriate remittances, their growth would range between 3.1 percent and 3.5 percent in 2019 and would stand at around 4 percent in 2020, respectively. Given these developments, and assuming GCC grant inflows of $2 billion in 2019 and $1.8 billion in 2020, the current account deficit is expected to ease to 4.1 percent of GDP in 2019 and 3.4 percent in 2020. FDI inflows would stabilize at 3.4 percent of GDP over the forecast horizon. All in all, and taking into account the two planned Treasury borrowing operations from international markets, NIR are expected to strengthen to 239.4 billion in 2019 before dropping to 235.7 billion in 2020, thus ensuring the coverage of just over 5 months of imports of goods and services.

Taking into account the projected development of net international reserves and the underlying increase in notes and coins, the liquidity deficit would widen from 69.7 billion dirhams at end-2018 to 70.6 billion at end-2019, and 84.8 billion at end- 2020. As to monetary conditions, the real effective exchange rate would appreciate slightly in 2019 before depreciating relatively in 2020. Concerning credit to the nonfinancial sector, its growth would remain moderate at 3.1 percent in 2019, before accelerating to 4.4 percent in 2020.

At the level of public finance, the consolidation process would slow down. Fiscal deficit would widen further to 4.1 percent of GDP in 2019, as against 3.7 percent of GDP in 2018, mainly in connection with a significant rise in operating expenses. In 2020, it would decline to 3.5 percent, mainly as a result of revenue mobilization efforts.

As for national accounts, national growth would stand at 3.1 percent in 2018 compared to 4.1 percent in 2017, covering a deceleration from 15.4 percent to 4.3 percent in agricultural value added and an improvement from 2.7 percent to 2.9 percent in nonagricultural activitiesTaking into consideration a forecasted cereal production close to 60 million quintals for the 2018-19 crop year, based on climate data as at 10 March, and assuming a normal 2019-2020 crop year, agricultural value added would decline 3.8 percent in 2019 before gaining 6 percent in 2020. In parallel, nonagricultural activities would go on improving with an increase of 3.4 percent and then 3.8 percent. In total, GDP growth would amount to 2.7 percent in 2019 and would accelerate to 3.9 percent in 2020.

Against this backdrop, inflation would fall from 1.9 percent in 2018 to 0.6 percent in 2019 before accelerating to 1.1 percent in 2020. Its underlying component is expected to decelerate to 0.8 percent in 2019, mainly due to the decline in domestic demand and the appreciation of the REER before rising to 1.4 percent in 2020.

The central forecast scenario is still marked by numerous uncertainties which, if they materialize, can impact the central projection. The balance of risks is tilted downwards for growth and even-handed for inflation. Risks surrounding national growth are linked to cereal production which remains dependent on short-term weather conditions, as well as to a more important weakening in foreign demand, in line with a bleaker activity outlook in the main partner countries. These are, in fact, subject to several uncertainties, notably related to the rise of protectionism, Brexit terms, as well as further weakening growth in China. As to inflation forecasts, a higher Brent price could lead to an increase in inflation. In contrast, a bigger decline in domestic demand and/or an increased appreciation of the REER could dampen inflation. Concerning the projections of other variables, NIR forecasts in particular would still depend mainly on the effective reception of GCC grants and the realization by the Treasury of two consecutive borrowing operations on the international market.

1.INTERNATIONAL DEVELOPMENTS

During the year 2018, and with the exception of the United States, where it recorded a slight acceleration, economic growth slowed down in most main advanced and emerging economies. In the euro area, data for the fourth quarter of 2018 show continued deceleration in growth. Similarly, in the United Kingdom, and after two quarters where activity strengthened, growth slowed down in connection with increased Brexit uncertainties as the deadline of 29 March was approaching. In Japan, growth increased slightly, mainly as a result of improved investment. In the main emerging economies, growth continues to lose momentum in China and India, with a new slowdown in the fourth quarter of 2018. In Russia, available data, which concern the third quarter, point to a deceleration in growth. On the labor market, the situation remains generally favorable in the main advanced economies, with yet varying developments across countries. In turn, financial markets were mainly driven by a renewed optimism about the outcome of the ongoing trade negotiations between the United States and China as well as by a more accommodating stance of the FED regarding its monetary policy normalization. The main stock market indices of advanced and emerging countries went up, while sovereign bond yields eased. On commodity markets, oil price edged upwards, while nonenergy products were down overall, year-on-year. Under these conditions, inflation rate accelerated slightly in February in the euro area, while it went down in the United States. Overall, these developments indicate the absence of external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, growth strengthened again, to 3.1 percent in the fourth quarter, reflecting, in particular, the good performance of consumer spending and investment. In contrast, and against a backdrop of strong uncertaintied linked, in particular, to the outcome of the Brexit and the political developments in some European countries, growth in the euro area slowed down for the fifth quarter in a row, dropping to 1.1 percent at the fourth quarter of 2018. This reflects a decrease of growth in Germany to 0.6 percent, following the decline of car production in connection with the introduction of new standards aimed at combating pollution. The decline also affected France and Italy, whose growth decelerated respectively to 0.9 percent and 0.03 percent, while in Spain growth stabilized at 2.4 percent.

Table 1.1: YoY change in quarterly growth

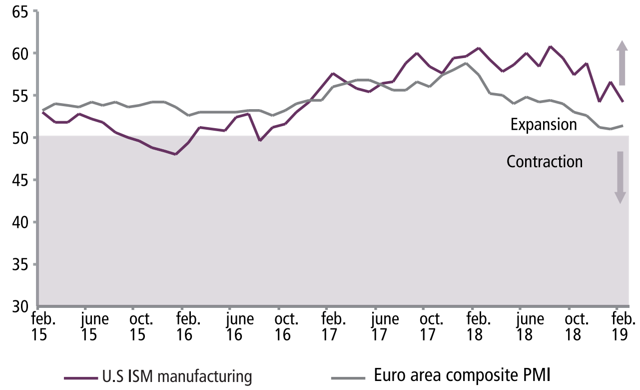
	2016		2017				2018			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Advanced economies										
United States	**1.5**	**1.9**	**1.9**	**2.1**	**2.3**	**2.5**	**2.6**	**2.9**	**3.0**	**3.1**
Euro area	**1.8**	**2.1**	**2.1**	**2.5**	**2.8**	**2.7**	**2.4**	**2.2**	**1.6**	**1.1**
France	0.9	1.2	1.4	2.3	2.7	2.8	2.2	1.7	1.3	0.9
Germany	2.1	1.9	2.1	2.2	2.7	2.8	2.1	2.0	1.2	0.6
Italy	1.2	1.3	1.6	1.7	1.7	1.7	1.4	1.1	0.6	0.0
Spain	3.1	2.7	2.9	3.1	2.9	3.1	2.8	2.5	2.4	2.4
United Kingdom	**1.7**	**1.7**	**1.8**	**1.9**	**2.0**	**1.6**	**1.3**	**1.5**	**1.6**	**1.3**
Japan	**0.6**	**1.2**	**1.3**	**1.8**	**2.2**	**2.4**	**1.4**	**1.4**	**0.2**	**0.3**
Emerging economies										
China	**6.7**	**6.8**	**6.9**	**6.9**	**6.8**	**6.8**	**6.8**	**6.7**	**6.5**	**6.4**
India	**7.2**	**6.9**	**6.0**	**5.9**	**6.6**	**7.3**	**7.6**	**7.8**	**6.8**	**6.3**
Brazil	**-2.5**	**-2.3**	**0.1**	**0.6**	**1.4**	**2.2**	**1.2**	**0.9**	**1.3**	**1.1**
Turkey	**-0.8**	**4.2**	**5.3**	**5.3**	**11.5**	**7.3**	**7.2**	**5.3**	**1.6**	**-3.0**
Russia	**-0.2**	**0.4**	**0.6**	**2.5**	**2.2**	**0.9**	**1.3**	**1.9**	**1.5**	**n.d**

Source : Thomson Reuters.

In the UK, the pace of activity decelerated in the fourth quarter to 1.3 percent, reflecting a decrease of corporate investment and deteriorating net exports. In Japan, growth increased slightly to 0.3 percent in the fourth quarter, reflecting mainly an improvement in corporate investment. As to the main emerging countries, growth in China decelerated again in the fourth quarter to 6.4 percent, following the weakening of domestic demand. Due mainly to the weakness of household consumption and public spending, growth in India declined for the second time to 6.3 percent. In the same way, and after accelerating in the third quarter, growth in Brazil decelerated to 1.1 percent amid a slowdown in investment and a contraction in public spending. On the other hand, economic activity data in Russia, relating to the third quarter, indicate a decline in growth to 1.5 percent, particularly in relation to the strong decline in agricultural production.

Moreover, advanced activity indicators show an improvement in the Eurozone composite PMI index which increased slightly to 51.4 points in February from 51 points in January. Conversely, the US manufacturing PMI dropped to 54.2 points as against 56.6 a month ago.

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



Source : Thomson Reuters.

1.1.2 Labor market

On the labor market, unemployment rate in the United States fell to 3.8 percent in February against 4 percent in the month before, with yet a drop in job creations to 20,000 posts against 311,000 a month ago. In the euro area, unemployment rate remained stable at 7.8 percent in January 2019, its lowest level since October 2008. By country, it decreased to 8.8 percent in France, 3.2 percent in Germany and 14.1 percent in Spain, while it posted a slight increase to 10.5 percent in Italy. In the United Kingdom, the data available for November indicate a stabilization of unemployment rate at 4.0 percent.

Table 1.2: Change in unemployment rate (%)

	2017	2018	2018		2019
			dec.	jan.	feb.
United States	**4.4**	**3.9**	**3.9**	**4.0**	**3.8**
Euro area	**9.1**	**8.2**	**7.8**	**7.8**	**N.A**
France	9.4	9.1	8.9	8.8	N.A
Italy	3.8	3.4	3.3	3.2	N.A
Germany	11.2	N.D	10.4	10.5	N.A
Spain	17.2	15.3	14.3	14.1	N.A
United Kingdom	**4.4**	**N.A**	**N.A**	**N.A**	**N.A**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

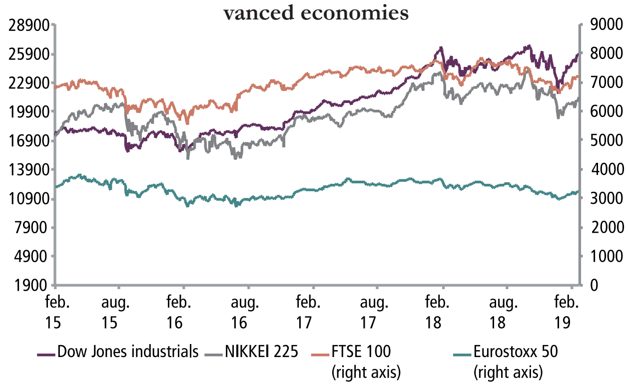
On the stock markets, the indices of the main advanced economies increased between January and February, with the Dow Jones rising by 5.7 percent, the EuroStoxx 50 by 4 percent, the NIKEEI 225 by 2.9 percent and the FTSE 100 by 4.3 percent. These developments were accompanied by a decline in volatility both in the US and the European markets.

As to the emerging economies, the MSCI EM index posted a 4.1 percent rise, covering mainly respective increases of 7.4 percent and 9 percent for the indices of China and Turkey and a slight decrease of 0.5 percent for India.

In the bond markets, sovereign yields trended downwards in February. In the main European economies, 10-year bond yields decreased to 0.1 percent for Germany, 1.3 percent for Spain, 1.6 percent for Portugal and 4.4 percent for Greece, while it stagnated at 0.6 percent for France and 2.8 percent for Italy. This yield also remained unchanged at 2.7 percent for US T-bills.

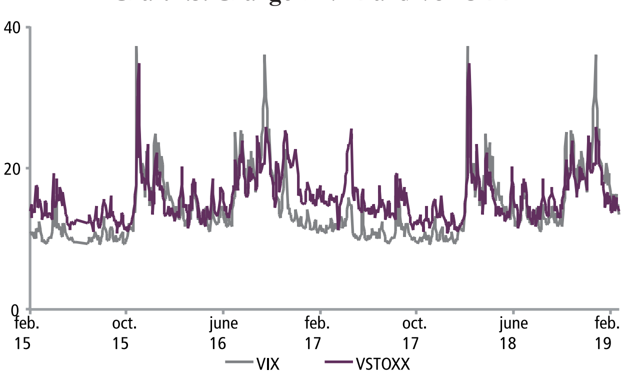
Concerning the main emerging economies, except India where 10-year sovereign yield increased from 7.5 percent to 7.6 percent between January and February, it fell from 8.4 percent to 8.1 percent for Brazil, from 3.2 percent to 3.1 percent for China and from 15.5 percent to 14.4 percent for Turkey.

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



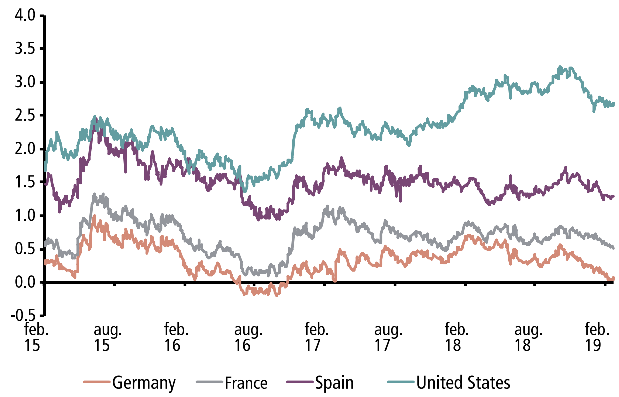
Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters.

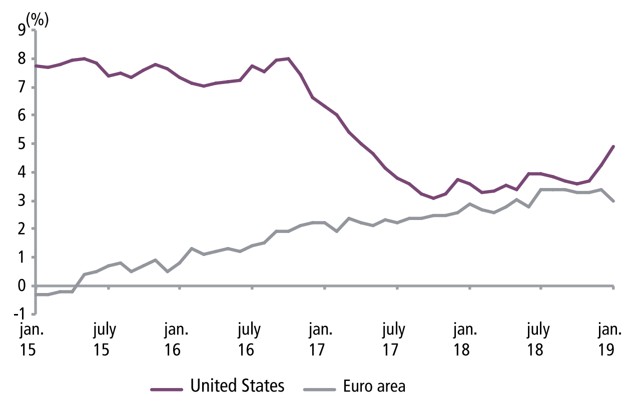
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters Eikon.

On the money markets, the 3-month Euribor remained unchanged at -0.3 percent, while Libor with the same maturity declined slightly from 2.8 percent in January to 2.7 percent in February. In turn, the annual growth rate of bank credit increased from 4.2 percent in December to 4.9 percent in January in the United States, while it decelerated from 3.4 percent to 3 percent in the euro area.

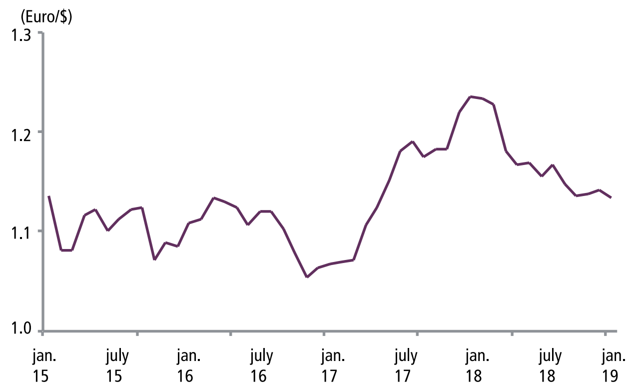
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

On foreign exchange markets, the euro depreciated between January and February by 0.7 percent against the dollar, and by 1.2 percent against the pound sterling, while it appreciated by 0.6 percent vis-à-vis the Japanese yen. The currencies of the main emerging countries evolved differently vis-à-vis the dollar, with the stagnation of the Brazilian real and the Chinese Yuan respectively at 3.7 reals and 6.8 Yuan, a depreciation of 0.8 percent for the Indian rupee and an appreciation of 1.6 percent of the Turkish lira.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

With regard to monetary policy decisions, the FED decided at its last meeting in January to maintain unchanged the target range of federal funds rate at 2.25 percent-2.50 percent. It also pointed out that, viewing the global economic and financial developments and moderate inflationary pressures, it will not apply future adjustments to the federal funds rates any time soon. In addition, it is willing to adjust the modalities of its balance normalization in light of the development of the economic and financial situation.

Similarly, the ECB decided on March 7 to keep rates unchanged and indicated that, from now on, it expects them to remain at their current levels at least through end-2019[1], and, in any event, as long as necessary to ensure the continued sustainable convergence of inflation to levels below, but close to, 2 percent over the medium-term. Concerning unconventional measures, it indicated that it intends to continue reinvesting, in full, principal repayments of maturing securities acquired under the APP for an extended period of time after the date on which it will begin to raise rates and, in any event, as long as necessary to maintain favorable liquidity conditions and a high degree of monetary support. It also announced that a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), each with a maturity of two years, will be conducted between September 2019 and March 2021.

The Bank of England also maintained, at its meeting of February 7, its key rate unchanged at 0.75 percent. In addition, it decided to keep the stock of purchases of British government bonds at £435 billion and the purchases of "investment grade" bonds of British nonfinancial companies at £10 billion.

In emerging countries, the Reserve Bank of India lowered, on February 7, its key rate by 25 basis points to 6.25 percent, and lowered its inflation projections. The Central Bank of Brazil kept unchanged, on February 6, its key rate at 6.5 percent, while indicating that recent data on economic activity points to a gradual recovery of the Brazilian economy. Finally, the Central Bank of Russia decided, on December 14, to raise its key rate by 0.25 percentage points to 7.75 percent, a decision aimed at curbing inflationary risks which remain high in the short term.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

Backed by the reduction of supply, mainly by the OPEC, and by the decline of US stocks at month-end, oil prices continued their recovery in February, with the price of Brent standing at $64.13/bl, an increase of 8.2 percent compared to January. However, it showed a slight decline of 2 percent, year-on-year.

1 In its previous press releases, the ECB expected rates to remain at their current level at least through the summer of 2019

In turn, the price of natural gas on the European market posted a further decline of 17.3 percent, from one month to the next, and of 10.6 percent, year-on-year.

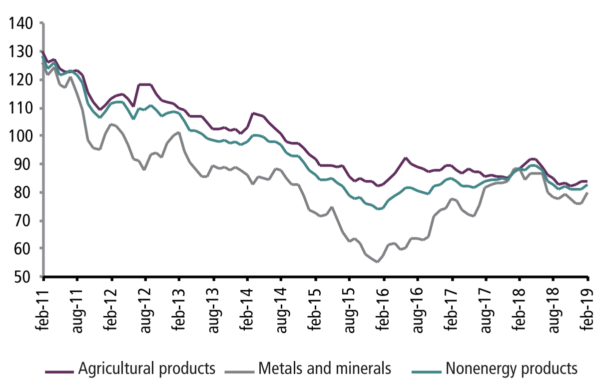
Chart 1.7 : Brent prices in dollars

Source : World Bank.

1.3.2 Non-energy commodity prices

Non-energy commodity prices continued to decline in February, with falls of 9.6 percent year-on-year for metals and ore and 5.4 percent for agricultural products. Concerning hard wheat in particular, its price rebounded by 4.4 percent from one month to the next and showed an annual increase of 14 percent.

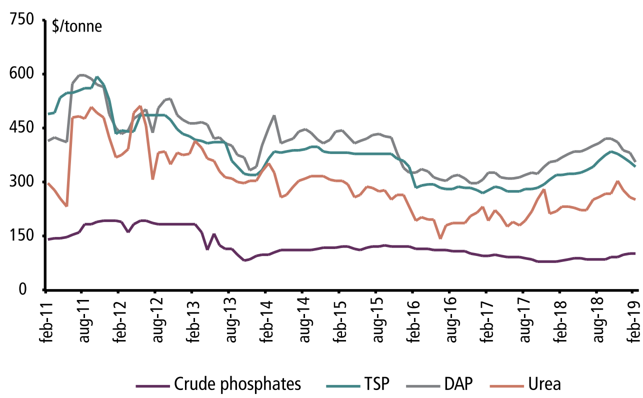
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

In the phosphate and fertilizers market, prices continued their decline in February, with rates of 6.5 percent to $357.4/t for the DAP, 3.1 percent to $344/t for the TSP and 3.6 percent to $250.6/t for urea. The price of crude phosphate, however, remained unchanged at $102.5/t, just like the price of potassium chloride, at $ 215.5/t. On an annual basis, data indicate, on one hand, price increases of 24.2 percent for crude phosphate, 7.5 percent for the TSP and 7.8 percent for urea, and on the other hand, a decrease of 3.4 percent for the DAP and a stagnation for potassium chloride.

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



Source: World Bank.

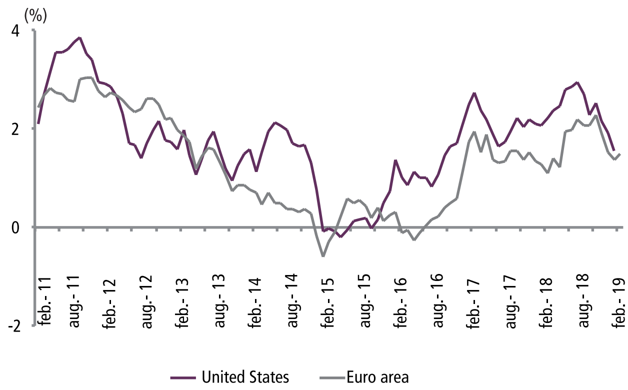
1.3.3 Inflation

According to Eurostat, inflation in the euro area slightly accelerated in February, from 1.4 percent to 1.5 percent. By country, it stood at 1.6 percent after 1.4 percent in France, at 1.1 percent after 0.9 percent in Italy, at 1.1 percent after 1 percent in Spain while it remained stable at 1.7 percent in Germany.

For the other major advanced economies, consumer price rise slowed down from 1.6 percent to 1.5 percent in the United States while in the United Kingdom and Japan, the latest data, relating to January, show declines to 1.8 percent and 0.2 percent, respectively.

In emerging countries, inflation accelerated in February from 5 percent to 5.2 percent in Russia, from 3.8 percent to 3.9 percent in Brazil and from 2 percent to 2.6 percent in India. However, it continued its decline in China, falling from 1.7 percent to 1.5 percent.

Chart 1.10: Inflation in the United States and the euro area



Sources : Eurostat and BLS.

Table 1.3 : Recent year-on-year change in inflation in main advanced countries

	2016	2017	2018	2019	
			dec.	jan.	feb.
United States	**1.3**	**2.1**	**1.9**	**1.6**	**1.5**
Euro area	**0.2**	**1.5**	**1.5**	**1.4**	**1.5**
Germany	0.4	1.7	1.7	1.7	1.7
France	0.3	1.2	1.9	1.4	1.6
Spain	-0.2	2.0	1.2	1.0	1.1
Italy	-0.1	1.3	1.2	0.9	1.1
United Kingdom	**0.7**	**2.7**	**2.1**	**1.8**	**N.A**
Japan	**-0.1**	**0.5**	**0.3**	**0.2**	**N.A**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

In 2018, the trade deficit widened by 16.4 billion, to reach DH 205.6 billion. Imports surged by 42.2 billion or 9.6 percent, mainly reflecting a higher energy bill and increased capital goods purchases. In parallel, the dynamism of exports was maintained with a hike of 25.9 billion or 10.4 percent, mainly as a result of the continued good performance of sales of phosphates and derivatives and the automotive industry. As a result, the coverage rate rose from 56.8 percent to 57.2 percent year-on-year.

In addition, the growth rate of travel receipts slowed from 12.3 percent in 2017 to 1.5 percent in 2018, expatriate remittances fell by 1.7 percent after an increase of 5.3 percent in 2017, and donations from the GCC totaled DH2.8 billion for the year 2018, as against 9.5 billion a year ago. At the level of the main financial transactions, net FDI inflows increased by 25.9 percent to 32.8 billion, while flows of Moroccan investments abroad fell from 9.9 billion to 5.4 billion. Under these conditions, Bank Al-Maghrib's net international reserves stood at DH230.9 billion at end-2018, equivalent to 5 months and 4 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

The improvement in exports concerned all major sectors. Sales of phosphates and derivatives increased by 17 percent to DH 51.7 billion, mainly reflecting a hike in export prices, which reached 16.8 percent for natural fertilizers and 25 percent for phosphoric acid. In turn, exported quantities rose by 2.8 percent for phosphoric acid, 1.7 percent for crude phosphate and 1.3 percent for natural fertilizers. Automotive sales posted a rise of 10.7 percent to 65 billion, as a result of increases by 10.4 percent for "construction" and 7.9 percent for the "cabling" segment. Similarly, exports of the "agriculture and agri-food sector" gained 6.8 percent to 58.1 billion, covering a 15 percent increase for "agriculture, forestry, and hunting" to 23.9 billion and 1.7 percent for the agri-food industry to DH32.2 billion. For the other main sectors, sales increased by 4 percent to DH38.5 billion for "textiles and leather" and preserved their dynamism with an improvement of 13.9 percent to 13.9 billion for aeronautics.

Table 2.1: Change in exports*
(in millions of dirhams)

Sectors/ Segments	2018*	2017	Change	
			Value	In %
Exports	**274 713**	**248 841**	**25 872**	**10.4**
Phosphates and derivatives	**51 747**	**44 210**	**7 537**	**17.0**
Crude phosphate	8 267	8 370	-104	-1.2
Natural and chemical fertilizers	29 812	25 203	4 609	18.3
Phosphoric acid	13 669	10 637	3 032	28.5
Automotive	**65 047**	**58 783**	**6 264**	**10.7**
Construction	34 838	31 568	3 270	10.4
Cabling	23 029	21 339	1 690	7.9
Agriculture and Agri-business	**58 122**	**54 435**	**3 687**	**6.8**
Agriculture, forestry, and hunting	23 872	20 767	3 105	15.0
Agri-food industry	32 232	31 688	544	1.7
Textile and leather	38 512	37 048	1 464	4.0
Ready-made clothes	23 950	23 318	632	2.7
Underwear	7 816	7 553	263	3.5
Shoes	3 069	2 999	70	2.3
Aeronautics	**13 912**	**12 216**	**1 696**	**13.9**
Electronics	**9 771**	**9 112**	**659**	**7.2**
Electronic components	**4 624**	**4 395**	**229**	**5.2**
Pharmaceutical industry	**1 245**	**1 162**	**83**	**7.1**
Others	**36 357**	**31 875**	**4 482**	**14.1**

* Provisional data
Source: Foreign Exchange Office.

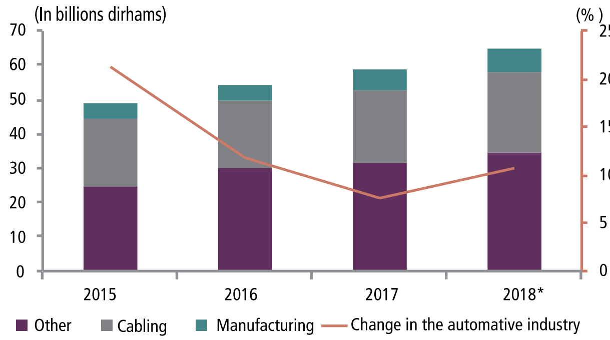
Table 2.2: Change in the exports of phosphates and derivatives* (YoY, in %)

	2018/2017		
	Value	Quantity	Price
Crude phosphates	-1.2	1.7	-2.9
Natural and chemical fertilizers	18.3	1.3	16.8
Phosphoric acid	28.5	2.8	25.0

* Provisional data

Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports



* Provisional data

Source: Foreign Exchange Office.

2.1.2 Imports

Imports increase in 2018 mainly reflects a heavier energy bill, up 18.3 percent to 82.2 billion, in a context marked by rising international oil prices. As a result, imports of "gas oil and fuel" and "Coal, coke and fuel" surged by 20.7 percent and 43.7 percent, mainly due to an in increase in their import prices by 28.3 percent and 20.2 percent, respectively. Purchases of capital goods rose by 9.5 percent to 119.8 billion, with in particular an increase of $2.9 billion for imports of "aircraft and other air or space vehicles ". Imports of consumer goods gained 7.9 percent to 108.1 billion, reflecting mainly a rise of 19.5 in imports of "parts and spare parts for passenger cars". Similarly, imports of food products, which dropped by 4.6 percent in 2017, gained 7.7 percent to 45.8 billion, covering mainly an increase of 9.4 percent in wheat purchases to 9.1 billion and a decline of 29.2 percent in imports of "raw or refined sugar'".

In total, the trade deficit widened by 16.4 billion, to DH205.6 billion, and the coverage rate improved by 0.4 percentage point, to 57.2 percent.

Table 2.3 : Change in imports (in millions of dirhams)

Groups of use	2018*	2017	Change	
			Value	In %
FOB imports	**480 321**	**438 080**	**42 241**	**9.6**
Energy products	**82 239**	**69 542**	**12 697**	**18.3**
Gas oil and fuel	41 377	34 291	7 086	20.7
Coal coke and solid fuels	8 655	6 024	2 631	43.7
Petroleum gas and other hydrocarbons	15 601	13 789	1 812	13.1
Equipment goods	**119 759**	**109 352**	**10 407**	**9.5**
Planes and other aircrafts and spacecraft	4 892	2 000	2 892	-
Aircraft parts	7 709	5 438	2 271	41.8
Machinery and variues appliances	10 122	8 958	1 164	13.0
Finished consumer goods	**108 137**	**100 259**	**7 878**	**7.9**
Parts and spare parts for passenger cars	17 383	14 544	2 839	19.5
Semi-finished products	**99 621**	**95 571**	**4 050**	**4.2**
Wires bars and copper sections	5 094	4 022	1 072	26.7
Papers and cardboards	6 564	5 900	664	11.3
Raw products	**24 609**	**20 716**	**3 893**	**18.8**
Raw Sulfur	7 994	5 002	2 992	59.8
Food products	**45 780**	**42 526**	**3 254**	**7.7**
wheat	9 125	8 341	784	9.4
Oil cake	4 911	4 274	637	14.9

* Provisional data
Source: Foreign Exchange Office.

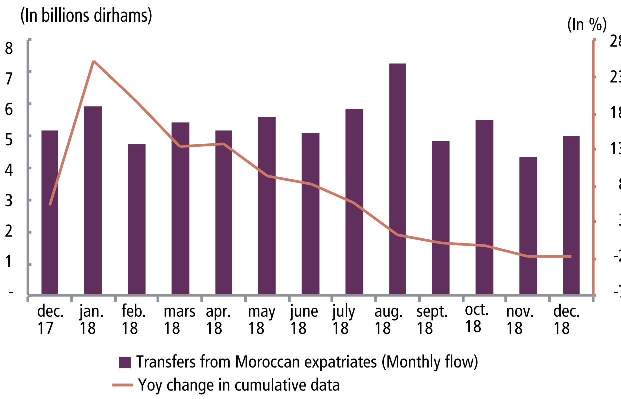
Table 2.4 : Yoy change in major energy import products (YoY, in %)

	2018/2017		
	Value	Quantity	Price
Gas oils and fuel oils	20.7	-5.9	28.3
Petroleum gaz and other fuel	13.1	-0.7	13.9
Coal coke and solid fuels	43.7	19.5	20.2

* Provisional data

Source: Foreign Exchange Office.

Chart 2.3: Change in transfers from Moroccan expatriates



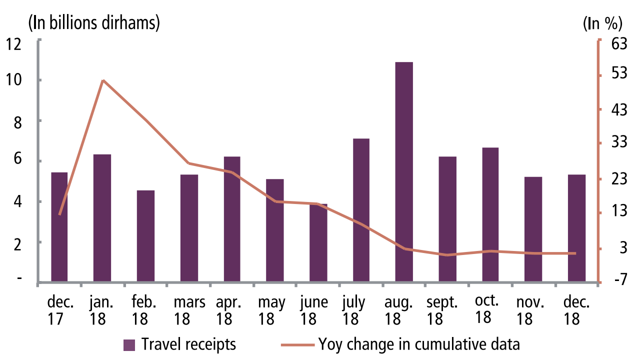
* Provisional data

Source: Foreign Exchange Office.

2.2 Other components of the current account

With regard to the balance of services, after a 12.3 percent rise in 2017, travel receipts increased by 1.5 percent to DH73.2 billion , while spending under the same heading rose by 8.8 percent to DH18.9 billion . As to transport services, revenues grew by 8.2 percent to 33 billion and expenditure increased by 7.7 percent to DH42.8 billion. In total, the balance of services showed an excess of DH74.2 billion, up 4.7 percent compared to the year before.

Chart 2.2: Change in travel receipts



* Provisional data

Source: Foreign Exchange Office.

With regard to expatriate remittances, after rising 5.3 percent in 2017, they fell 1.7 percent to DH64.8 billion.

Table 2.5: Change in the balance of services (in millions of dirhams)

	2018*	2017	Change	
			Value	In %
Imports	**100 316**	**96 730**	**3 586**	**3.7**
Transport service	42 846	39 776	3 070	7.7
Travel	18 860	17 341	1 519	8.8
Exportations	**174 515**	**167 607**	**6 908**	**4.1**
Transport service	32 953	30 462	2 491	8.2
Travel	73 196	72 127	1 069	1.5
Balance	**74 199**	**70 877**	**3 322**	**4.7**

* Provisional data

Source: Foreign Exchange Office.

2.3 Financial account

Net FDI inflows increased by DH6.7 billion to 32.8 billion, due to an increase of 11.7 billion in revenue which exceeded the 4.9 billion increase in sales. As to the flows of direct investments by Moroccans abroad, they fell by 9.9 billion to DH5.4 billion, following a decrease in these investments by 4.9 billion, more pronounced than the 455 million dirham increase in sales.

Under these conditions, net international reserves stood at 230.9 billion at end-November 2018, which corresponds to 5 months and 4 days of imports of goods and services.

Table 2.6: Change in Direct investments (in million dirhams)

	2018*	2017	Change	
			Value	In %
Foreign direct investments	**32 781**	**26 033**	**6 748**	**25.9**
Revenues	46 050	34 353	11 697	34.0
Expenses	13 269	8 320	4 949	59.5
Investments of Moroccans abroad	**5 436**	**9 895**	**-4 459**	**-45.1**

* Provisional data
Source: Foreign Exchange Office.

Provisional data for January 2019 indicate a widening of the trade deficit by DH1.2 billion, reflecting an increase of 2.6 billion in imports, bigger than the rise of 1.3 billion in exports.

The 5.9 percent improvement in exports concerned the main sectors, with, in particular, increases of 23 percent in sales of phosphates and derivatives, 3 percent in agricultural and agri-food products and 1.9 percent in those of the automotive sector. The 7 percent increase in imports reflects a growth by 12.6 percent in the purchases of semi-finished products and 43.8 percent in imports of raw products. The energy bill, on the other hand, fell by 5.4 percent compared to January 2018.

In parallel, travel receipts and expatriate remittances declined by 7.1 percent and 9.2 percent, respectively.

As to direct investments, net flows of foreign investments stood at 1.6 billion, down 30.4 percent compared to the first month of the previous year, and investments of Moroccans abroad amounted to 2.1 billion, up 41.4 percent.

Under these conditions, net international reserves stood at 228 billion at end-January, equivalent to 5 months and 2 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

Over the fourth quarter of 2018, monetary conditions were marked by an appreciation of the effective exchange rate and a decrease of lending rates. Credit to the nonfinancial sector continues to grow at a low pace, both for private and public enterprises. As to the other counterparts of money supply, net claims on the central government continued to accelerate and net international reserves declined. In total, the year-on-year growth rate of the money supply stabilized at 4.1 percent at the fourth quarter of 2018.

In the real-estate market, asset prices rose, quarter-on-quarter, by 0.3 percent in the fourth quarter, covering a stagnation in residential property prices and increases of 0.8 percent in urban land and 1.4 percent in property for professional use. As to transactions, their number rebounded by 11.2 percent. At the Casablanca Stock Exchange, the MASI appreciated by 0.3 percent in the fourth quarter, ending the year 2018 with an under-performance of 8.3 percent, while the volume of transactions increased from 16.9 billion to 22.3 billion quarter to quarter.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the fourth quarter of 2018, banks' liquidity needs slightly decreased to an average of DH 71.2 billion. Thus, Bank Al-Maghrib reduced the amount of its injections to 71.7 billion, of which 69.1 billion were in the form of 7-day advances and 2.3 in the form of secured loans granted under the VSME funding support program.

Available data for the months of January and February 2019 indicate a slight increase in the liquidity deficit to an average of 72 billion.

Under these circumstances, the interbank rate remained close to the key rate and averaged 2.28 percent in the fourth quarter and 2.27 percent in the months January and February 2019. In the Treasury bill market, after having experienced some stability, rates trended globally downwards in February 2019.

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

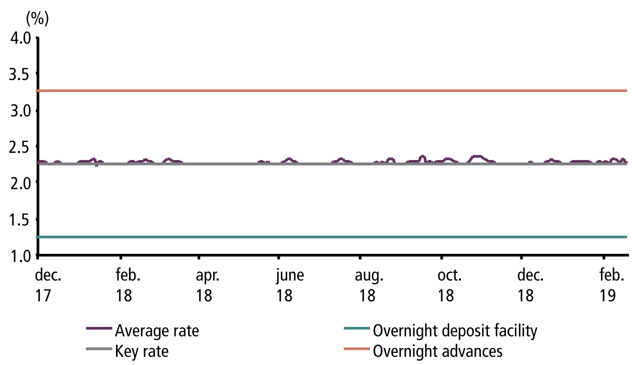
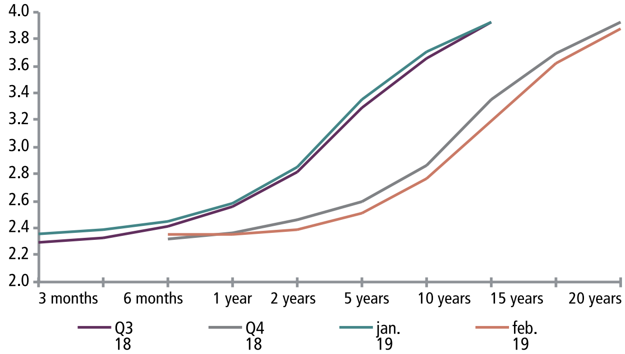


Table 3.1: Change in Treasury bond yields in the primary market

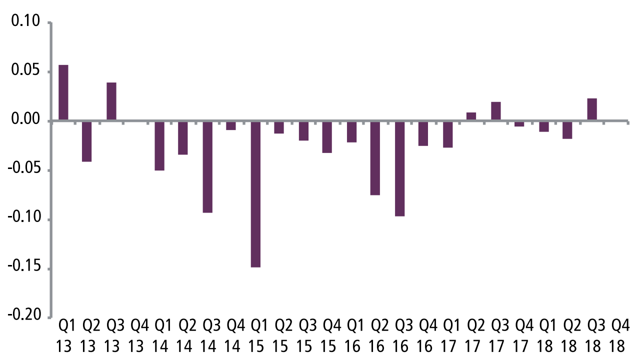
	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	jan.	feb.
52 weeks	2.32	2.26	2.36	2.29	2.35	2.31	2.42	2.45	2.44	2.35
2 years	2.52	2.41	2.49	2.44	2.53	2.49	2.58	2.6	2.58	-
5 years	2.83	2.78	2.83	2.77	2.8	2.77	2.82	2.86	2.85	2.75
10 years	3.27	3.27	3.32	3.28	3.28	3.24	3.28	3.34	-	3.25
15 years	3.87	3.87	3.87	3.71	3.68	3.68	3.7	3.74	3.72	3.62

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



In the other markets, the issuance rates of certificates of deposit did not in general post significant variations during the fourth quarter. Rates on time deposits recorded a decline of 9 basis points to 2.71 percent for 6-month deposits and 3 points to 3.04 percent for 1-year deposits. Under these circumstances, Banks' financing cost1 remained stable in the fourth quarter of 2018.

Chart 3.3: Change in cost of bank financing (in percentage points)



With regard to lending rates, the results of Bank Al-Maghrib' survey with banks for the fourth quarter of 2018 indicate a decrease of 29 basis points in the overall average rate to 5.06 percent. Rates of loans to businesses declined by 28 points, reflecting a decrease in those of cash facilities and equipment loans. By company size, rates fell 10 points for large companies and 3 points for VSME. Similarly, rates on personal loans declined by 11 basis points, with yet increases of 13 points for consumer loans and 5 points for housing loans.

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

Table 3.2 : Change in lending rates

	2018				Change (in pb)
	Q1	Q2	Q3	Q4	Q4/Q3-2018
Average lending rate	**5.43**	**5.36**	**5.35**	**5.06**	**-29**
Loans to individuals	**5.78**	**6.09**	**5.79**	**5.68**	**-11**
Real estate loans	4.94	5.00	4.85	4.90	5
Consumer loans	6.40	6.57	6.32	6.45	13
CLoans to companies	**5.28**	**5.12**	**5.18**	**4.90**	**-28**
By economic purpose					
Cash advances	5.23	5.02	5.15	4.82	-33
Equipment loans	5.51	5.20	4.90	4.82	-8
Real estate loans	5.41	5.98	5.85	6.14	29
By size of the company					
VSMEs	6.09	5.78	5.93	5.90	-3
Large enterprises	4.75	4.72	4.67	4.57	-10
Loans to individual entrepreneurs	**6.23**	**7.08**	**6.80**	**6.41**	**-39**
Real estate loans	5.78	6.06	5.76	5.94	18

Table 3.3: Deposit rates

	2016		2017				2018			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	2.94	2.90	2.86	2.80	2.81	2.80	2.79	2.78	2.80	2.71
12 months	3.33	3.30	3.20	3.10	3.09	3.10	3.15	3.10	3.07	3.04

3.1.2 Exchange rate

In the fourth quarter of 2018, the euro depreciated by 1.9 percent against the US dollar. Under these conditions, the national currency rose by 1.3 percent against the euro and depreciated by 0.7 percent against the US dollar. By way of comparison with currencies of the main emerging countries, the dirham appreciated by 1 percent against the Chinese Yuan, while it depreciated by 0.9 percent compared to the Turkish lira, and 4.4 percent against the Brazilian real. As a result, the effective exchange rate appreciated by

0.8 percent in nominal terms and 0.3 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

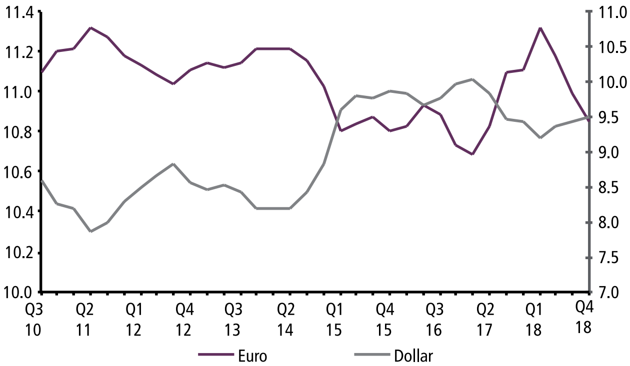
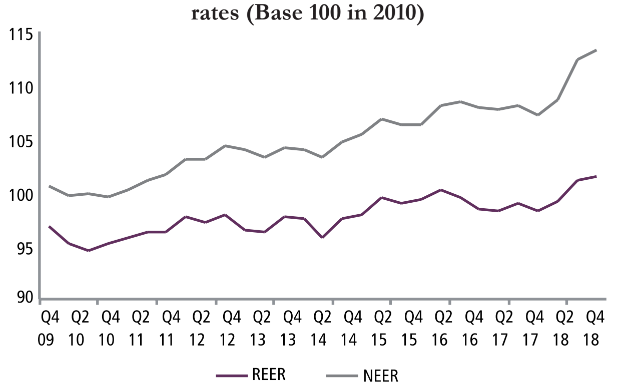


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

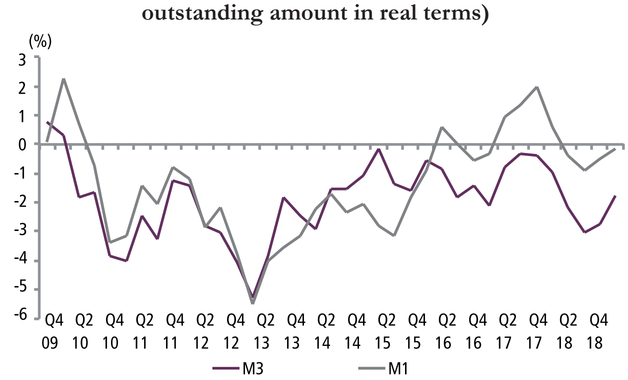
In terms of foreign currency transactions, the average volume of banks' cash transactions with customers in the fourth quarter increased by 4.1 percent to DH 22.8 billion for sales and 14.1 percent to 23.4 billion for purchases. Conversely, forward sales plummeted by 47.1 percent to 3.4 billion and forward purchases fell by 18.7 percent to 10.6 billion. During this period, Bank Al-Maghrib did not carry out any purchase or sale operation of currencies with banks. Under these conditions, the net foreign exchange position of banks amounted to 3.8 billion at end-December, against 10.3 billion at end-September 2018.

3.1.3 Monetary position

The growth rate of the M3 aggregate remained virtually stable at 4.1 percent in the fourth quarter of 2018. The analysis of the components of money supply indicates an acceleration from 0.7 percent to 5.8 percent, from one quarter to the next, in the growth rate of time deposits, following an expansion of 87.5 percent in those of the public sector, after a decrease of 38.2 percent. On the other hand, the growth rate of demand deposits decelerated from 5.8 percent to 4.9 percent, covering a decrease of 2.4 percent after a rise of 11.5 percent in deposits of state-owned enterprises and a slowdown from 6.5 percent to 4.9 percent in those of the private sector. With regard to the other components, currency in circulation increased by 6.6 percent instead of 6.9 percent and currency deposits fell by 3.2 percent against a rise of 5.2 percent a quarter before.

By main counterpart, M3 growth reflects a slowdown of 4.1 percent in net international reserves after an increase of 4.9 percent, a slight slowdown from 2.7 to 2.2 percent in bank lending, as well as an acceleration from 10.2 percent to 23.3 percent in net claims on the central government.

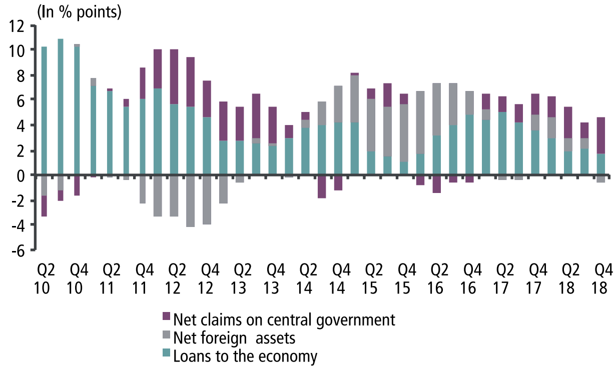
Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



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.

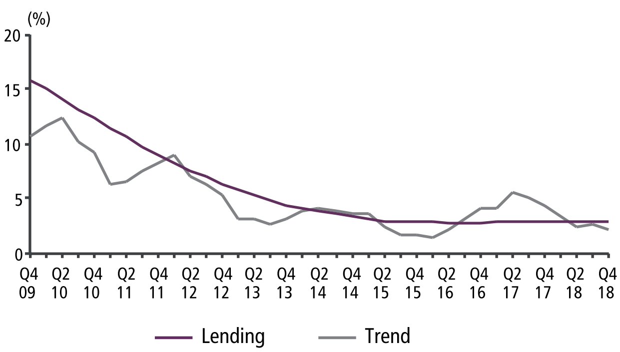
Source : BAM.

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



Regarding bank loans to the nonfinancial sector, its growth fell from 3.8 percent in the third quarter to 2.6 percent in the fourth quarter, reflecting mainly a deceleration in the growth rate of loans to both private and public companies.

Chart 3.8: YoY change in credit

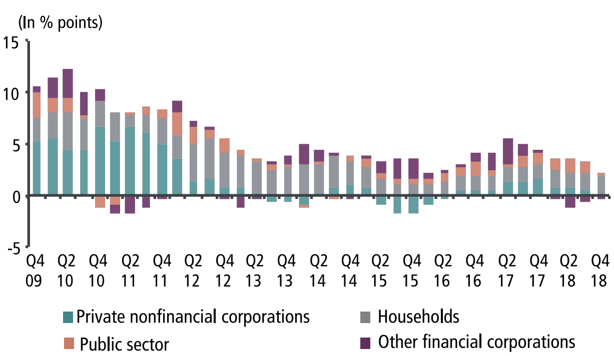


The growth rate of loans to public companies dropped from 14.5 percent to 4.1 percent, with a slowdown from 13.9 percent to 3.5 percent in equipment loans, and from 20.3 percent to 0.2 percent in cash facilities. Loans to private companies decreased by 0.1 percent in the fourth quarter after an increase by 1.1 percent. This development includes a deceleration from 2.2 percent to 0.1 percent in the growth rate of equipment loans and a fall of 5.3 percent in loans intended for property development after a virtual stagnation a quarter ago. Conversely, the drop in cash facilities eased from 1.1 percent to 0.2 percent.

By industry, quarterly data at end-December 2018 show an acceleration of credit growth rates from 13.7 percent to 19.2 percent for the «chemical and para-chemical industries» and from 0.9 percent to 3.4 percent for «the metallurgical, mechanical, electrical and electronic industries». Conversely, loans to «food and tobacco industries» and to the «construction» branch slowed from 14.4 percent to 14.3 percent and from 5.7 percent to 1.2 percent, respectively. Similarly, loans to the «transports and communication» and «trade, car repairs and household goods» branches posted respective decreases of 4.6 percent and 1.4 percent, after increases of 4.7 percent and 0.2 percent in the previous quarter.

With regard to loans to private individuals, they increased by 5.8 percent, after 5.4 percent in the third quarter, reflecting in particular rises from 5.6 percent to 6.3 percent for household loans and from 6.1 percent to 6.3 percent for consumer loans.

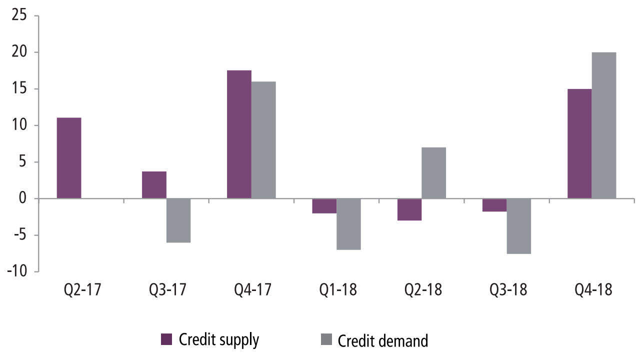
Chart 3.9: Institutional sectors' contribution to YoY change in credit



Nonperforming loans rose by 3.5 percent in the fourth quarter. This growth reflects increases of 2.4 percent for private nonfinancial businesses and 3.1 percent for households. The ratio of nonperforming loans to bank lending remained stable at 7.7 percent overall and at 7.7 percent for households, while it increased to 11.6 percent for businesses.

Results of the Bank Al-Maghrib survey with the banking system on conditions for granting credit indicate an easing of the bank lending criteria in the fourth quarter of 2018 for companies and individuals. Similarly, demand for bank credit would have increased, both from businesses and individuals.

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

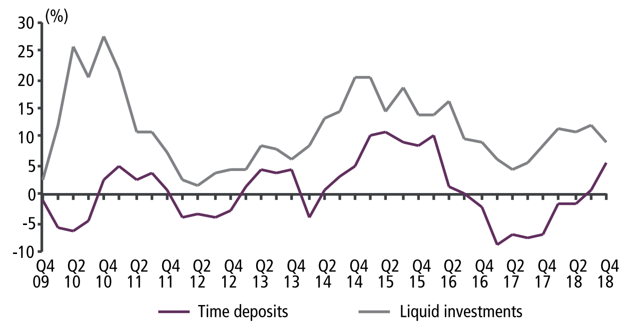


The growth rate of loans granted by nonbank financial companies to the nonfinancial sector increased from 2.1 percent to 2.4 percent at end-December. This growth reflects an acceleration by 4 percent at end-September to 4.6 percent in the growth pace of loans granted by finance companies. On the other hand, loans distributed by offshore banks increased by 3.2 percent as against 7.3 percent.

Data for the month of January 2019 show an acceleration of bank credit to 3.2 percent. In particular, loans to the nonfinancial sector increased by 3.3 percent from 2.6 percent in the fourth quarter, mainly due to an acceleration of loans to public and private companies.

As regards liquid investment aggregates, they rose by 9.2 percent as against 12.1 percent. This growth is the result of a deceleration in the growth rate from 6.5 percent to 5.6 percent for treasury bills, from 22.6 percent to 18.3 percent for bond mutual Funds securities, as well as a decrease of 5.6 percent after a rise of 7.6 percent for equity and diversified mutual funds securities.

Chart 3.11: Yearly change in liquid investments and time deposits



3.2 Asset prices

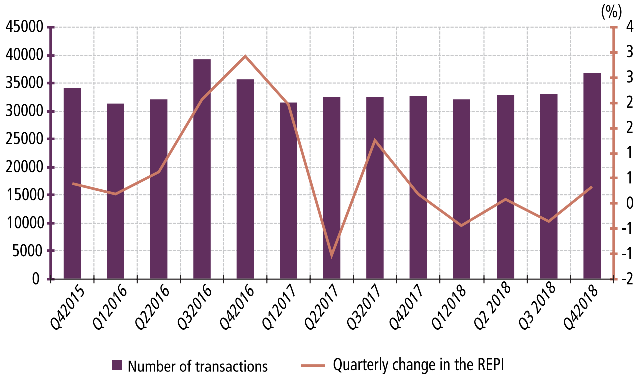
3.2.1 Real estate assets

In the fourth quarter of 2018, the Real-estate prices index posted, quarter on quarter, an increase of 0.3 percent. This growth covers price rises of 0.8 percent for urban land and 1.4 percent for property for professional use, as well as a stagnation in the prices of residential property. The number of transactions, in turn, rebounded by 11.2 percent, with increases of 20.5 percent for property for professional use, 15.7 percent for urban land and 9.1 percent for residential property.

For the whole of 2018, real-estate asset prices remained virtually stagnant. In parallel, the volume of transactions increased by 4.5 percent, covering rises of 2.9 percent for residential property, 8.4 percent for urban land and 9.1 percent for property for professional use.

In the major cities, prices posted quarterly decreases of 0.9 percent in Fes, 0.8 percent in Kenitra and 0.7 percent in Oujda. In the other cities, they showed rises ranging from 0.4 percent in Rabat to 2.6 percent in El Jadida. In terms of transactions, the highest increases were reported in Meknes with 34.7 percent, in El Jadida with 30.1 percent and Marrakech with 18.6 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

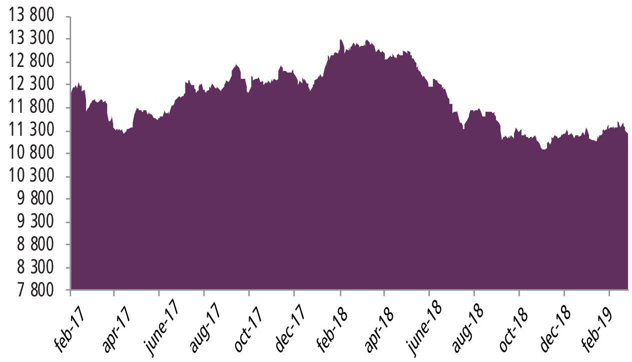
3.2.2 Financial assets

3.2.2.1 Shares

In the fourth quarter, the MASI appreciated by 0.3 percent, quarter on quarter; its annual under-performance thus stood at 8.3 percent. The quarterly growth of the benchmark index covers, in particular, rises in the indices of "construction" by 7.3 percent, "participation and real estate development" by 5.3 percent, and "insurances" by 2.9 percent, as well as under-performances of 15.9 percent for "mines", 6.1 percent for "oil and gas" and 0.8 percent for "telecommunications..

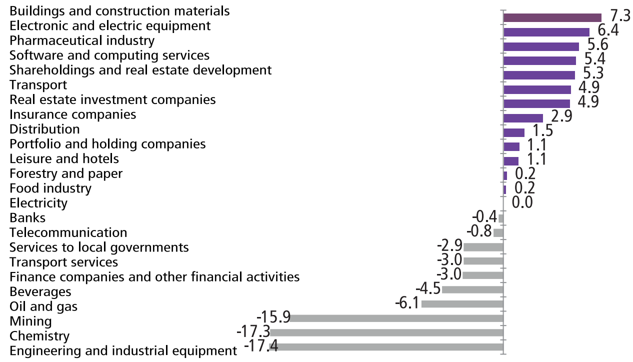
For the whole of 2018, the under-performance recorded by the Masi is mainly attributed to the declines of sectoral indices by 47.8 percent for "Participation and real estate development", 14.5 percent for "insurances", and 7.5 percent for "banks". Conversely, "telecommunications" posted a performance of 5.6 percent and "transportation" a performance of 5.5 percent.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Contribution of sectoral indexes in the fourth quarter 2018 (in%)



Source : Casablanca Stock Exchange.

With regard to the trading volume, it reached DH 22.3 billion in the fourth quarter, as against 28.8 billion during the same period of the former year. In the central market, the overall amount of transactions amounted to 13.6 billion and that of the block market transactions to 5.3 billion. In turn, capital increases totaled 2.4 billion.

Under these conditions, market capitalization stood at 582.2 billion by the end of the fourth quarter, up 0.6 percent quarter-on-quarter, ending the year with a decrease of 7.1 percent.

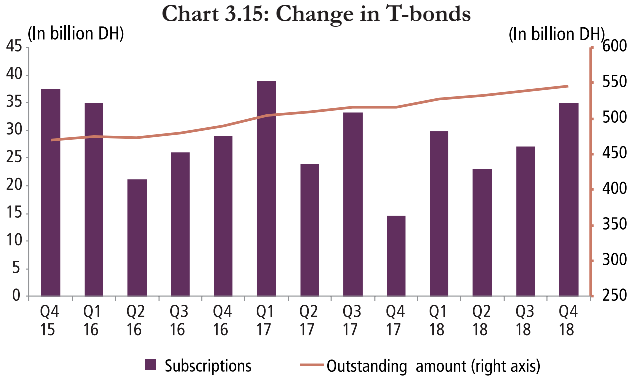
Data as at end-February indicate a decrease of 2 percent in the MASI since the beginning of the year. The trading volume stood at 9.4 billion during the first two months of the year and market capitalization reached 574.9 billion, down 1.2 percent compared to December 2018.

3.2.2.2 Sovereign debt market

Treasury borrowings from the domestic market amounted to DH 34.9 billion in the fourth quarter, up 7.7 billion compared to the previous quarter and 20.3 billion, year-on-year. A portion of 51 percent of them concerned medium-term maturities and 30.9 percent of them long-term maturities.

Data as at end-February indicate that Treasury issues reached during the first two months of the year DH 22.9 billion and concerned, up to 59.9 percent, long-term maturities and, up to 32.2 percent, short term maturities. Taking into account total repayments of 17.1 billion, the outstanding Treasury bills reached 552 billion at end-February, up 5.1 percent year on year.

Chart 3.15: Change in T-bonds



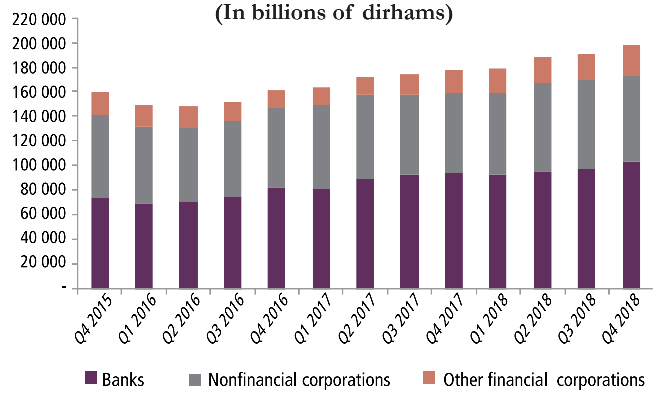
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issuances reached DH 21 billion against 13.5 billion in the third quarter. Bank issues amounted to 15.6 billion, including 11.4 billion as certificates of deposit. Issuances of nonfinancial companies increased by 2.3 billion to reach 3.4 billion in the fourth quarter of 2018, of which 2.8 billion as bonds.

In January 2019, issuances stood at 3.6 billion against 13.7 billion in December; and taking into account repayments, outstanding private debt virtually stabilized at 197.1 billion.

Chart 3.16: Change in outstanding private debt per issuer (In billions of dirhams)



Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund shares/units

In the fourth quarter of 2018, subscriptions to mutual fund shares/units rose by 6.2 percent to DH 186.1 billion and repurchases increased from 0.4 percent to 176.1 billion, corresponding to a net inflow of 10 billion. Bond, monetary and contractual mutual funds posted net inflows of 9.6 billion, 928 million and 735 million, while "equity" and "diversified" mutual funds recorded a net outflow of 698.4 million and 577.3 million, respectively. Performances stood at 0.6 percent for both bond and monetary mutual funds, while equity and diversified mutual funds recorded an under-performance of 1.7 percent and 0.3 percent, respectively.

Under these conditions, mutual funds net assets posted a quarterly increase of 2.6 percent, essentially reflecting rises of 3.8 percent for bond mutual funds and 2.2 percent for monetary ones. Conversely, net assets of equity mutual funds declined by 5.7 percent.

Data as at 15 February 2018 indicate an increase in mutual funds net assets by 4.5 percent since the beginning of the year, to DH 454.4 billion. This rise concerned all categories of mutual funds with the exception of the «contractual» category, with mainly rises of 5.1 percent for medium-term and long-term bond mutual funds, to 256.5 billion, and 4.1 percent for «monetary» mutual funds, to 63.4 billion.

4. FISCAL POLICY STANCE

Budget execution for the year 2018 showed a deficit widening of DH 4.2 billion, to 41.4 billion, equivalent to 3.7 percent of GDP. Regular resources went up by 1.8 percent while overall spending rose by 2.4 percent, mainly due to increases in other goods and services, subsidy costs and transfers to local governments.

Data for January 2019 show a budget surplus of DH 738 million instead of 978 million in January 2018. This growth includes an improvement in current revenues by 12.8 percent and an increase in overall spending by 17.5 percent, mainly as a result of higher spending on goods and services and treasury investments. The ordinary balance was positive, at 1.4 billion, up 6.1 percent compared to January 2018, while the special accounts of the Treasury generated a positive balance of 11.6 billion, up 2.2 billion compared to January 2019.

Taking into account the decrease of the stock of expenses pending payment by 6.8 billion in January 2019, the Treasury's financing requirement stood at 6.1 billion, up 333 million compared to January 2018. As a result, the direct public debt would have increased by 0.3 per cent compared to its level at end-2018. With regard to the Treasury's financing conditions on the auction market, they remain favorable as evidenced by the development of the weighted average rates of issuances on the primary market.

4.1 Current revenues

The first month of 2019 ended with a rise in current revenues by12.8 percent to 23.1 billion, covering a growth in tax revenues by 12.5 percent to 22.4 billion and nontax ones by 33.5 percent to 737 million.

Direct taxes drained DH 6.2 billion, up 6.3 percent, mainly covering an improvement by 6.4 percent to 4.5 billion in CT revenues and 4.3 percent to 1.6 billion in IT revenues. The latter includes a rise by 8 percent to 257 million in IT revenues from real estate profits and 7 percent to 685 million from IT revenues related to salaries paid by the Staff Costs Department.

Indirect tax receipts increased by 18.7 percent to 12 billion, as a result of a surge of 59.1 percent to 3.1 billion in DCT receipts and 8.9 percent to 8.9 billion in VAT ones. With regard to the latter category, the rise reflects an improvement of 7.5 percent, to 4.5 billion, in import VAT receipts and 10.4 percent, to 4.4 billion, in domestic VAT, taking into account the payment of 228 million as against 416 million in January 2018.

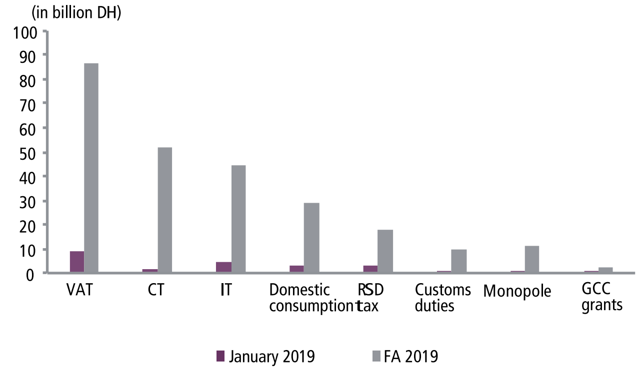
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. 2018	Jan. 2019	Change in %	FA 2019	Achievements against the FA (%)
Current revenues	**20.5**	**23.1**	**12.8**	**268.0**	**8.6**
Tax revenues	**19.9**	**22.4**	**12.5**	**246.0**	**9.1**
- Direct taxes	5.9	6.2	6.3	102.7	6.1
Including CT	1.5	1.6	4.3	52.0	3.1
I.T	4.2	4.5	6.4	44.6	10.1
- Indirect taxes	10.1	12.0	18.7	115.8	10.4
VAT*	8.2	8.9	8.9	86.7	10.3
DCT	2.0	3.1	59.1	29.1	10.8
- Customs duties	0.7	0.7	-0.7	9.4	7.9
- Registration and stamp duties	3.2	3.4	7.3	18.0	18.8
Nontax revenues*	**0.6**	**0.7**	**33.5**	**18.7**	**3.9**
- Monopoles	0.0	0.1	152.4	11.5	0.9
- Other receipts	0.5	0.6	23.7	7.3	8.7
Including GCC grants	0.1	0.0	-92.5	2.0	0.6
Special Treasury accounts receipts	**0.0**	**0.0**	**-91.8**	**3.3**	**0.1**

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

As to DCT, its growth includes increases by 112.4 percent, to 1.5 billion, for manufactured tobacco and by 33.3 percent, to 1.5 billion, for energy products. In turn, receipts from registration fees and stamp duties increased by 7.3 percent to 3.4 billion, while customs duties dropped by 0.7 percent to 741 million.

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

Nontax receipts gained 33.5 percent, to 737 million, driven by the collection of monopole revenues, which stood at 106 million against 42 million at end-January 2018, including 36 million paid by Bank Al-Maghrib. Receipts related to GCC country grants, however, dropped to 11 million against 147 million a year ago.

4.2 Expenditure

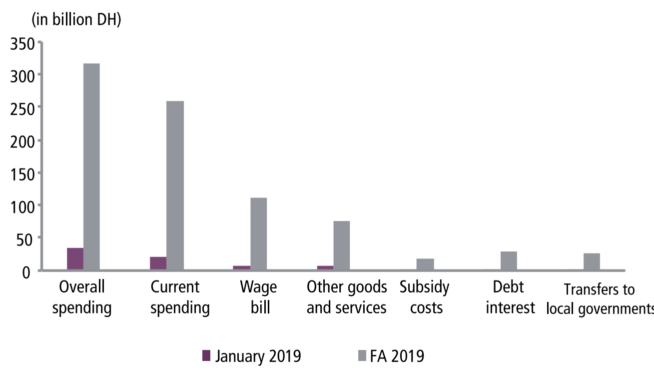
Overall spending reached 34 billion, up 17.5 percent compared to the same period of 2018, covering mainly a 13.3 percent increase, to 21.7 billion, in current expenses and 25.8 percent, to 12.3 billion, in investment expenses. Operating expenses went up 17.4 percent to 16.4 billion, including a rise of 11.4 percent, to 8.5 billion, in the wage bill, mainly due to an increase by 1.1 percent in its structural component and back pay which rose from 9 million to 285 million, as well as an increase by 24.5 percent, to 8 billion, in expenditure on other goods and services. Changes in the latter take into account increases by 33.3 percent, to 3.2 billion, in transfers to public enterprises and institutions and by 1.2 percent, to 248 million, in payments to the special accounts of the Treasury.

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

	Jan.-oct. 2017	Jan.-oct. 2018	Change in %	FA 2018	Achievements against the FA (%)
Overall spending	**239.7**	**245.3**	**2.4**	**301.7**	**81.3**
Current spending	**191.6**	**197.7**	**3.2**	**241.5**	**81.9**
Goods and services	133.6	136.2	1.9	175.0	77.8
Staff	87.4	88.0	0.7	108.9	80.8
Other goods and services	46.3	48.2	4.2	66.1	72.9
Debt interests	25.0	25.1	0.3	27.1	92.7
Clearing	12.8	15.1	17.7	13.7	110.1
Transfer to local governments	20.0	21.3	6.1	25.6	82.9
Investment	**48.1**	**47.7**	**-0.9**	**60.3**	**79.1**

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

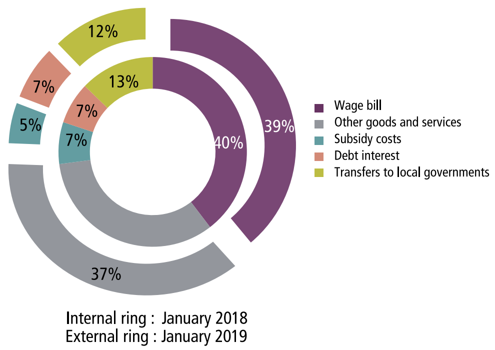
Chart 4.2: spending execution compared to the FA



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

Debt interest payments grew by 9.8 percent to 1.5 billion, covering an increase of 7.6 percent, to 1.2 billion, for domestic debt interest and 20.6 percent, to 281 million, for external debt interest.

Chart 4.3: Structure of current spending

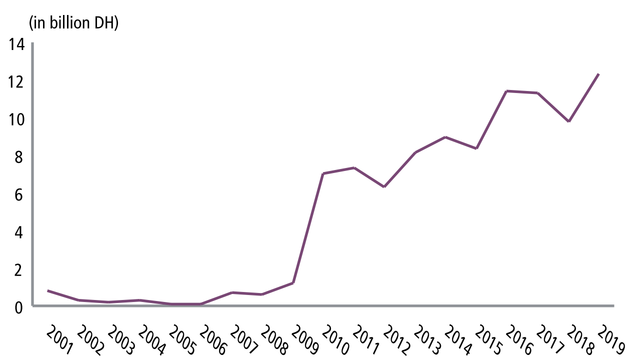


Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

As regards subsidization, costs amounted to 1.1 billion, down 17.8 percent compared to January 2018. It should be noted, however, that in terms of issuances, no payment was made in January 2019 and January 2018.

Capital expenditure increased by 25.8 percent to 12.3 billion, due to a surge by 130.9 percent to 1.6 billion in the expenditure of ministries and by 17.8 percent, to 10.7 billion, in common expenses, including 10.4 billion for the special accounts of the Treasury.

Chart 4.4: Investment spending, at end January

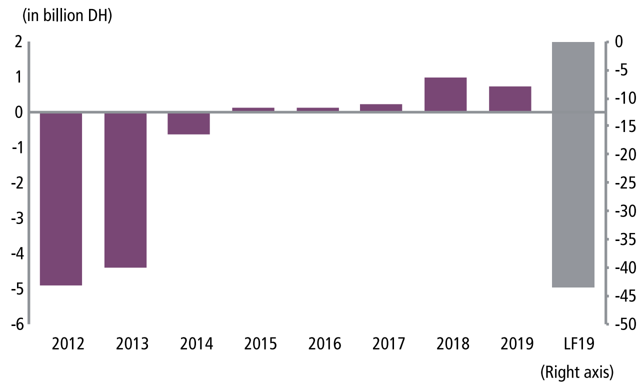


Source : Ministry of Economy and Finance (TEFD).

4.3 Treasury deficit and financing

Given that the special accounts of the Treasury showed a positive balance of 11.6 billion, up 23.4 percent, the situation of public finance resulted in a budget surplus of 738 million instead of 978 million a year ago. The Treasury settled expenses pending payment for 6.8 billion, against 7.4 billion the same month of the previous year. As a result, the financing requirement amounted to 6.1 billion, down DH 333 million.

Chart 4.5: Fiscal balance, at end January



Source : Ministry of Economy and Finance (TEFD).

The negative external inflow of 659 million and the financing requirement were covered by domestic resources whose net amount stood at 6.7 billion, against nearly 7 billion a year ago.

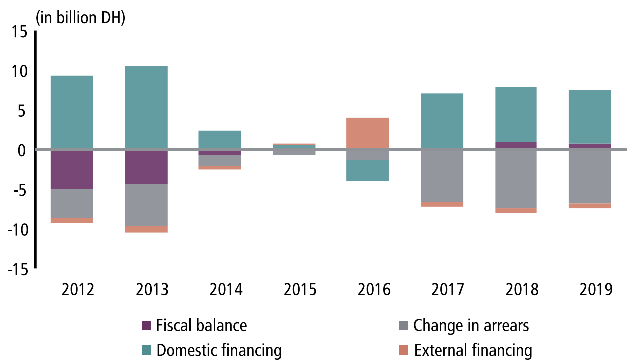
Table 4.3: Deficit finacing (in billions of dirhams)

	Jan. 2018	Jan. 2019	FA 2019	Absolute gap FA/Jan. 2019
Current balance	**1.3**	**1.4**	**8.2**	**6.8**
Balance of TSA	9.4	11.6	6.0	-5.6
Primary balance	2.3	2.2	-14.7	-16.9
Fiscal balance	**1.0**	**0.7**	**-43.4**	**-44.1**
Change in arrears	-7.4	-6.8	0.0	
Financing requirements	**-6.4**	**-6.1**	**-43.4**	**-37.3**
Domestic financing	7.0	6.7	13.5	6.8
External financing	-0.6	-0.7	19.8	20.4

Source : Ministry of Economy and Finance (TEFD).

With regard to domestic financing, Treasury borrowing on the auction market amounted to 3.1 billion, against 7.3 billion a year ago. Net subscriptions were mainly made on 15-year bonds for 3.4 billion, 2-year notes for 3.3 billion and 5-year notes for 2.2 billion. In turn, repayments only concerned the 52-week bills, for DH 5.8 billion.

Chart 4.6: Fiscal balance and financing , at end January*



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

The Treasury financing conditions on the auction market remained generally favourable. Weighted average rates (WAR) changed slightly compared to January 2018, with an increase of 2 bps for those applied to 52-week bills and 3 bps for 15-yearbonds, to 2.44 percent and 3.72 percent, respectively. Compared to December 2018, the average rate decreased by 11 bps in January 2019.

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

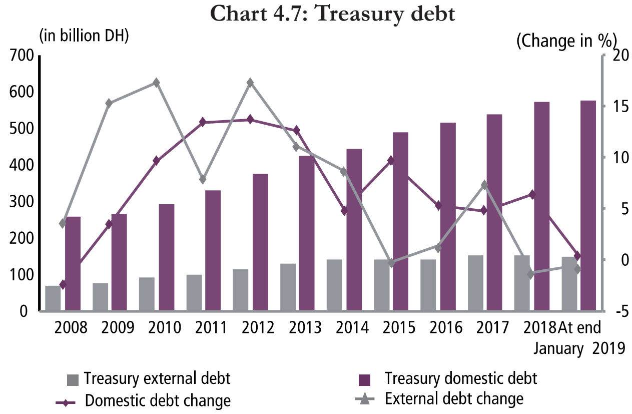
	2014	2015	2016	2017	2018	At end jan. 2019
Treasury external debt	**141.1**	**140.8**	**142.8**	**153.2**	**151.3**	**150.7**
Change in %	8.7	-0.2	1.4	7.3	-1.2	-0.4
Treasury domestic debt	**445.5**	**488.4**	**514.7**	**539.1**	**573.7**	**576.5**
Change in %	5.0	9.6	5.4	4.8	6.4	0.5
Outstanding direct debt	**586.6**	**629.2**	**657.5**	**692.3**	**725.0**	**727.2**
Change in %	5.8	7.3	4.5	5.3	4.7	0.3

Source : Ministry of Economy and Finance (TEFD).

* Concerning debt at end 2018 and end-January 2019, estimates are based on the net flows of debt-generating funds.

Under these conditions, estimates based on financing flows show a slight increase in direct public debt by 0.3 percent at end-January 2019 compared to its level at end-2018. This growth covers a 0.5 percent increase in its domestic component and a 0.4 percent decrease in its external component.

Chart 4.7: Treasury debt



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

Box 4.1: Budget implementation in 2018

Budget execution in 2018 resulted in a deficit of DH 41.1 billion, equivalent to 3.7 percent of GDP, 4.2 billion more than 2017 and 8.1 billion more than the FA 2018.

This result includes a more marked growth in overall expenses compared to the current revenues despite a decline in capital expenditure. Current revenues improved by 1.8 percent, reflecting the good performance of fiscal receipts combined with the decline in nontax receipts, due in particular to a decline in GCC grants. At the same time, current expenditure increased by 3.6 percent, mainly as a result of higher spending on other goods and services, subsidy costs and transfers to local authorities. The current balance, thus, posted a surplus of 20.7 billion; it dropped nonetheless15.3 percent compared to 2017.

Executed at 99 percent, tax revenues amounted to 234.9 billion, up 4.2 percent, reflecting the improvement of all tax categories except CT. Direct taxes increased by 1.9 percent to 95 billion, mainly covering a 4.1 percent rise in IT receipts, to 41.8 billion, and a 1 percent decrease in CT, to 49.9 billion. Indirect taxes increased by 5.4 percent to 114.5 billion, due to a rise by 6 percent, to 86.2 billion, in VAT receipts and by 3.4 percent, to 28.3 billion, in DCT receipts. The growth of the VAT reflects an increase by 6.3 percent, to 54.7 billion, in import VAT receipts and by 5.5 percent, to 31.6 billion, in domestic VAT receipts, including a rise of 2.3 percent in payments of VAT credits which amounted to 7.6 billion. In turn, receipts from customs duties and registration and stamp duties posted respective increases of 12.6 percent and 4.6 percent, to 9.7 billion and 15.6 billion.

Nontax receipts declined by 18.4 percent to 21.2 billion, mainly due to the decrease of grants from GCC countries to 2.8 billion, instead of 9.5 billion the previous year and the 7 billion expected in the 2018 FA. Nevertheless, monopole revenues reached 9.3 billion, against 8 billion a year ago, including 3 billion derived from the National Land Registry (ANCFCC), 2 billion from the OCP, 1.5 billion from Maroc Telecom and 565 million from BAM.

Table E 4.1.1: Budget execution of 2017 and 2018 in billions of dirhams

	2017	2018	Gaps		Exécution /LF
			in %	In value	2018
Current revenues	**255,1**	**259,8**	**1,8**	**4,7**	**99,0**
Tax revenues	**225,5**	**234,9**	**4,2**	**9,4**	**99,1**
- Direct taxes	93,3	95,0	1,9	1,8	97,9
Including CT	50,4	49,9	-1,0	-0,5	97,4
IT	40,2	41,8	4,1	1,7	100,1
- Indirect taxes	108,7	114,5	5,4	5,8	101,6
VAT	81,3	86,2	6,0	4,9	100,9
DCT	27,4	28,3	3,4	0,9	103,8
- Customs duties	8,6	9,7	12,6	1,1	100,0
- Registration and stamp duties	15,0	15,6	4,6	0,7	89,2
Nontax revenues	**26,0**	**21,2**	**-18,4**	**-4,8**	**95,7**
- Monopoles	8,0	9,3	16,8	1,3	94,6
- Other receipts	18,0	11,9	-33,9	-6,1	96,5
Including GCC grants	9,5	2,8	-70,7	-6,8	39,9
Receipts of some TSA	**3,7**	**3,7**	**1,6**	**0,1**	**112,6**
Overall spending	**297,7**	**304,7**	**2,4**	**7,0**	**101,0**
Current spending	**230,7**	**239,1**	**3,6**	**8,4**	**99,0**
Goods and services	**163,9**	**168,2**	**2,6**	**4,3**	**96,1**
Wage bill	104,9	106,0	1,0	1,1	97,4
Other goods and services	59,0	62,2	5,5	3,2	94,1
Public debt interest	**27,1**	**27,3**	**0,8**	**0,2**	**100,6**
Subsidy costs	**15,3**	**17,7**	**15,6**	**2,4**	**129,1**
Transfers to local governments	**24,4**	**25,9**	**6,0**	**1,5**	**100,9**
Current balance	**24,5**	**20,7**		**-3,7**	
Investment	67,0	65,7	-2,0	-1,4	109,0
TSA balance	5,4	3,6		-1,8	
Fiscal balance	**-37,1**	**-41,4**		**-4,2**	
In points of GDP	**-3,5**	**-3,7**			
Primary balance	**-10,1**	**-14,1**		**-4,0**	
Change in arrears	-0,8	3,2			
Financing balance	**-38,0**	**-38,1**		**-0,2**	
Domestic financing	34,4	40,0		5,6	
External financing	3,6	-1,9		-5,4	

Sources : - Ministry of Economy and Finance (TEFD).
- taking account of the 30% of VAT transfered to local governments.
- Reprocessing of local authorities VAT by BAM.
- Figures in billions of dirhams, unless otherwise indicated.

In parallel, overall spending rose by 2.4 percent to 304.7 billion, equivalent to an execution rate of 101 percent compared to the Finance Act projections, due to a rise by 3.6 percent, to 239.1 billion, in current expenses and a decrease of 2 percent, to 65.7 billion, in capital expenditure. Expenditure on goods and services stood at 168.2 billion, up 2.6 percent, due to an increase of 5.5 percent, to 62.2 billion, in spending on other goods and services and by 1 percent, to 106 billion, in the wage bill. In turn, debt interest payments grew by 0.8 percent to 27.3 billion. Similarly, subsidy costs increased by 15.6 percent to 17.7 billion, corresponding to an execution rate of 129.1 percent of the Finance Act projections.

Given the replenishment of the stock of outstanding expenses, amounting to 3.2 billion, the financing requirements stood at 38.1 billion, up 170 million compared to 2017. This requirement and the net negative external inflow of 1.9 billion were covered by domestic resources amounting to 40 billion, against 34.4 billion a year ago.

5. DEMAND, SUPPLY AND LABOR MARKET

National Accounts data for the third quarter of 2018 show a deceleration in growth to 3 percent against 3.9 percent a year ago, with a sharp slowdown from 15 percent to 3.8 percent in the agricultural value added and an acceleration from 2.5 percent to 3 percent in nonagricultural value added. On the demand side, this trend reflects an increase in the contribution of its domestic component, while the external one turned negative.

Over the year as a whole, national growth would have increased by 3.1 percent against 4.1 percent in the previous year, due to a rise by 4.3 percent against 15.4 percent in agricultural value added and 2.9 percent instead of 2.7 percent in nonagricultural activities' value added. In the first quarter of 2019, growth is expected to slow down to 2.6 percent, covering a 3.1 percent decline in the value added of the agricultural sector and a rise of 3.2 percent in the nonagricultural sector's value added.

In the labor market, the national economy created 112 thousand jobs in 2018 against 86 thousand in 2017 and a loss of 37 thousand in 2016. These jobs remain concentrated in tertiary activities, particularly "non-store retail" and "personal and household services". Taking into account a net inflow of 64 thousand job seekers, unemployment rate fell from 10.2 percent to 9.8 percent at the national level, from 14.7 percent to 14.2 percent in cities and from 4 percent to 3.5 percent in rural areas. As for the labor cost, the latest available data for the fourth quarter show an annual increase in the wage index of the private sector by 2.2 percent after 2.4 percent in nominal terms and 1.4 percent against 1.2 percent in real terms.,,

5.1 Domestic demand

5.1.1 Consumption

National accounts for the third quarter of 2018 show an acceleration from 2.4 percent to 3.8 percent in final household consumption, thus contributing 2.2 percentage points to growth instead of 1.4 point in the same quarter of the year before.

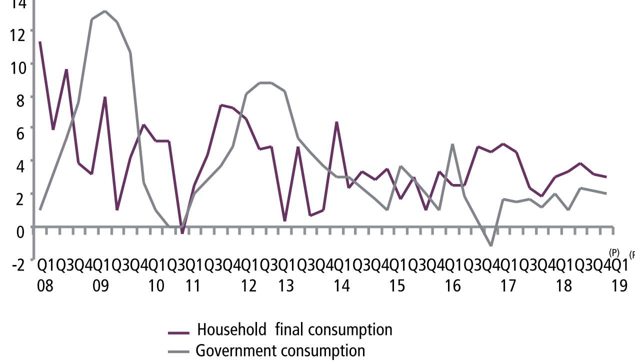
Given a rise of 3.2 percent in the fourth quarter, it would have increased in the year 2018 as a whole by around 3.3 percent against 3.5 percent in 2017. This change reflects a deceleration in agricultural income and a decline in remittances of Moroccan expatriates. Therefore, its contribution to the growth of household consumption would have stabilized at around 2 percentage points in 2018.

For the first quarter of 2019, household consumption is expected to decelerate slightly from its level in the same period of last year, thus continuing to grow below its historical average.

As regards the final consumption of public administration, its pace would have increased by 2.2 percent in the fourth quarter against 1.2 percent, mainly in relation to a rise in expenditure on goods and services from 1.1 percent to 5.8 percent.

For the year 2018 as a whole, it would have hovered around 1.9 percent instead of 1.5 percent the previous year and its contribution to growth would have remained unchanged at 0.4 percentage point. This improvement is forecast to continue in the first quarter with a rise of 2.1 percent instead of 2 percent.

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



Sources: HCP, and BAM forecasts.

5.1.2 Investment

After a decline of 1.4 percent in the third quarter of 2017, investment increased by 6.5 percent in the third quarter of 2018. Its contribution to growth was positive, at around 2 percentage points against a negative contribution of 0.5 point in the previous year.

In the fourth quarter, it would have slowed from 8.3 percent to 1.3 percent, reflecting a base effect. This deceleration is also linked to the continued sluggishness of activity in construction and a decline in the quarterly flow of the Treasury's Investment. In this context, data relating to bank equipment and real-estate loans also decelerated at end-December. Furthermore, the results of the quarterly economic survey conducted by Bank Al-Maghrib in the industrial sector indicate that the business climate was described as "normal" by the majority of surveyed companies.

Over the year 2018 as a whole, investment pace would therefore have increased by 4.7 percent instead of 4 percent, bringing its contribution to growth from 1.3 points to 1.5 percentage points.

In the first quarter of 2019, investment would preserve its downtrend started in the fourth quarter of 2018, with a sharp slowdown compared to its trend in the same quarter of the previous year.

5.2 Foreign demand

In the third quarter, external demand contributed negatively to growth by 1.7 percentage points against 2.6 points a year before. The pace of exports of goods and services continued the deceleration observed from the first quarter of 2018, and stood at 2 percent compared to 13.4 percent the previous year, while imports accelerated from 4.3 percent to 5.4 percent.

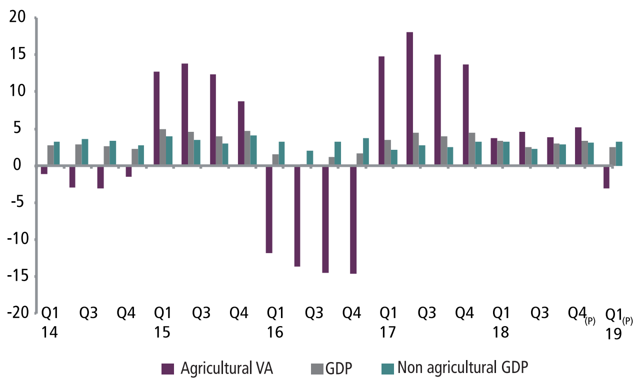
In the fourth quarter of 2018, net exports would have contributed positively to the growth with 0.7 points, due to an import slowdown from 10.5 percent to 3 percent, mainly following a deceleration from 24.1 percent to 13.8 percent in the energy bill. Similarly, exports growth would have decreased, in one year, from 14.3 percent to 5.6 percent, mainly in connection with a slowdown from 11.4 percent to 0.2 percent in the growth of automobile sector sales.

For the year 2018 as a whole, net external demand would have contributed negatively to growth, with 0.7 percentage point.

5.3 Overall supply

In the fourth quarter, economic activity would have increased by 3.4 percent against 4.4 percent a year ago. This growth is the result of a deceleration from 13.6 percent to 5.1 percent in agricultural activities which, in turn, is related to a base effect, and from 3.2 percent to 2.9 percent in nonagricultural activities.

Chart 5.2: GDP per component (last year prices, YoY change in %)

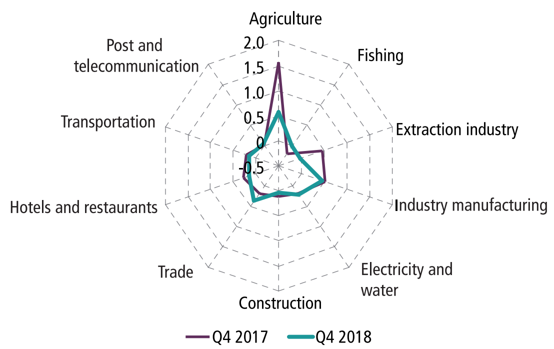


Sources: HCP data, and BAM forecasts.

In the secondary sector, activity would have declined by 1 percent after a rise of 19.9 percent in extraction industries, reflecting a decrease in phosphate production, and would have decelerated from 3.2 percent to 2.8 percent for manufacturing industries.

Conversely, an acceleration would have been recorded for "Electricity and water" to 8.4 percent against 6.8 percent. In construction, it would have maintained a low pace of 0.5 percent against 1.9 percent, reflecting a decline of 6.2 percent in cement sales after an increase by 2.1 percent last year.

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



Sources: HCP data, and BAM forecasts.

With regard to tertiary activities, growth would have accelerated from 2.2 percent to 4.5 percent for the "trade" branch and from 0.5 percent to 2.5 percent for "posts and telecommunications". It would, however, have decelerated from 11.9 percent to 5.7 percent for the "hotels and restaurants" branch and from 5.5 percent to 4.1 percent for transport services.

For the year 2018 as a whole, economic activity would have slowed down, from 4.1 percent to 3.1 percent, with a deceleration from 15.4 percent to 4.3 percent in agricultural value added and a slight acceleration from 2.7 percent to 2.9 percent in the nonagricultural one.

In the first quarter of 2019, growth would continue to decelerate to 2.6 percent against 3.3 percent a year earlier, as a result of a fall of 3.1 percent against an increase of 3.8 percent in agricultural activities. Nonagricultural activities would increase by 3.2 percent against 3.4 percent, reflecting, in particular, a slowdown in mining, industrial and tourism activities.

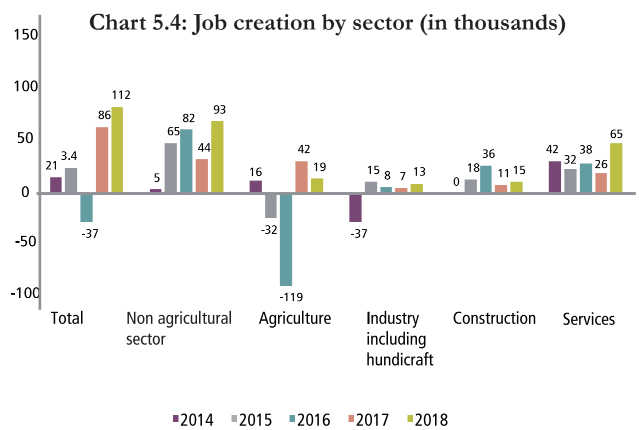
5.4 Labor market and output capacity

5.4.1 Activity and employment

Between 2017 and 2018, the labor market was marked by a 0.5 percent increase in the number of workers aged 15 and more to 11.98 million people. This change covers a rise by 1 percent in urban areas and stagnation in rural ones. Taking into account an increase of 1.7 percent in the working-age population, the participation rate continued its downward trend, down from 46.7 percent to 46.2 percent at the national level, from 42.4 percent to 41.8 percent in the cities and from 54.1 percent to 53.9 percent in rural areas.

In parallel, 112 thousand jobs were created, compared to 86 thousand in 2017 and a loss of 37 thousand in 2016, bringing the number of jobs to 10.81 million, an increase of 1 percent. The acceleration of job creations was driven by nonagricultural activities, with 93 thousand new jobs. By activity sector, 65 thousand jobs were created in services, with mainly 34 thousand jobs in the "non-store retail" and 13 thousand in "personal and household services", 15 thousand in "construction" and 13 thousand in industry, including "handicrafts". As to agriculture, it only created 19 thousand against 42 thousand a year ago.

Chart 5.4: Job creation by sector (in thousands)



Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force declined by 3.9 percent to 1.17 million people and unemployment rate decreased from 10.2 percent to 9.8 percent at the national level, from 14.7 percent to 14.2 percent in urban areas and from 4.0 percent to 3.5 percent in rural areas. Among young people aged 15 to 24 years in particular, unemployment rate fell, for the first time since 2011, by 0.5 point to 26 percent at the national level, but worsened again for city-dwellers, by 0.4 point to 43.2 percent.

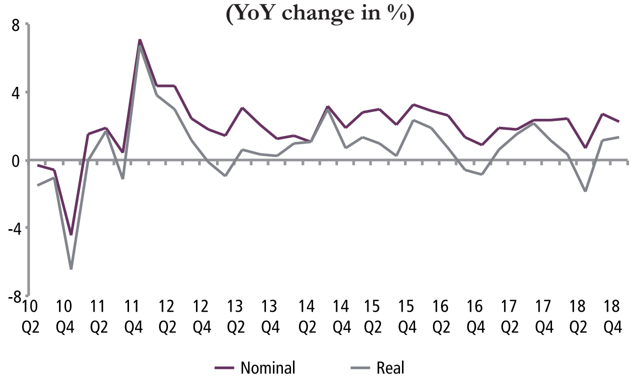
In parallel with the decline in unemployment rate, underemployment1 decreased. Its rate went down from 9.8 percent to 9.6 percent at the national level, from 8.9 percent to 8.7 percent in urban areas and from 10.8 percent to 10.6 percent in rural areas.

5.4.3 Productivity and wages

In nonagricultural activities, apparent labor productivity would have improved by 1.5 percent in 2018 against 2 percent a year ago, reflecting an increase of 2.9 percent instead of 2.7 percent in the value added and 1.4 percent against 0.7 percent in working population.

In turn, the average wage, calculated on the basis of data provided by the CNSS, went up year on year by 2.2 percent in the fourth quarter against 2.4 percent in the same period of the previous year in nominal terms and by 1.4 percent against 1.2 percent in real terms.

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



Sources: CNSS, and BAM calculations.

The hourly SMIG stood, in the fourth quarter of 2018, at 13.46 DH/h in nominal terms. Taking into account an increase of 0.8 percent in the consumer price index, the SMIG posted a 2.2 percent decline year on year in real terms.

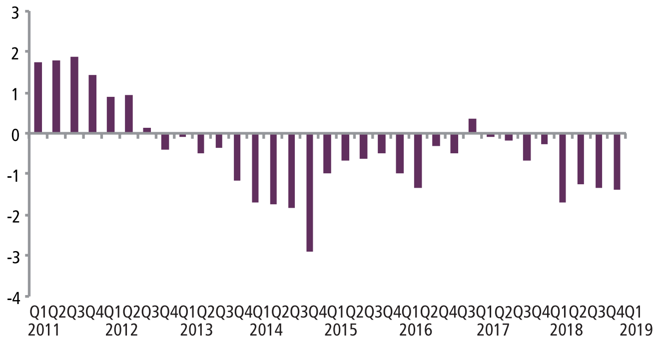
Chart 5.6: Hourly minimum wages in nominal and real terms (in DH/h)

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

Under these conditions, the output-gap would remain negative during the last quarter of 2018 and in the first quarter of 2019.

1 The underemployed population consists of people who have worked: i) during the reference week less than 48 hours but are willing to work extra-hours and are available to do so or ii) more than the set threshold and who are looking for another job or willing to change jobs due to mismatch with their training or qualification or the insufficient income perceived.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		2017	2018
Participation rate (%)		**46.7**	**46.2**
Urban		42.4	41.8
Rural		54.1	53.9
Unemployment rate (%)		**10.2**	**9.8**
Youth aged between 15 and 24 years old		26.5	26.0
Urban		14.7	14.2
Youth aged between 15 and 24 years old		42.8	43.2
Rural		4.0	3.5
Job creation (in thousands)		86	112
Urban		32	91
Rural		54	21
Sectors			
- Agriculture		42	19
- Industry including handicraft		7	13
- BTP		11	15
- Services		26	65
Nonagricultural apparent productivity (change in %)		**2.0**	**1.5**
		Q4 2017	**Q4 2018**
Average wage index (change in %)	**Nominal**	**2.2**	**2.4**
	Real	**1.4**	**1.2**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

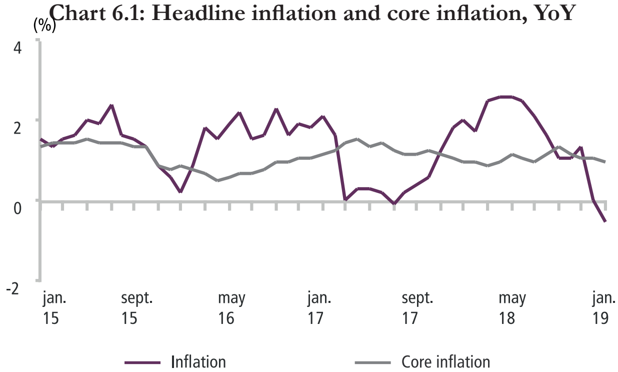
The expected deceleration of inflation in the fourth quarter of 2018 materialized, but was stronger than expected in the latest Monetary Policy Report. After standing at 1.6 percent on average in the third quarter, inflation fell to 0.8 percent in the last quarter and -0.5 percent in January 2019. This trend is mainly related to the drop in volatile food prices by 4.1 percent in the fourth quarter and 7.8 percent in January after an increase by 0.8 percent in the third quarter. It is also related, to a lower extent, to a decline in fuel and lubricant prices by 10.7 percent after rises of 9.5 percent and 2.4 percent, respectively. In same vein, the growth pace of regulated products' prices declined to 1.4 percent against 2.7 percent in the last two quarters, mainly due to the dissipation of the effect induced by the rise in January 2018 of stamp duties, in conformity with the 2018 Finance Act. As to core inflation, it decelerated slightly from 1.2 percent to 1 percent in connection with the slowdown in its food component.

In the short term, inflation is expected to keep its trend, standing at 0.5 percent in the first quarter, while its underlying component should stand at 1 percent.

6.1. Inflation trends

Inflation fell from 0.8 percent in the fourth quarter of 2018 to -0.5 percent in January 2019. This change reflects mainly the accentuation of the decrease in the prices of volatile food products from 4.1 percent to 7.8 percent and, to a lower extent, the decline in fuel and lubricant prices by 10.7 percent following a 2.4 percent increase. As for regulated product prices, their annual growth pace slowed from 2.8 percent to 1.4 percent. Similarly, core inflation decelerated from 1.2 percent to 1 percent.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

Table 6.1: Change in inflation and its components

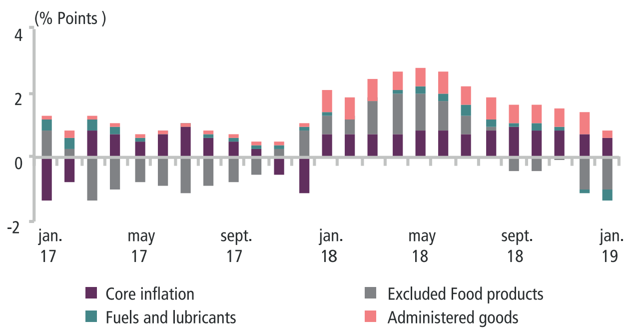
(In %)	MoM			YoY		
	nov. 18	dec. 18	jan. 19	nov. 18	dec. 18	jan. 19
Headline inflation	**0.7**	**-0.7**	**-0.3**	**1.3**	**0.1**	**-0.5**
- Volatile food prices	5.5	-3.6	-3.0	-1.0	-7.6	-7.8
- Fuels and lubricants	-1.6	-8.7	-5.1	4.4	-5.1	-10.7
- Administered prices	0.1	0.1	1.0	2.8	2.9	1.4
Core inflation	**0.1**	**0.0**	**0.0**	**1.1**	**1.1**	**1.0**
- Food products	0.0	0.0	-0.2	0.5	0.4	0.1
- Clothing and footwear	0.3	0.0	-0.1	1.1	0.9	0.9
- Housing, water, gas, electricity and other fuels[1]	0.1	0.0	0.3	1.8	1.7	2.0
- Furnishings, household equipment and routine house maintenance	0.0	0.0	0.6	1.4	1.3	1.9
- Health[1]	0.5	0.6	0.5	0.9	1.6	2.2
- Transportation[2]	0.1	0.1	-0.2	0.2	0.9	0.9
- Communication	0.0	0.0	0.0	0.3	0.3	0.3
- Entertainment and culture[1]	0.1	0.0	0.0	1.0	1.0	1.1
- Education	0.0	0.0	0.0	3.4	3.4	3.4
- Restaurants and hotels	0.1	0.1	0.2	1.6	1.7	1.7
- Miscellaneous goods and services [1]	0.0	0.0	0.0	1.5	1.5	0.8

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

The decline in volatile food products observed in the fourth quarter of 2018 accentuated in January 2019. By product, citrus fruit prices dropped by 16 percent after a rise of 13.4 percent while poultry and rabbit prices fell by 4.2 percent after a 1.4 percent increase. Similarly, the decrease in fresh vegetable prices increased from 16.2 percent to 17.7 percent. In total, volatile food products contributed to the drop in inflation by one point in January against 0.5 point in the fourth quarter.

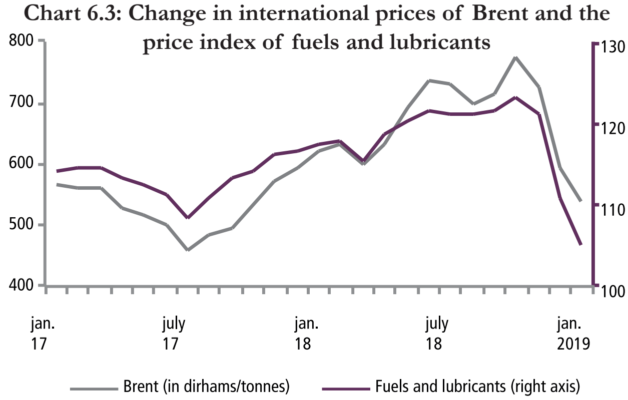
Chart 6.2: Contribution of the prices of major CPI items to inflation, YoY



Sources: HCP, and BAM calculations.

The decrease of inflation in January is also linked to the decline in fuel and lubricant prices which dropped by 10.7 percent after a rise of 2.4 percent in the fourth quarter, reflecting the trend in the international prices of petroleum products.

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



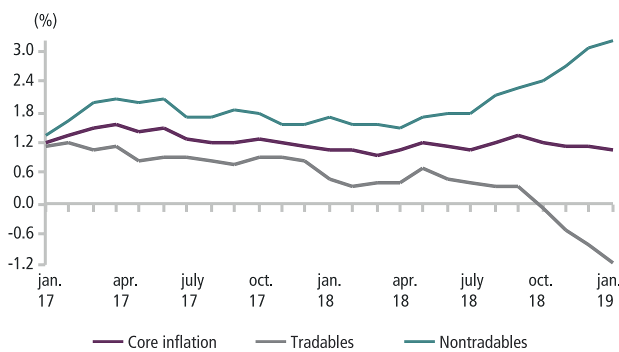
Sources: World Bank, HCP, and BAM calculations.

As for the tariffs of regulated products, despite a monthly increase of 15.2 percent in tobacco prices in January 2019, their annual rate decelerated from 2.8 percent to 1.4 percent, mainly due to the dissipation of the effect induced by the raising in January 2018 of stamp duties, in conformity with the Finance Act 2018.

6.1.2. Core inflation

Core inflation declined from 1.2 percent in the fourth quarter of 2018 to 1 percent in January. This drop is driven by the sharp decline in the prices of tradable goods which more than offset the acceleration in nontradable goods' inflation.

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



Sources: HCP, and BAM calculations.

The prices of tradable goods declined by 1.2 percent in January, after their 0.5 percent fall in the last quarter. This trend is essentially linked to a stronger fall in the prices of oils to 8.8 percent against 3.2 percent amidst outstanding national production of olives and a decrease in international prices of oils. Overall, the contribution of this category of products to core inflation was down at -0.6 percentage point instead of -0.2 point.

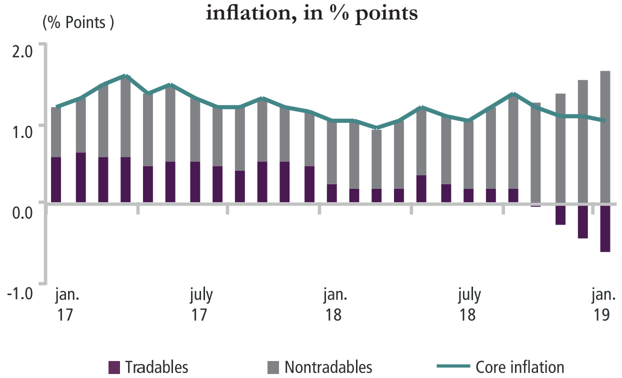
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	nov. 18	dec. 18	jan. 19	nov. 18	dec. 18	jan. 19
Tradables	-0.2	-0.3	-0.4	-0.5	-0.8	-1.2
Nontradables	0.2	0.3	0.4	2.7	3.0	3.2
Core inflation	0.1	0.0	0.0	1.1	1.1	1.0

Sources: HCP, and BAM calculations.

On the other hand, prices of nontradable goods accelerated from 2.8 percent in the fourth quarter to 3.2 percent in January. This trend mainly reflects an increase in the rise of fresh meat prices from 5.3 percent to 7.4 percent.

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 its deceleration in the first quarter returning to 0.5 percent against 0.8 percent in the fourth quarter of 2018 as a result of the fall in the growth rate of regulated products from 2.8 percent to 1.4 percent and the decline in fuel and lubricant prices from 8.4 percent to 2.4 percent.

In contrast, the decrease in volatile food prices is expected to decline in the first quarter, falling from 4.1 percent to 1.8 percent.

As to core inflation, which reflects the fundamental trend of inflation, it is expected to remain close to the level observed in January, at 1 percent.

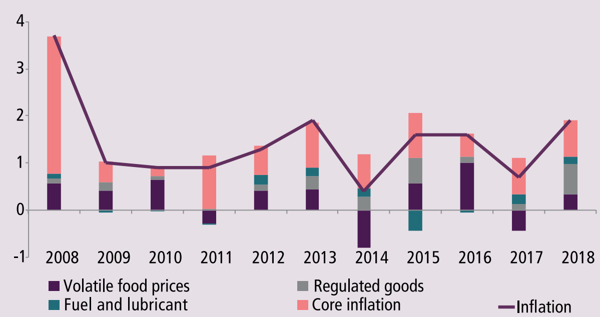
Encadré 6.1 :Inflation trends in -2018

In 2018, inflation, measured by the change in the consumer price index, rose to 1.9 percent from 0.7 percent in 2017 and an average of 1.1 percent between 2014 and 2017. This change is essentially the result of the growth in volatile food prices by 2.6 percent against a decline of 3.1 percent a year earlier, in connection with the limited supply of certain products during the first half-year. This change is also linked, though to a lesser extent, to the increase of regulated product prices to 2.8 percent against 0.8 percent in 2017 due to the raising of DCT on brown tobaccos and stamp duties by virtue of the Finance Acts of 2017 and 2018, respectively.

Fuel and lubricant prices increased by 5.2 percent against 8.8 percent, reflecting the continuous increase in international prices following the reversal of the downtrend in 2017.

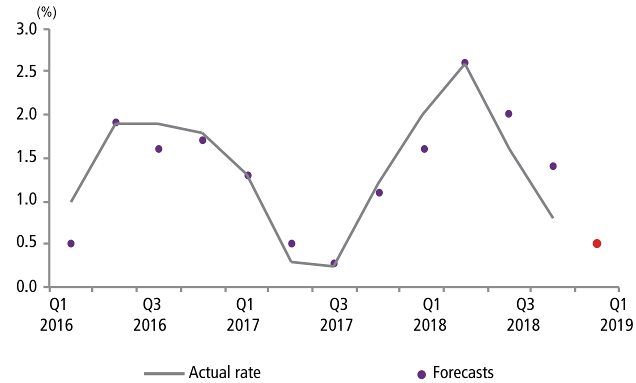
Core inflation, which reflects the fundamental price trend, declined from 1.3 percent to 1.1 percent against a backdrop of moderate demand and a drop in international prices of food products.

Graphique 1.6.1.1 : Contribution to inflation (in percentage points)



Sources: : HCP, and BAM calculations.

Chart 6.6: Inflation short-term forecasts and actual rates

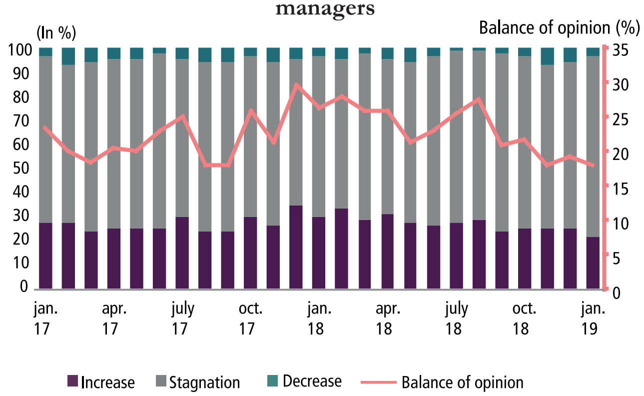


Source: BAM.

6.3. Inflation expectations

The results of the business survey in the industry, conducted by Bank Al-Maghrib in January 2019, indicate that 74 percent of the industrialists surveyed expect a stagnation of inflation over the next three months, while 22 percent expect a rise and 4 percent forecast a decline. The balance of opinion therefore stands at 18 percent.

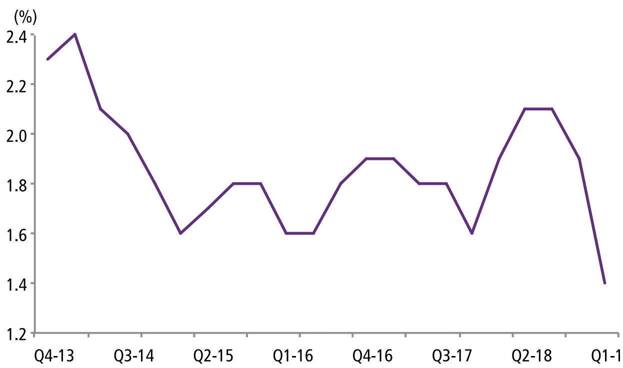
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

In addition, the results of Bank Al-Maghrib's inflation forecast survey for the first quarter of 2019 indicate that financial experts expect an inflation rate of 1.4 percent over the following eight quarters. The latter consider that the change in pump prices and international prices of nonoil commodities as well as the exchange rate are expected to significantly impact the future trend of inflation.

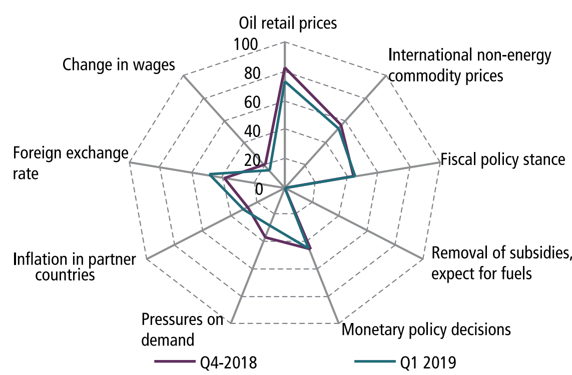
Chart 6.8: Inflation expectations by financial experts*



Source: BAM's quarterly survey on inflation expectations.

* From the second quarter of 2016, the ecpectation horizon increased from 6 to 8 quarters.

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

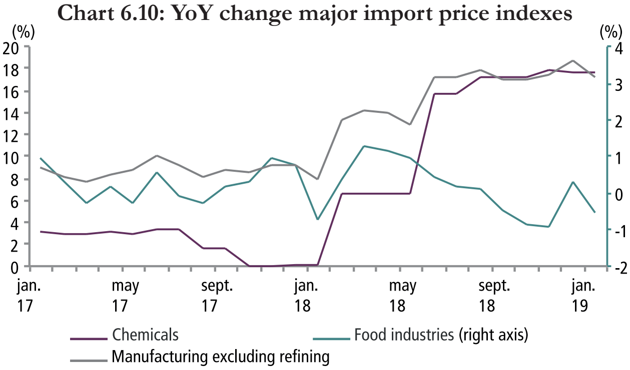


Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. producer prices

Producer prices in non-refining manufacturing industries in January continued the uptrend observed in 2018 with an annual increase of 3.2 percent against a rise of 3.3 percent in the fourth quarter of 2018. This change is mainly driven by the 17.6 percent increase in producer prices in the chemical industry which more than offset the decline of 0.6 percent in the prices of food industries.

Chart 6.10: YoY change major import price indexes



Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Global growth is showing signs of running out of steam and its outlook is still surrounded by several uncertainties. Trade and geopolitical tensions, the volatility of energy commodity prices, Brexit-related uncertainties and weakening growth in China are among the main risk factors.

In advanced economies, growth is expected to decelerate in the medium term in the United States, as a result of the dissipated effects of fiscal expansion measures and the maintenance, albeit at a slower rate, of the Fed's monetary policy tightening. In the euro area, it would decline in 2019, given the intensification of economic uncertainties facing the region, before moderately recovering in 2020. In emerging economies, the growth of economic activity is expected to remain moderate overall. In particular, growth in China is projected to go on decelerating, albeit at a limited pace due to incentive tax and monetary measures. In India, growth is projected to benefit further from buoyant domestic demand and the expected decline in energy product prices.

On the commodity markets, and after a sharp rise in 2018, world Brent prices are expected to decline in the medium term, under the assumption of a slowdown in global demand and increased supply in the United States. Food prices are forecast to increase gradually after the setback observed in 2018.

Under these conditions, inflation would decelerate in 2019 both in the United States and the euro area, before going gradually up over the rest of the forecast horizon.

At the national level, the current account deficit would have widened to 5.2 percent of GDP in 2018 and is expected to ease to 4.1 percent in 2019 and 3.4 percent in 2020, mainly as a result of the projected decline in energy imports and the deceleration of capital goods purchases, along with an acceleration in 2020 in the growth rate of the automotive sector exports. These forecasts also take into account assumptions regarding GCC countries donations of DH2 billion in 2019 and 1.8 billion in 2020. Concerning FDIs, they are expected to reach 3.4 percent of GDP over the forecast horizon, after reaching 4.1 percent in 2018.

As regards net international reserves, and under the assumption of two successive Treasury borrowings on the international market, they are forecast to increase to 239.4 billion by the end of 2019, before decreasing to 235.7 billion by the end of 2020. Their coverage would thus be just over 5 months of imports on the forecast horizon.

On the monetary side, the average lending rate decreased by 29 basis points to 5.06 percent in the fourth quarter of 2018. In the medium term, the pace of credit to the nonfinancial sector is expected to remain low at 3.1 percent in 2019, before accelerating to 4.4 percent in 2020. The real effective exchange rate (REER) is forecast to appreciate slightly in 2019 before depreciating relatively in 2020. In total, monetary conditions would remain favorable.

At the level of public finance, the fiscal consolidation process would slow down. After standing at 3.7 percent of GDP in 2018, the budget deficit excluding privatization would widen further to 4.1 percent in 2019, before easing to 3.5 percent in 2020, under the assumption of continuing efforts to mobilize resources.

After a rate of 4.1 percent in 2017, growth would have slowed to 3.1 percent in 2018. This trend covers a deceleration from 15.4 percent to 4.3 percent in the increase of agricultural value added and a relative improvement from 2.7 percent to 2.9 percent in that of nonagricultural value added. On the demand side, this change reflects a negative contribution of net exports, the positive participation of domestic demand being expected to virtually stabilize. In the medium term, growth would continue to depend on the climate. It would thus decelerate to 2.7 percent in 2019 before recovering to 3.9 percent in 2020, with a continued improvement of nonagricultural activities, albeit at a slow pace. On the demand side, the rise in its domestic component would slow in 2019 before accelerating in 2020, while net exports would maintain a negative contribution.

In this context, characterized mainly by the expected slowdown in domestic demand and an appreciation of the REER, core inflation would remain low in 2019, before accelerating in 2020, particularly reflecting a gradual resorption of the negative cycle of domestic demand. Taking also into account the expected rise in the prices of regulated products and the decline in fuels and lubricant prices, in line with the expected fall in world oil prices, inflation would decelerate to 0.6 percent in 2019 before increasing to 1.1 percent in 2020.

7.1 Underlying assumptions

Slowdown in the expansion of global economy

Global growth is running out of steam and its prospects are still surrounded by several uncertainties. Among the main risk factors are trade and geopolitical tensions, the volatility of energy commodity prices, the uncertainties surrounding Brexit and the weakening of growth in China.

In the United States, growth accelerated from 2.2 percent in 2017 to 2.9 percent in 2018, benefiting particularly from fiscal expansion measures. As the effects of these measures are dissipating and the Fed is maintaining the monetary policy tightening, albeit at a slower rate, growth would decelerate to 2.1 percent in 2019 and then to 1.6 percent in 2020. At the same time, the strength of the labor market would continue, with continuously low unemployment rates. In the euro area, growth slowed sharply from 2.5 percent in 2017 to 1.8 percent in 2018, particularly affected by the deterioration of the economic and social climate. Given the intensification of economic uncertainties facing the region, growth would be limited to 1.3 percent in 2019, before improving to 1.7 percent in 2020. Conditions in the labor market would nevertheless remain favorable, with the unemployment rate dropping to around 7.9 percent at the end of the forecast horizon.

In the main emerging economies, economic recovery lost momentum in 2018 due to trade and geopolitical tensions as well as financial market pressures. In the medium term, activity would generally maintain moderate growth. In China in particular, after registering in 2018 its lowest level in three decades, growth would continue to decelerate in the medium term, although at a limited rate thanks to incentive tax and monetary measures. In India, growth would remain particularly supported by strong domestic demand and the expected decline in energy prices.

Chart 7.1: Growth in the euro area

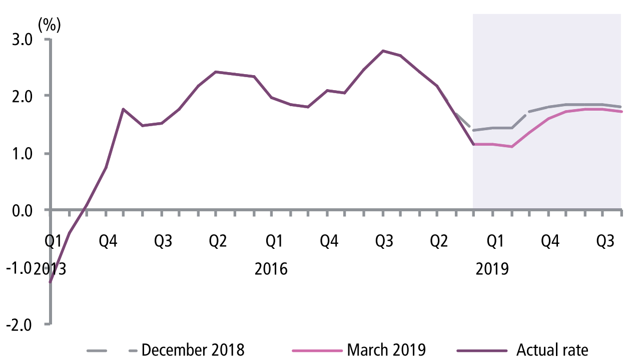
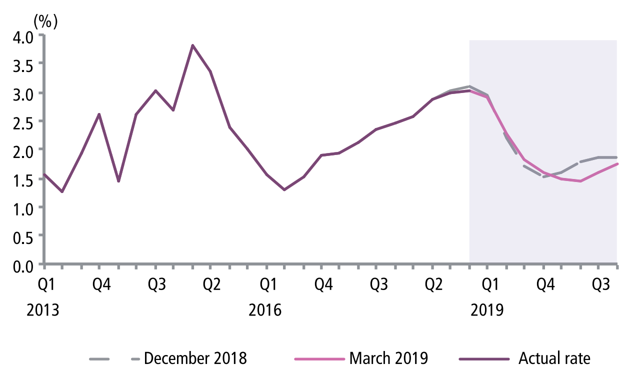


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of February 2019.

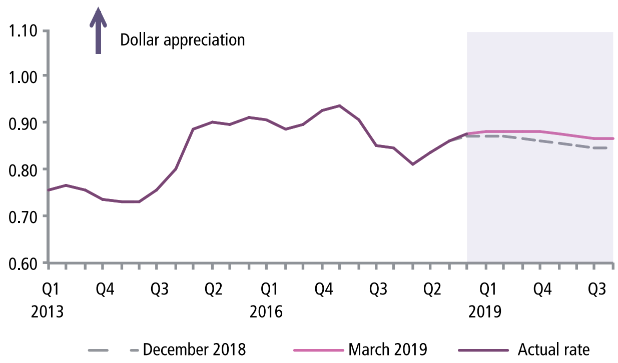
Slight weakening of the euro against the dollar

The worsening economic outlook in the euro area would continue to weigh on the euro, while a slowdown in the Fed's monetary tightening cycle would limit the appreciation of the dollar. In these conditions, the euro would depreciate to 1.13 dollar on average in 2019 before strengthening slightly in 2020.

1 Global Projection Model Network.

Taking into account the uncertainties surrounding the global economic outlook, the central banks of leading developed countries would remain cautious about the pace of their monetary policies' normalization. In particular, the Fed has been more cautious about future increases in federal funds rates, amid concerns about weakening signs in the US economy and fluctuations in financial markets. Similarly, and in a context of low inflation, more accommodative measures were announced by the ECB at its meeting of 7 March, with the launch of a new series of quarterly targeted longer-term refinancing operations (TLTRO-III) and the maintenance of its rates unchanged at least until the end of 2019.

Chart 7.3: EUR/ USD exchange rate



Source: GPMN forecasts of February 2019.

Lower energy prices in the medium term

Against a backdrop of fears related to global supply disruptions, energy prices posted a sharp rise in 2018, accompanied by high volatility. In particular, the Brent price surged 30.7 percent to $71.1/bl on average. In the medium term, the reduction of the production of OPEC countries and allied producers would be partially offset by an expected increase in extraction activities in the United States. Thus, and also taking into account the expected slowdown in global demand, the Brent price is projected to decline to $63.2/bl on average in 2019 and $61.7/bl in 2020.

In addition, given a strong demand, DAP and TSP prices increased by 21.8 percent to $393.4/mt and 22.4 percent to $346.7/mt, respectively, in 2018. Over the forecast horizon, upward pressure on prices would ease, as an increase in output capacity is expected in Morocco and Saudi Arabia. On the other hand, after an increase of 8.1 percent in 2017, world food prices fell 3.5 percent in 2018, mainly reflecting lower prices for vegetable oils and sugar. In the medium term, a gradual rise in prices is expected.

Under these conditions, global inflation would decelerate overall in 2019 before gradually increasing over the rest of the forecast horizon. In the United States in particular, it is expected to fall back to 1.7 percent in 2019, against 2.4 percent in 2018, before rising to 2.3 percent in 2020. At the same time, it would remain weak in the euro area, with projected rates of 1.3 percent in 2019 and 1.5 percent in 2020, after 1.7 percent in 2018.

Chart 7.4: Brent price

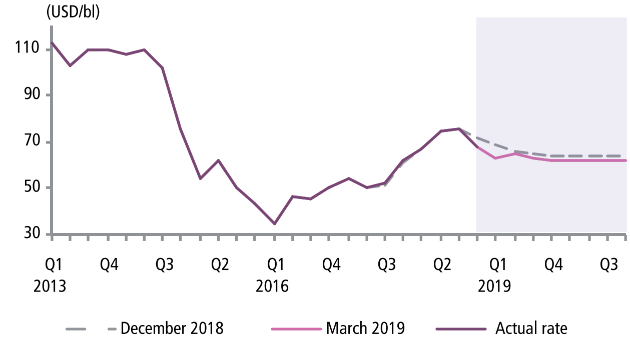


Chart 7.5: Food commodity price index (yoy change)

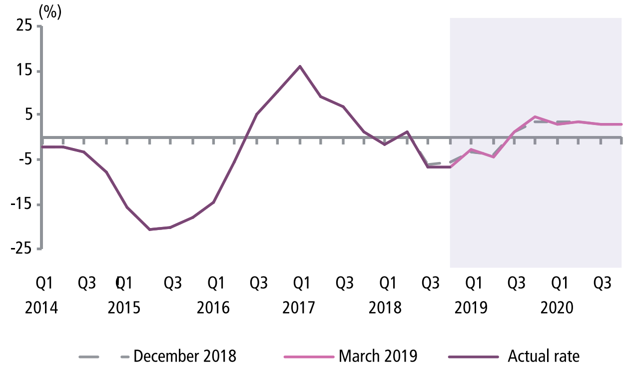


Chart 7.6: Inflation in the euro area

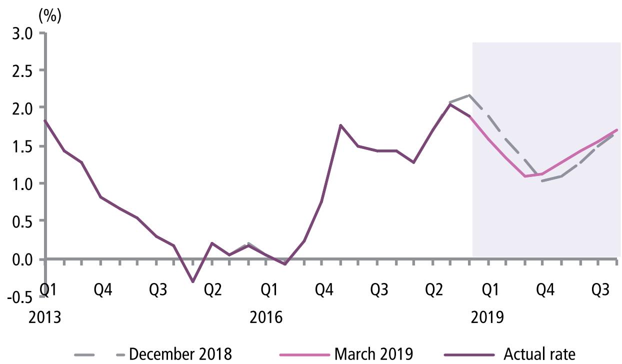
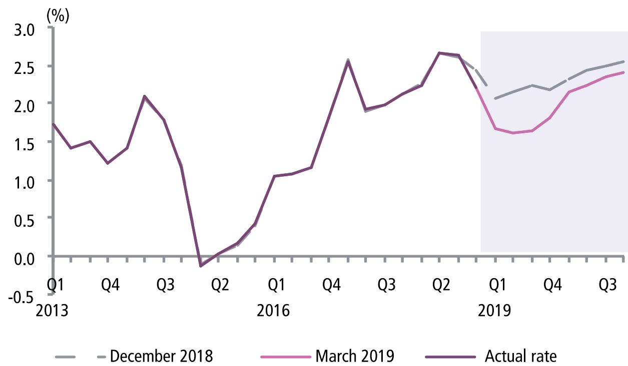


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of February 2019.

Forecasts of a cereal production of around 60 million quintals in 2018-2019 and a normal crop year in 2019-2020

At the national level, climate data as at March 10 show a 15.1 percent drop in cumulative rainfall compared to the previous campaign and an increase of 6 percent compared to the average of the past five years. The fill rate of agricultural dams rose accordingly to 58 percent after 52 percent one year before. By region, the cumulative rainfall remains lower than that of the last crop year for all regions with the exception of four. Compared to the average of the last five years, nine regions had a rainfall deficit.

Regarding the condition of vegetation, data as at March 10 indicate that the vegetation cover is down 12.2 percent from the previous year and 10.4 percent from the last five years' average. At the regional level, 14 out of 18 regions had a lower vegetation index than the last crop year.

Under these conditions, cereal production for the 2018-2019 crop year is projected at around 60 million quintals. This forecast is, however, surrounded by significant risks and still depends on short-term climatic conditions. For the other crops, estimates provided by the Minister of Agriculture at the launch of the current crop year indicate a record production of 2 million tons of olives, up 22.3 percent over the previous year, and a 17 percent increase in citrus production. As regards breeding, pastures would have improved in relation with the climatic conditions.

In 2020, and on the basis of the performance recorded over the last ten years, assumptions about a normal cereal season, with a production of 80 million quintals, was maintained. For the other crops, their production would maintain the trend observed since 2008.

7.2 Macroeconomic projections

Current account deficit to widen in 2018 and ease in the medium term

The current account deficit would have widened to 5.2 percent of GDP in 2018, against 3.6 percent in 2017, reflecting, on the one hand, a higher increase of imports compared to exports and, on the other hand, a slowdown in travel receipts and lower transfers by Moroccan expatriates and GCC donations.

Over the forecast horizon, the growth rate of exports would slow down in 2019 to 4.8 percent, mainly driven by decelerating sales of car manufacturing, as Peugeot plant will only be operative in July 2019. In 2020, export momentum would resume, with an acceleration to 6.1 percent. In parallel, the expected drop in the energy bill and the slowdown in the rise of capital goods' imports would bring the increase of imports to 2.9 percent in 2019 and 3.2 percent in 2020.

Travel receipts and remittances of MREs are expected to grow at around 3.1 percent and 3.5 percent, respectively, in 2019 before rising to almost 4 percent in 2020.

Thus, and under the assumption of GCC countries donations of 2 billion DHs in 2019 and 1.8 billion in 2020, the current account deficit is expected to ease to 4.1 percent of GDP in 2019 and 3.4 percent in 2020. As to FDIs, net inflows would be close to 3.4 percent of GDP over the forecast horizon after 4.1 percent in 2018.

Under the assumption of two successive Treasury borrowings on the international market in 2019 and 2020 and after standing at 230.9 billion in 2018, NIRs are expected to strengthen to 239.4 billion DHs in 2019, before falling back to 235.7 billion in 2020. They would, thus, continue to ensure coverage of slightly more than 5 months of goods and services' imports.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates							Forecasts		Gap (march/dec.)		
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2018	2019	2020
Exports of goods* (FOB)	5.7	0.3	8.3	8.6	3.5	10.3	10.4	4.8	6.1	0.8	-1.9	-1.7
Imports of goods* (CAF)	8.2	-0.8	2.0	-4.9	10.3	6.7	9.6	2.9	3.2	1.2	0.4	-0.4
Travel receipts	-1.8	-0.4	7.7	-1.4	5.0	12.3	1.5	3.1	3.9	2.8	-0.5	-0.1
Expatriate remittances	0.6	-1.5	-0.8	4.8	4.0	5.3	-1.7	3.5	4.3	0.1	-0.5	-0.2
Current account balance (% of GDP)	**-9.5**	**-7.7**	**-6.0**	**-2.1**	**-4.2**	**-3.6**	**-5.2**	**-4.1**	**-3.4**	**-0.8**	**-0.4**	**-0.2**
Net international reserves in months of goods and services' imports	**4.0**	**4.2**	**5.4**	**6.0**	**6.2**	**5.6**	**5.1**	**5.1**	**5.0**	**0.0**	**0.0**	**0.0**

Sources: Foreign Exchange Office and BAM forecasts.

Appropriate monetary conditions overall and continued moderation of the pace of bank credit to the nonfinancial sector

The real effective exchange rate would slightly appreciate in 2019, as the inflation differential in favor of Morocco would only partially offset the expected appreciation of the dirham against the euro and the currencies of some emerging countries. In 2020, it is expected to depreciate slightly, reflecting a virtual stagnation in nominal terms and a domestic inflation still lower than that of partner and competitor countries.

Given the forecasts of net international reserves and the uptrend in notes and coins, the liquidity shortage is expected to increase from DH69.7 billion at end-2018 to 70.6 billion at end-2019, then to 84.8 billion by end-2020. The pace of bank credit to the nonfinancial sector would remain low at 3.1 percent in 2019, before accelerating to 4.4 percent in 2020.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (march/dec.)		
	2015	2016	2017	2018	2019	2020	2018	2019	2020
Bank lending to the nonfinancial sector	0.3	3.9	3.8	3.1	3.1	4.4	-0.4	-0.2	0.1
M3	5.7	4.7	5.5	4.0	4.0	3.7	0.6	0.1	0.1
Liquidity surplus or deficit, in billion dirhams	-16.5	-14.7	-40.9	-69.7	-70.6	-84.8	0.0	1.5	1.4

Slowdown in the budget consolidation process

The budget deficit widened to 41.4 billion in 2018, equivalent to 3.7 percent of GDP after 3.5 percent in 2017, reflecting higher non-investment spending, compared to revenues.

In 2019, the budget deficit, excluding privatization, is expected to reach 4.1 percent of GDP, mainly due to a significant rise in operating expenses. On the other hand, the subsidization costs would fall, under the effect of the forecast decline in butane gas prices.

In 2020, the deficit is expected to decrease to 3.5 percent of GDP. Tax revenues would maintain a steady pace, while subsidization costs would fall.

These projections take into consideration assumed GCC countries donations of DH2 billion in 2019 and 1.8 billion in 2020, equivalent to the balance of $5 billion originally planned in the relevant agreement.

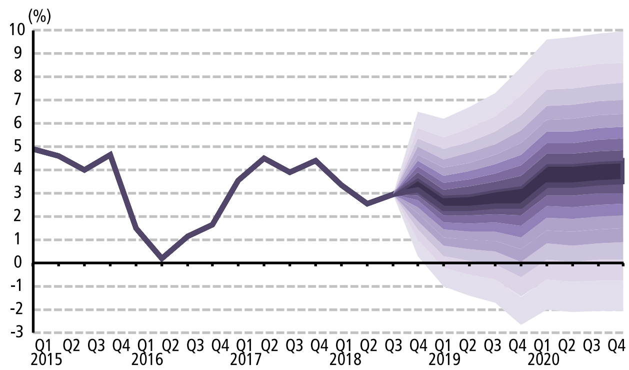
Continued slow recovery of nonagricultural activities

Taking advantage of a good crop year for the second year in a row, national growth would have reached 3.1 percent in 2018, after 4.1 percent in 2017. This trend covers a deceleration from 15.4 percent to 4.3 percent in the increase of agricultural value added and continued improvement of nonagricultural activities, albeit at a moderate pace of 2.9 percent after 2.7 percent. These forecasts were adjusted downwards compared to the year ending in December, taking into account new available data which indicate performances below expectations overall.

On the demand side, the slowdown in growth would have resulted from a negative contribution of net exports, the moderation in exports growth rate, after a notable increase in 2017, which would more than offset the expected deceleration in imports. The positive contribution of domestic demand would, for its part, have almost stabilized. The deceleration of the rise in household consumption, following the weakening of rural revenues, would have been almost offset by stronger investment, as evidenced in particular by the good momentum of capital goods imports.

In the medium term, growth would continue to be influenced by climatic conditions. It is forecast to slow down to 2.7 percent in 2019 before recovering to 3.9 percent in 2020. Agricultural value added would fall by 3.8 percent in 2019, taking into account a projected cereal production of around 60 million quintals, before increasing by 6 percent in 2020, assuming a return to a normal crop year. At the same time, nonagricultural activities would be more dynamic, at yet a slow pace. Their value added growth would thus reach 3.4 percent in 2019, slightly down, mainly in line with the deterioration of the economic outlook in main partner countries, before rising to 3.8 percent in 2020. On the demand side, the rise of its domestic component would slow down in 2019 before regaining a stronger momentum in 2020, while net exports would continue to have a slightly negative contribution.

Chart 7.8: Growth outlook over the forecast horizon (Q4 2018 - Q4 2020), (YoY)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.3: Economic growth (%)

	Actual rates				Forecasts			Gap (march/dec.)		
	2014	2015	2016	2017	2018	2019	2020	2018	2019	2020
Croissance nationale	**2.7**	**4.5**	**1.1**	**4.1**	**3.1**	**2.7**	**3.9**	**-0.2**	**-0.4**	**0.3**
VA agricole	-2.2	11.9	-13.7	15.4	4.3	-3.8	6.0	-0.3	-3.0	2.7
VA non agricole	2.7	1.8	2.2	2.7	2.9	3.4	3.8	-0.2	-0.1	0.0
Net tax on subsdies	9.7	18.1	8.8	2.8	2.6	2.9	3.0	-0.3	0.1	0.0

Sources: HCP data, and BAM forecasts.

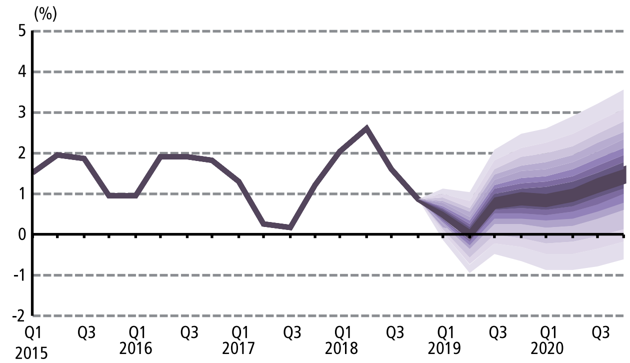
Relatively low inflation in the medium term, after acceleration in 2018

After a rate of 1.1 percent in 2018, core inflation is expected to be low at 0.8 percent in 2019, mainly in connection with the expected slowdown in domestic demand and an appreciation of the REER. It is then forecast to accelerate to 1.4 percent in 2020, particularly in relation with a gradual resorption of the negative cycle of domestic demand.

For the other components, fuel and lubricant prices are expected to decline on average over the forecast horizon, in line with the projected decline in world Brent prices, while prices of regulated products would increase in 2019, taking into account the measures planned in the 2019 Finance Act, before decelerating over the rest of the forecast horizon. Food prices, on the other hand, would almost stabilize in the medium term, under the assumption of a gradual dissipation of the supply shocks' effects.

All in all, after a sharp acceleration to 1.9 percent in 2018, inflation is forecast to fall to 0.6 percent in 2019 before accelerating to 1.1 percent in 2020.

Chart 7.9: Inflation forecast over the horizon (Q1 2019 - Q4 2020)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation

	Actual rates				Forecasts			Gap (march./dec.)		
	2015	2016	2017	2018	2019	2020	Horizons of 8 quarters	2018	2019	2020
Inflation	**1.6**	**1.6**	**0.7**	**1.9**	**0.6**	**1.1**	**0.8**	**-0.1**	**-0.4**	**-0.1**
Core inflation	1.4	0.8	1.3	1.1	0.8	1.4	1.1	0.0	-0.2	-0.2

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

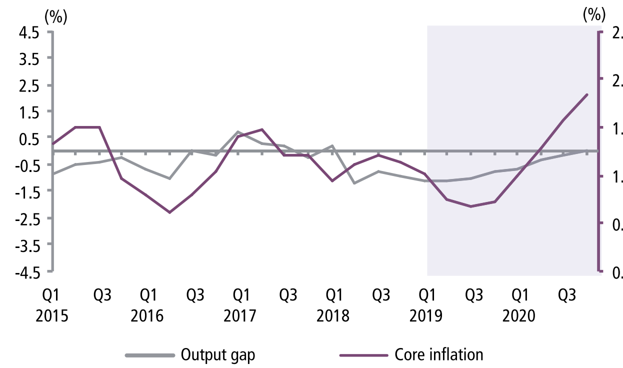
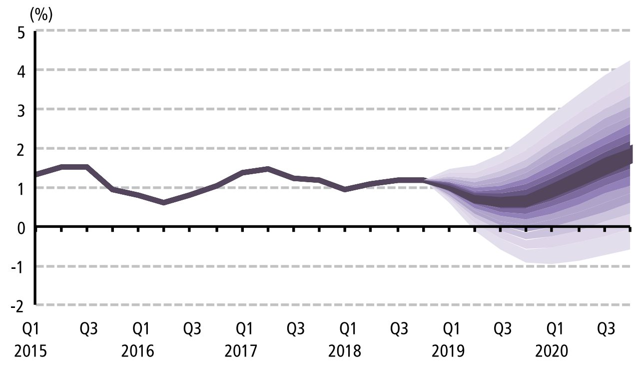


Chart 7.11: Projections of core inflation over the forecast horizon (Q1 2019 - Q4 2020)*



* 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 occurs in a context marked by numerous risks which, in the event of their materialization, can affect the central projection. The balance of risks is pointing downwards for growth and balanced for inflation.

Risks surrounding national growth are linked to cereal production which remains dependent on short-term climatic conditions, as well as a greater weakening of foreign demand, in connection with a deterioration of activity outlook in the main partner countries. These are subject to a number of uncertainties, linked in particular to rising protectionism, concerns about Brexit terms, as well as further weakening of growth in China. Regarding inflation forecasts, a higher Brent price would lead to higher consumer prices. On the other hand, a larger decline in domestic demand and/or a stronger appreciation of the REER would weaken inflation.

Concerning the other variables, the outlook for NIRs in particular remains mainly dependent on the materialization of GCC grant entries and Treasury borrowings from abroad.

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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