BANK AL-MAGHRIB

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 18, 2019

1. The Board of Bank Al-Maghrib held its second quarterly meeting of the year on Tuesday, June 18.
2. During this meeting, it reviewed and approved the Annual Report on the economic, monetary and financial situation of the country, as well as on the Bank's activities for the year 2018.
3. The Board also analyzed recent economic developments as well as the macroeconomic forecasts prepared by the Bank for the next eight quarters.
4. Based on these assessments, particularly those pertaining to medium-term forecasts of inflation, growth, external accounts, monetary conditions and public finance, the Board considered that the current level of the key rate at 2.25 percent remains appropriate and decided to keep it unchanged.
5. The Board noted that inflation was low during the first four months of the year, with a year-on-year decrease in the consumer price index by 0.1 percent on average. This decrease has resulted from the lower prices of volatile food and, to a lesser extent, of oil and lubricants. Such factors will impact inflation evolution throughout 2019, reducing it from 1.9 percent in 2018 to 0.6 percent. In 2020, inflation would accelerate to 1.2 percent, driven by its core component which, mainly owing to the expected upturn in domestic demand, would stand at 1.5 percent, as against the 0.8 percent rate forecasted in 2019 and the 1.1 percent rate recorded in 2018.
6. Internationally, as a result of the trade tensions and of political and geopolitical uncertainties, global growth is set to sharply decline in 2019, before improving moderately in 2020. In the United States, as impacts of fiscal stimulus measures dissipate, growth would slow down from 2.9 percent in 2018 to 2.5 percent in 2019, then to 1.6 percent in 2020. In the Euro Area, due to disruptions in the car industry in Germany and to the risks of a no-deal Brexit, GDP growth would be limited to 1.4 percent, as against 1.8 percent in 2018, before rebounding to 1.9 percent in 2020. Nonetheless, conditions would remain favorable in the labor market, with low unemployment rates in the United States and further dropping ones in the Euro Area. As for the main emerging economies, growth in China would continue its slowdown, albeit at a limited pace, while it would remain vigorous in India, driven by expansionary fiscal and monetary policies.
7. On the commodity market, Brent prices trended upward over the first five months of the year to stand at $70.5/bl on average in May. They are expected to stand for the whole of 2019 at $67.8/bl, down 4.6 percent compared to 2018. In 2020, the market would experience some balance and prices would stand at $63.8/bl. Concerning phosphates, as a result of the lower demand from China and India and of the reduced costs of some inputs, derivatives' prices trended downwards and are expected to end the year 2019 by a 6.0 percent drop in DAP to $370/mt on average and by a 1.9 percent decrease for TSP to $340/mt. Conversely, prices of crude phosphate would rise by 19.5 percent to $105/mt. In 2020, prices would evolve slightly above these levels.

8. Under these conditions, inflation would continue to trend below the ECB target in the Euro Area, standing at 1.3 percent in 2019 and 1.4 percent in 2020. In the United States, it is expected to reach 1.8 percent in 2019 before rising to 2.2 percent in 2020.

9. Regarding monetary policy decisions, the ECB kept, during its meeting held on June 6, its rates unchanged, and indicated that they are expected to remain at their current levels at least through the first half of 2020 and, in any case, as long as necessary. The ECB also recalled that it intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme (APP) for an extended period of time past the date when it starts raising the key interest rates, and in any case for as long as necessary. The ECB also specified the modalities of the new series of quarterly targeted longer-term refinancing operations. For its part, the Federal Reserve, at the end of its last meeting, on May 1st, kept the target range for federal funds rates unchanged at 2.25 percent -2.50 percent, saying that it will be patient as regards future adjustments of these rates.

10. At the national level, provisional data from the annual national accounts show that growth slowed down to 3 percent in 2018 from 4.2 percent a year earlier, covering a deceleration from 15.2 percent to 4 percent in the agricultural sector and from 2.9 percent to 2.6 percent in non-agricultural activities. In terms of prospects, added value of the latter should improve, according to Bank Al-Maghrib's forecasts, by 3.6 percent in 2019 and 3.9 percent in 2020. On the other hand, taking into account a cereal production estimated by the Ministry of Agriculture at 61 million quintals, agricultural value added would decline by 3.8 percent in 2019 before increasing by 6 percent in 2020, assuming an average crop year. Under these conditions, overall growth would stand at 2.8 percent in 2019 and speed up to 4 percent in 2020.

11. In the labor market, domestic economy created, between Q1-2018 and Q1-2019, 15 thousand jobs, as against 116 thousand a year earlier. Agriculture lost 152 thousand jobs, while nonagricultural sectors created 167 thousand jobs, almost 40 percent of which in the retail trade. Taking into account a 0.4 percent drop in the labor force, the participation rate fell by 0.9 percentage points to 46.2 percent and unemployment rate fell from 10.5 percent to 10 percent nationally, and from 15.6 percent to 14.5 percent in urban areas.

12. Regarding external accounts, exports continue to perform well, and increased by 4.5 percent at end-April, largely boosted by the sales of phosphates and derivatives. At the same time, imports rose by 4.7 percent, largely driven by higher purchases of capital goods and semi-finished products. As for travel receipts, they improved by 1.5 percent, while expatriates' remittances declined by 2.9 percent. In terms of prospects, exports' momentum is expected to continue over the medium term, with a particular rebound in automotive sales in 2020, further to the launch of the PSA plant production, expected in the second half of 2019. On the opposite, imports are expected to slow down, due to the forecasted declines in the energy bill and in the pace of capital goods acquisition. Travel receipts and transfers of expatriates' remittances are forecasted to improve at the end of 2019 and strengthen in 2020. Taking into account these developments and assuming GCC grants of 2 billion dirhams in 2019 and 1.8 billion in 2020, the current account deficit would drop from 5.5 percent of GDP in 2018 to 4.5 percent in 2019 and then 3.1 percent in 2020. Regarding financial transactions, FDI receipts would hover around 3.4 percent of GDP, while loan inflows would rise significantly, with two expected borrowings of the Treasury from international markets, one in 2019 and the other in 2020. Under these conditions, net international reserves would reach 239 billion dirhams at the end of 2019 and 234.5 billion at the end of 2020, continuing to cover slightly over 5 months of imports of goods and services.

13. As concerns monetary conditions, the real effective exchange rate (REER) is expected to be slightly higher in 2019, as the inflation gap would mitigate the forecasted nominal rise of the dirham. In 2020, the REER would experience a slight depreciation, a result of a quasi-stability, in nominal terms, and of lower inflation gap. As for lending rates, they recorded, in the first quarter

of 2019, a quarterly decline by 17 basis points to 4.89 percent on average, which mainly benefited companies, particularly VSMEs. Despite this easing, bank loans to the nonfinancial sector rose moderately at end-April, by 3.3 percent overall and 1.3 percent for the private sector. They are expected to rise by 3.5 percent by the end of the year and by 4.3 percent at end-2020, in line with the expected improvement in nonagricultural activities.

14. With regard to public finance, budget execution in the first five months of the year resulted in a deficit reduction to 18.5 billion dirhams. Current revenue increased by 6.2 percent, mainly reflecting a significant rise of income taxes and domestic consumption taxes, as well as to the collection of the social solidarity contribution on profits. However, VAT receipts were down, impacted by higher repayments, which reached 5.1 billion dirhams, as against 2.6 billion one year earlier. Besides, overall spending rose by 2.6 percent, driven by rising expenses of "other goods and services" and of investment. Under these conditions, and taking into account the impact of the agreement signed on April 25 as part of the social dialogue, the budget deficit, excluding privatization, is forecasted by Bank Al-Maghrib to increase from 3.7percent of GDP in 2018 to 4.1percent in 2019, before improving to 3.8 percent in 2020.