MONETARY POLICY REPORT

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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

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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 Peugeot 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 further 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.

OVERVIEW

International economic data for the first quarter of 2019 show a positive economic trend in advanced economies. In the United States, GDP grew by 3.2 percent from 3 percent a quarter earlier, reflecting a positive contribution from household consumption, government spending and exports. Despite the higher uncertainty surrounding the Brexit, growth remained stable in the euro area at 1.2 percent and strengthened to 1.8 percent from 1.4 percent in the United Kingdom, benefiting from an uptrend in household consumption and public spending.

In key emerging economies, the growth rate stagnated at 6.4 percent in China, as the fiscal stimulus mitigated the spillover of the trade tensions with the United States, while it fell from 6.3 percent to 5.7 percent in India, due to weaker private consumption and investment. Similarly, growth in Brazil decelerated further in early 2019, with a sharp decline from 1.1 to 0.5 percent, owing to the slowdown in investment and contraction in public spending. In Russia, the latest data remain those of the fourth quarter of 2018 and show a faster growth from 2.2 percent to 2.7 percent.

With regard to labor markets, the vigor continues in the United States, with a stable unemployment rate at 3.6 percent in May, albeit with a sharp decline in job creation to 75,000 posts, from 224,000 a month earlier. In the euro area, April data show an unemployment rate slightly down to 7.6 percent from 7.7 percent in March, the lowest rate since August 2008.

On the stock markets, indexes fell between April and May, both in the main advanced and emerging economies. In particular, the Dow Jones fell by 1.8 percent, EuroStoxx 50 by 1.5 percent, NIKEEI 225 by 2 percent and MSCI EM by 4.9 percent, as the latter was particularly impacted by a significant depreciation of the Turkish index.

In the bond markets, 10-year bond yields stagnated in May at 0 percent in Germany, 0.3 percent in France and 2.5 percent in Italy, while they fell to 0.9 percent in Spain and 2.4 percent in the United States. In emerging economies, these yields were up from 17.4 percent to 19.2 percent in Turkey and from 8.2 percent to 8.5 percent in Brazil and remained stable in China and India at 3 percent and 7.4 percent, respectively.

In the currency markets, between May and April, the euro held steady at $1.12 and appreciated by 0.4 percent against the pound sterling. The currencies of the main emerging countries depreciated against the dollar, except for the Indian rupee, which remained stable. Annual bank credit growth stagnated at 5.4 percent in April in the United States, while it accelerated from 3.2 percent to 3.4 percent in the euro area.

Regarding commodities, oil prices in May interrupted their increase that started early in the year, mainly owing to the rise in US stocks and persistent worries about global trade. In particular, Brent prices fell 0.9 percent month on month and 8 percent year on year to $70.5 per barrel. Non-energy prices fell again, with annual decreases of 10.3 percent for agricultural commodities and 9.4 percent for metals and ores. Prices for crude phosphate moved up 10.8 percent, year on year to $97.5/t, while those of its derivatives fell by 18.5 percent to $313.4/t for DAP and 6.4 percent to $305/t for TSP.

Under these conditions, inflation is expected to have decelerated in May from 1.7 percent to 1.2 percent in the euro area, according to a first estimate by Eurostat, while it accelerated in April in the United States and the United Kingdom from 1.9 percent to 2 percent and from 1.9 percent to 2.1 percent, respectively.

As regards monetary policy decisions, the ECB decided on 6 June to keep its rates unchanged and indicated that they will remain at their present levels at least through the first half of 2020 and, in any case, for as long as necessary to ensure continued sustained convergence of inflation to levels that are below, but close to 2 percent over the medium term. At the same time, it indicated that it intends to continue reinvesting, in full, the principal repayments from maturing securities purchased under the asset purchase program, for an extended period of time past the date when it starts raising its key interest rates and, in any case, for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation. Similarly, following its meeting on April 30 and May 1, the FED kept the target range for the federal funds rate unchanged at 2.25 percent to 2.50 percent and reiterated that it will be patient as it determines what future adjustments to the federal funds rate.

Nationally, preliminary external accounts data at end-April show a widening of the trade deficit, compared to the same period of 2018, by 3.2 billion to 67.3 billion dirhams. Thus, imports of goods grew by 4.7 percent, mainly reflecting an increase in capital goods and semi-finished products, while exports rose by 4.5 percent, driven particularly by an uptrend in sales of phosphates and derivatives. At the same time, travel receipts rose 1.5 percent to 22.7 billion while remittances from Moroccan expatriates decreased by 2.9 percent to 20.5 billion. GCC grants totaled 324 million dirhams, as against 147 million a year earlier.

In addition, net FDI inflows decreased by 1.8 billion dirhams to 5.8 billion, while direct investment outflows of Moroccans abroad reached 3.3 billion, from 2 billion in the same period last year. Taking into account these developments and those of the other components of the balance of payments, the outstanding net international reserves amounted to 232.3 billion dirhams at end-April 2019, covering 5 months and 3 days of imports of goods and services.

In the money market, banks' liquidity needs averaged 74.1 billion dirhams in April and May 2019. Bank Al-Maghrib thus raised the volume of its injections to 74.4 billion on average, thereby keeping the weighted average rate on the interbank market close to the key rate. The lending rates on bank credit decreased by 17 basis points to 4.89 percent in the first quarter. Also, taking into account a depreciation of 1.1 percent in the real effective exchange rate, monetary conditions would have eased in the first quarter of 2019. Against this backdrop, the growth of loans to the non-financial sector showed a slight improvement, which benefited both businesses and individuals before decelerating to 3.3 percent in April.

On the public finance side, budget execution at the end of the first four months of 2019 showed that the deficit eased by 5 billion to 9.7 billion. Current revenue moved up 6.3 percent, reflecting particularly an 11.5 percent increase in direct tax receipts. On the other hand, overall expenditure rose by 3.8 percent, reflecting mainly higher spending on other goods and services and investment spending, while the wage bill and transfers to local authorities fell. Given a rebuilding of the stock of outstanding payments amounting to 9.5 billion, the Treasury's borrowing requirement increased by 1.4 billion over the same period of 2018 to stand at 19.2 billion. It was financed by net domestic resources of 15.1 billion and net external financing of 4.2 billion. As a result, direct public debt was set to rise by 1.7 percent compared to its December 2018 level. Treasury financing conditions on the auction market were favorable during the first four months of the year compared to the same period in 2018, as evidenced by the downward trend in rates applied on the primary market.

National accounts data show that growth reached 3 percent in 2018 from 4.2 percent in 2017, with increases of 4 percent, after a rebound of 15.2 percent, in agricultural value added and 2.6 percent versus 2.9 percent in nonagricultural activities. On the demand side, this change reflects a negative contribution of 1.3 percentage point from net exports, after a slight positive participation in 2017, with its domestic component improving by 4.3 points.

In the labor market, job creations dropped significantly to 15 thousand jobs in the first quarter of 2019, from 116 thousand jobs over the same period a year earlier. This trend reflects a significant loss in agriculture, which was more than offset by nonagricultural activities, mostly services. Taking into account a 0.4 percent drop in the labor force, the unemployment rate fell from 10.5 percent to 10 percent nationally and albeit remaining high, it decreased from 43.5 percent to 40.3 percent among urban youth aged 15 to 24 years.

In the assets market, real estate prices fell by 0.7 percent in the first quarter of 2019, a trend covering declines of 1.1 percent in residential property prices and 0.4 percent in urban land as well as an increase of 0.9 percent in commercial property prices. At the same time, the number of transactions shrank by 12.7 percent, after an increase with almost the same magnitude in the previous quarter. Regarding the stock market, the MASI fell by 4 percent at the end of the first quarter of 2019, compared to the fourth quarter of 2018, and the trading volume was virtually stable at 11.8 billion. Under these conditions, market capitalization dropped by 3.5 percent, quarter on quarter, to stand at 561.7 billion dirhams.

Inflation averaged -0.2 percent in the first quarter of 2019 and 0.2 percent in April. This weakening is attributable to the sharp drop in volatile food prices, with rates of 6.2 percent in the first quarter and 3.4 percent in April, after a rise of 2.6 percent in 2018. It is also due to declines of 6.6 percent and then 1.2 percent in fuel and lubricant prices, respectively. Core inflation stood at 0.9 percent in the first quarter and 0.8 percent in April, while prices for regulated products rose 1.4 percent on average between January and April.

In terms of outlook, due to political uncertainties, geopolitical tensions and the escalation of the trade war, global growth would slow down this year and then recover slightly in 2020. In the euro area, it would decelerate from 1.8 percent to 1.4 percent in 2019, before picking up to 1.9 percent in 2020, thanks to still-favorable monetary conditions. In the United States, it would slow down from 2.9 percent to 2.5 percent in 2019 and then to 1.6 percent in 2020, partly in conjunction with the dissipation of the effects of the fiscal stimulus. In the labor markets, conditions would remain positive, with the unemployment rate expected to remain low in the United States and continue to fall in the euro area.

In emerging economies, growth would continue to decelerate in China, albeit at a slower pace thanks to fiscal and monetary support measures. It would move down from 6.6 percent in 2018 to 6.5 percent in 2019 and 6.2

percent in 2020. In India, thanks to the expansionary stance of economic policies, growth would remain at a sustained level of 6.6 percent in 2019 and then strengthen to 7.5 percent in 2020.

In the commodities market, Brent prices are expected to fall to $67.8/bl in 2019, down 4.6 percent from 2018, and to $63.8/bl in 2020, in a context of uncertainties surrounding the outlook for global demand and supply disruptions. After dropping by 3.5 percent in 2018, food prices are overly tilted to the upside in the medium term. Prices for phosphate fertilizers would continue their downward trend that started at the end of 2018 to stand for DAP in particular at $370/t in 2019, before increasing slightly to $377/t in 2020. However, crude phosphate prices should rise to $105/t in 2019, as against nearly $88/t in 2018, and to $107/t in 2020.

Against this backdrop, inflation should stand, over the forecast horizon, at levels lower than those of 2018, with particularly a deceleration in 2019 to 1.3 percent in the euro area and to 1.8 percent in the United States, followed by a rise to 1.4 percent and 2.2 percent, respectively.

Nationally, exports should slow down in 2019 to 6 percent, particularly due to slow sales of phosphates and derivatives. In 2020, it would accelerate to 7.3 percent, mainly reflecting higher sales in the automotive industry, assuming that the production capacity of the Peugeot plant, whose activity should start in the second half of 2019, would double. At the same time, the growth of imports should decelerate to 3.3 percent in 2019 and to 2.8 percent in 2020, mainly as a result of the expected fall in the energy bill and the moderate increase in purchases of capital goods. With regard to travel receipts and remittances from Moroccan expatriates, their growth should move up to 3.3 percent and 3.6 percent respectively in 2019 and then to 4.1 and 4.5 percent in 2020. In view of these developments, and assuming GCC donations of 2 billion in 2019 and 1.8 billion in 2020, the current account deficit is expected to ease to 4.5 percent in 2019 and to 3.1 percent in 2020. In addition, after recording a high level in 2018 following a sale transaction in the insurance sector, FDI is expected to stabilize at around 3.4 percent of GDP over the forecast horizon. Overall, and taking into account the two planned borrowing operations of the Treasury from international markets, the net international reserves should increase to 239 billion at the end of 2019, before returning to 234.5 billion at the end of 2020, thus covering a little over 5 months of imports of goods and services.

On the basis of expected trends in net international reserves and assuming an upward trend in currency in circulation, liquidity needs would widen from 69 billion dirhams at end-2018 to 71 billion at end-2019 then 86 billion at end-2020. Regarding monetary conditions, the real effective exchange rate should slightly appreciate in 2019, before registering a relative depreciation in 2020. The growth of credit to the non-financial sector would stand at 3.5 percent in 2019, before accelerating to 4.3 percent in 2020.

In terms of public finance, the consolidation process should somehow slow down. Fiscal deficit would widen further to 4.1 percent of GDP in 2019 before reaching 3.8 percent in 2020, which is an upwardly adjusted forecast compared to March, particularly owing to the impact of the agreement reached as part of the social dialogue, without taking into account salary increases for military personnel and amendments to the statutes of the Directorate General of National Security staff.

Concerning national accounts, domestic growth would slow again to 2.8 percent in 2019, with a 3.8 percent decline in agricultural value added and a 3.6 percent improvement in nonagricultural activities. In 2020, agricultural value added would grow by 6 percent, assuming a cereal production of 80 million quintals and the output of nonagricultural activities would consolidate by 3.9 percent. Growth would stand at 4 percent.

In this context, inflation would fall from 1.9 percent in 2018 to 0.6 percent in 2019 before accelerating moderately to 1.2 percent in 2020. Core inflation should slow to 0.8 percent in 2019, before gradually increasing over the remainder of the forecast horizon, in conjunction with the expected gradual decline in the negative cycle of domestic demand and the expected depreciation of the REER.

The central scenario of the forecasts remains surrounded by several uncertainties which, in the event they are materialized, can impact the central projection. The balance of risks is downward for growth and at equilibrium for inflation. The risks to domestic growth are mainly attributed to external factors, including higher energy prices and a more pronounced deterioration in foreign demand. The latter remains particularly surrounded by significant downside risks, largely due to the escalation of the trade war, concerns over the Brexit terms, and the heightened political and geopolitical tensions. With regard to inflation forecasts, higher than expected oil prices in the central scenario, following a sharper tightening of world supply, could cause consumer prices to rise, through their direct effects on the domestic prices of fuels and indirect effects on the cost of production. On the other hand, a further weakening of domestic demand and/or a possible further appreciation of the real effective exchange rate, particularly amid downward pressures on the currencies of some emerging countries, could lead to lower inflation rates compared to the central forecast scenario. As for the projections of the other variables, those of the NIR remain dependent in particular on the Treasury borrowing operation from international markets and, to a lesser extent, on the inflow of GCC grants.

1.INTERNATIONAL DEVELOPMENTS

Despite the uncertainties relating to trade tensions, Brexit and political difficulties in some countries, the latest data show overall a relative improvement in economic activity in the main advanced countries. Figures for the first quarter of 2019 confirm the expansion of growth in the United States and indicate stability in the euro area. Similarly, growth picked up in the United Kingdom and accelerated in Japan. In emerging countries, it stagnated in China and fell sharply in India, while data for the fourth quarter of 2018 show an improvement in Russia. On the other hand, the labor market conditions remain overall favorable, with a further decline in unemployment rates in a large number of advanced countries. Financial markets saw a rise in risk aversion caused mainly by the heightened trade tensions. Against this backdrop, the main stock market indexes of advanced and emerging economies were down and sovereign bond yields eased overall. In international commodity markets, prices fell in May for both energy and non-energy commodities. Under these conditions, inflation decelerated in May in the euro area, according to a preliminary Eurostat estimate, and in the United States. All of these developments suggest the absence of external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, growth accelerated to 3.2 percent in the first quarter of 2019, from 3 percent, reflecting a positive contribution of household consumption, government expenditure and exports. In the euro area, despite higher uncertainties, particularly those around Brexit terms, growth remained stable at 1.2 percent. In the euro area's main economies, it rose from 0.6 percent to 0.7 percent in Germany, and from 1 percent to 1.1 percent in France, prompted by the improvement of private expenditure following the measures taken in response to social tensions. Similarly, GDP moved up 0.1 percent in Italy, after stagnation in the fourth quarter of 2018. In Spain, it rose from 2.3 percent to 2.4 percent, thanks to improved household consumption following the increase in the minimum wage.

In the United Kingdom, economic growth expanded significantly in the first quarter to 1.8 percent from 1.4 percent, reflecting in particular the uptrend in household consumption and public spending. Similarly, Japanese growth accelerated from 0.2 percent to 0.8 percent against a background of improved residential investment and net foreign demand. In the main emerging countries, growth in China stagnated at 6.4 percent, as the fiscal stimulus measures put in place offset the effects of uncertainty over trade with the United States. In India, growth continued to slow down from 6.3 percent to 5.7 percent, in line with the weakening of private consumption and investment. Similarly, in Brazil, growth decelerated further in early 2019, with a sharp decline from 1.1 percent to 0.5 percent, due to the slowdown in investment and the contraction in public spending. In Russia, data for the fourth quarter of 2018 indicate a 2.7 percent expansion of growth, due mainly to the uptrend in the mining, financial and real estate sectors.

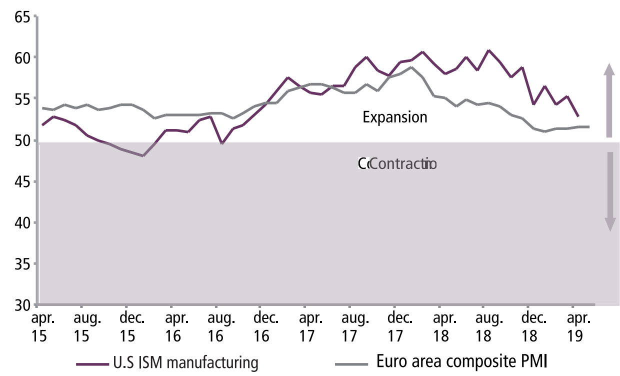
Table 1.1: YoY change in quarterly growth

	2016	2017				2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Advanced economies										
United States	**1.9**	**1.9**	**2.1**	**2.3**	**2.5**	**2.6**	**2.9**	**3.0**	**3.0**	**3.2**
Euro area	**2.1**	**2.1**	**2.5**	**2.8**	**2.7**	**2.4**	**2.2**	**1.6**	**1.2**	**1.2**
France	1.2	1.4	2.3	2.7	2.8	2.2	1.7	1.4	1.0	1.1
Germany	1.9	2.1	2.2	2.7	2.8	2.1	2.0	1.2	0.6	0.7
Italy	1.3	1.6	1.8	1.8	1.8	1.4	1.0	0.5	0.0	0.1
Spain	2.7	2.9	3.1	2.9	3.1	2.9	2.6	2.5	2.3	2.4
United Kingdom	**1.7**	**1.8**	**1.9**	**2.0**	**1.6**	**1.2**	**1.4**	**1.6**	**1.4**	**1.8**
Japan	**1.2**	**1.4**	**1.8**	**2.2**	**2.3**	**1.4**	**1.4**	**0.1**	**0.2**	**0.8**
Emerging economies										
China	**6.8**	**6.9**	**6.9**	**6.8**	**6.8**	**6.8**	**6.7**	**6.5**	**6.4**	**6.4**
India	**7.4**	**6.7**	**5.9**	**6.6**	**7.3**	**7.9**	**7.8**	**6.8**	**6.3**	**5.7**
Brazil	**-2.3**	**0.1**	**0.6**	**1.4**	**2.2**	**1.2**	**0.9**	**1.3**	**1.1**	**0.5**
Turkey	**4.2**	**5.3**	**5.3**	**11.5**	**7.3**	**7.4**	**5.3**	**1.8**	**-3.0**	**-2.6**
Russia	**1.0**	**1.5**	**2.5**	**2.3**	**0.3**	**1.9**	**2.2**	**2.2**	**2.7**	**n.d**

Source : Thomson Reuters.

Regarding key indicators, the composite PMI of the euro area improved slightly to 51.6 points in May, from 51.5 points a month earlier. Conversely, the ISM manufacturing index of the United States was down in April to 52.8 points from 55.3 in March.

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



Source : Thomson Reuters.

1.1.2 Job market

In the United States, the unemployment rate remained stable at 3.6 percent in May 2019, albeit with a sharp drop in job creation to 75,000 posts, from 224,000 a month earlier.

In the euro area, April data show an unemployment rate slightly down to 7.6 percent in April from 7.7 percent in March, the lowest rate since August 2008. In its main countries, it remained stable in France, Germany and Italy at 8.7 percent, 3.2 percent and 10.2, respectively, and fell in Spain from 14 percent to 13.8 percent.

In the United Kingdom, March data indicate a stagnation of the rate at 3.8 percent.

Table 1.2: Change in unemployment rate (%)

	2017	2018	2019		
			march	april	may
United States	**4.4**	**3.9**	**3.8**	**3.6**	**3.6**
Euro area	**9.1**	**8.2**	**7.7**	**7.6**	**N.A**
France	9.4	9.1	8.7	8.7	N.A
Germany	3.8	3.4	3.2	3.2	N.A
Italy	11.2	10.6	10.2	10.2	N.A
Spain	17.2	15.3	14.0	13.8	N.A
United Kingdom	**4.4**	**4.0**	**3.8**	**N.A**	**N.A**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

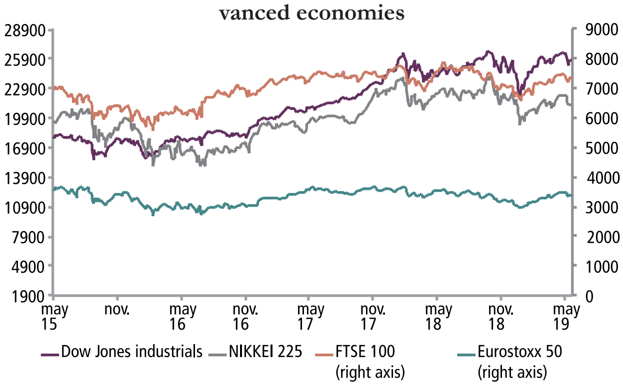
On the stock markets, the indexes of the main advanced and emerging economies declined between April and May. Thus, the Dow Jones fell by 1.8 percent, the EuroStoxx 50 by 1.5 percent, the NIKEEI 225 by 2 percent and the FTSE 100 by 1.8 percent. These trends were coupled with rising volatility in both the U.S. and European markets.

In emerging economies, the MSCI EM dropped by 4.9 percent, reflecting mainly declines of 6.1 percent in China, 3.2 percent in India and 12.3 percent in Turkey.

In the bond markets of the main advanced countries, sovereign yields remained relatively unchanged or even slightly down in some peripheral countries. Thus, 10-year yields remained stable at 0 percent in Germany, 0.3 percent in France and 2.5 percent in Italy, while they decreased to 0.9 percent in Spain, 1.1 percent in Portugal and 3.9 percent in Greece. These yields also dropped for U.S. T-bills from 2.5 percent to 2.4 percent, month on month.

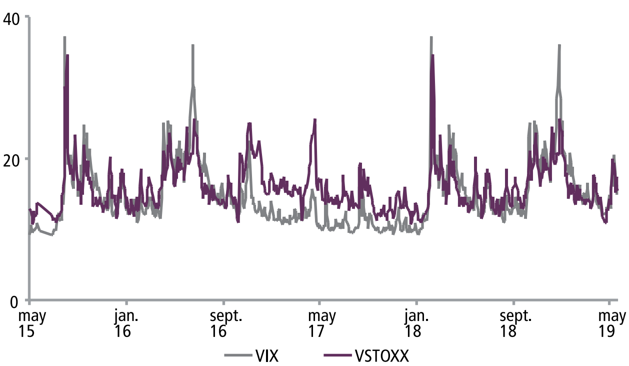
Concerning the major emerging economies, the 10-year sovereign yields rose from 8.2 percent to 8.5 percent in Brazil and from 17.4 percent to 19.2 percent in Turkey, while they stagnated at 3.3 percent in China and 7.4 percent in India.

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



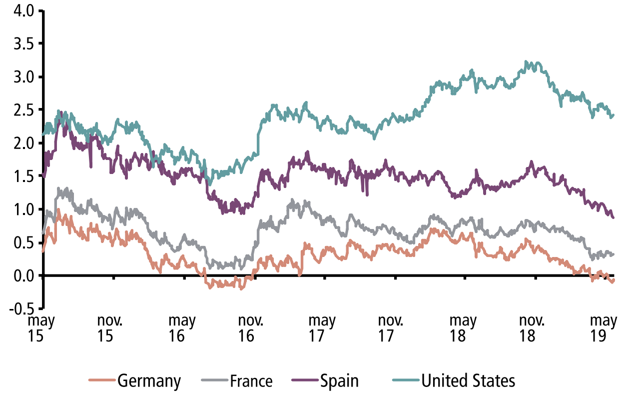
Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters.

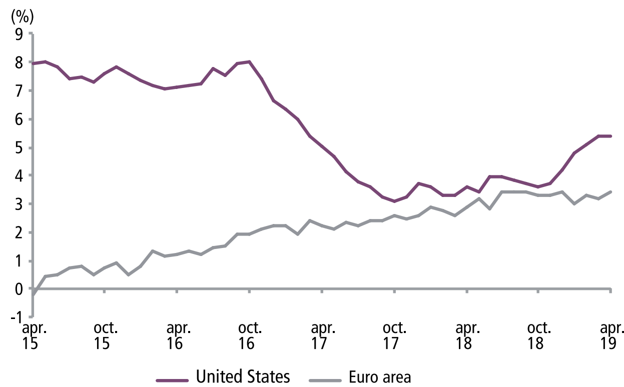
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters Eikon.

In the money markets, the 3-month Euribor remained unchanged at -0.3 percent, while the same-maturity Libor declined slightly from 2.6 percent in April to 2.5 percent in May. Meanwhile, annual bank credit growth stabilized at 5.4 percent in April in the United States, while it accelerated from 3.2 percent in March to 3.4 percent in April in the euro area.

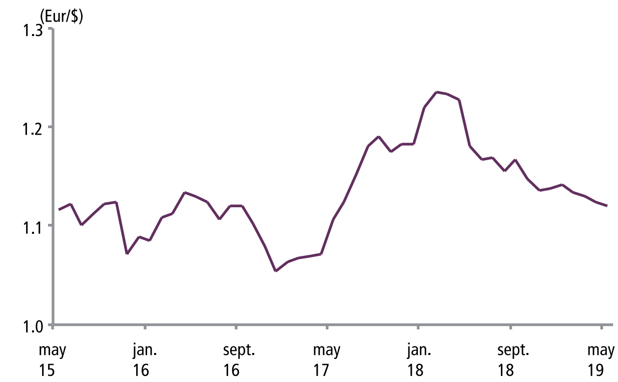
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

On the foreign exchange markets, the euro remained unchanged between April and May at 1.12 dollar, appreciated by 0.4 percent against the pound sterling and depreciated by 1.6 percent versus the Japanese yen. Except for the Indian rupee which remained unchanged, all the currencies of the main emerging countries depreciated against the dollar, with rates of 2.5 percent for the Brazilian real, 5.1 percent for the Turkish lira and 1.7 percent for the Chinese yuan.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

Similarly, the ECB decided on 6 June to keep its rates unchanged and indicated that they will remain at their present levels at least through the first half of 2020 and, in any case, for as long as necessary to ensure continued sustained convergence of inflation to levels that are below, but close to, 2 percent over the medium term. With respect to non-standard measures, it indicated that it intends to continue reinvesting, in full, the principal repayments from maturing securities purchased under the asset purchase program, for an extended period of time past the date when it starts raising its key interest rates and, in any case, for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation. Regarding the terms of the new series of quarterly targeted longer-term repayment operations (TLTRO III), the ECB reported that these quarterly operations, announced for the first time in March 2019, will total seven and help to preserve favorable bank lending conditions and support its accommodative monetary policy. They will start in September 2019 and end in March 2021, each with a maturity of two years. In addition, the interest rate in each operation will be set at a level that is 10 basis points above the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO.

The Bank of England also decided on May 2 to keep its policy rate at 0.75 percent and keep the stock of purchases of British government bond at £435 billion and the purchase of "investment grade" bonds of British non-financial companies at £10 billion.

Regarding emerging countries, the Reserve Bank of India lowered its key interest rate by 25 basis points to 5.75 percent on June 6, while indicating that this further decrease would contribute to actions aiming to boost overall demand and reinvigorate private investment. Similarly, the Central Bank of Russia decided on June 14 to reduce its key rate by 25 basis points to 7.50 percent, while indicating that inflation continued to slow down and that economic growth in the first half of 2019 was weaker than expected. The Central Bank of Brazil kept its key rate unchanged on May 8 at 6.5 percent, while indicating that recent data on economic activity suggest that the slowdown observed at end-2018 continued at the beginning of 2019, but it still projects that the gradual economic recovery process will resume during the year.

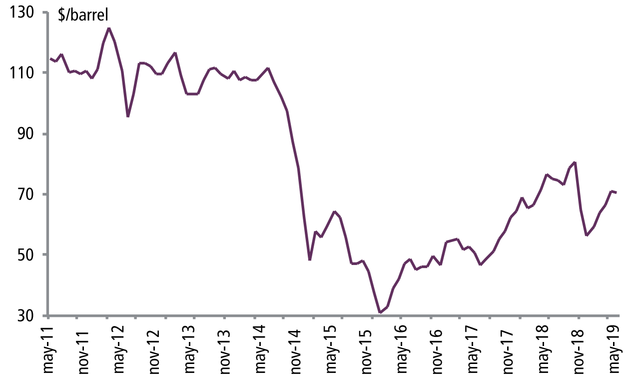
1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In the oil market, prices halted in May their growth that started at the beginning of the year, impacted mainly by the rise in U.S. stocks and persistent worries about world trade. Brent prices, in particular, were down 0.9 percent, month on month, or 8 percent year on year, thus standing at $70.5 a barrel.

Natural gas prices on the European market continued to decline, with rates at 11.8 percent, month on month, and 42 percent, year on year.

Chart 1.7 : Brent prices in dollars

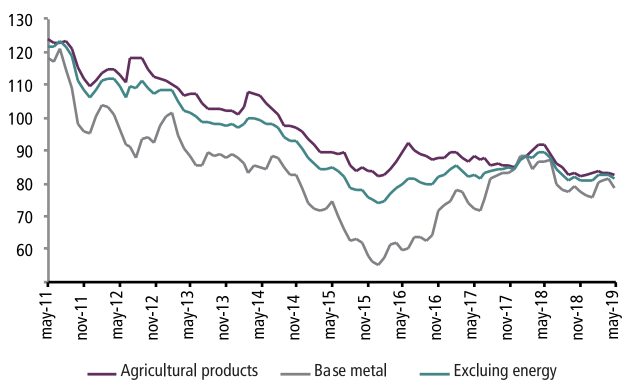


Source : World Bank.

1.3.2 Non-energy commodity prices

Non-energy commodity prices fell again in May, with year-on-year declines of 10.3 percent in agricultural commodities and 9.4 percent in metal and ore prices. Particularly, durum wheat prices stagnated from one month to the next and declined by 6.7 percent, year on year, in a context of growing concerns following a very humid climate in the United States.

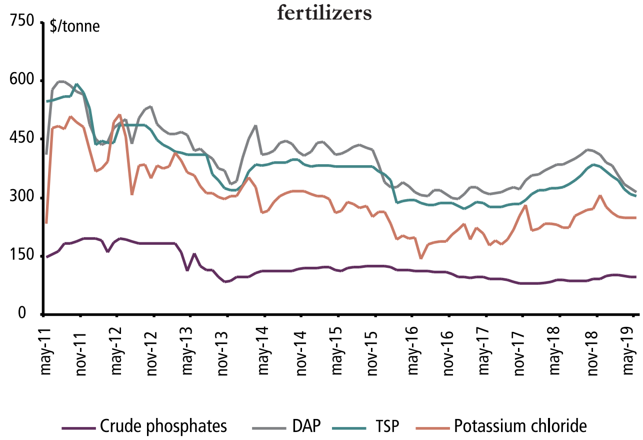
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

In the world market for phosphates and fertilizers, prices stagnated in May at $97.5/t for crude phosphate, $247.5/t for urea and $265.5/t for potassium chloride. On the other hand, they decreased by 3.2 percent to $313.4/t for DAP and 1.6 percent to $305/t for the TSP. On an annual basis, data show price increases of 10.8 percent for crude phosphate, 23.2 percent for potassium chloride and 11.5 percent for urea as well as decreases of 18.5 percent for DAP and 6.4 percent for the TSP.

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



Source: World Bank.

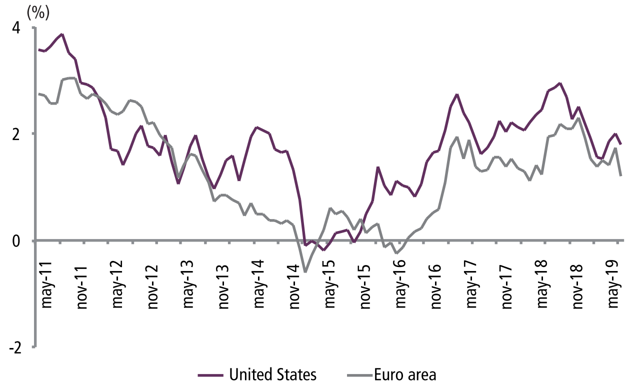
1.3.3 Inflation

According to a first estimate by Eurostat, inflation was set to decelerate in May from 1.7 percent to 1.2 percent in the euro area, reflecting, inter alia, declines from 2.1 percent to 1.3 percent in Germany, from 1.5 percent to 1.1 percent in France, from 1.6 percent to 0.9 percent in Spain and from 1.1 percent to 0.9 percent in Italy. Similarly, it dropped in the United States in May from 2 percent to 1.8 percent.

In the other major advanced economies, the latest data are those of April and show rising rates from 1.9 percent to 2.1 percent in the United Kingdom and from 0.5 percent to 0.9 percent in Japan.

In emerging countries, inflation fell in May from 5.2 percent to 5.1 percent in Russia and from 4.9 percent to 4.7 percent in Brazil and stagnated at 3 percent in India. However, it increased from 2.5 percent to 2.7 percent in China.

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

	2017	2018	2019		
			march	april	may
United States	**2.1**	**2.4**	**1.9**	**2.0**	**1.8**
Euro area	**1.5**	**1.8**	**1.4**	**1.7**	**1.2**
Germany	1.7	1.9	1.4	2.1	1.3
France	1.2	2.1	1.3	1.5	1.1
Spain	2.0	1.7	1.3	1.6	0.9
Italy	1.3	1.2	1.1	1.1	0.9
United Kingdom	**2.7**	**2.5**	**1.9**	**2.1**	**N.A**
Japan	**0.5**	**1.0**	**0.5**	**0.9**	**N.A**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

Preliminary external trade data at end-April 2019 indicate a widening of 3.2 billion in the trade deficit, compared to the same period of the previous year, to stand at 67.3 billion dirhams. This trend is attributed to an increase of 7.5 billion or 4.7 percent in imports, which is greater than that of 4.3 billion or 4.5 percent in exports. The coverage ratio thus stood at 59.9 percent from 60 percent.

At the same time, travel receipts rose 1.5 percent, while remittances from Moroccan expatriates dropped by 2.9 percent. Regarding the main financial transactions, net FDI inflows dropped by 1.8 billion, while outflows of investment by Moroccans abroad were up 1.4 billion.

Under these conditions and taking into account the other components of the balance of payments, Bank Al-Maghrib's net international reserves stood at 232.3 billion dirhams at end-April 2019, equaling 5 months and 3 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

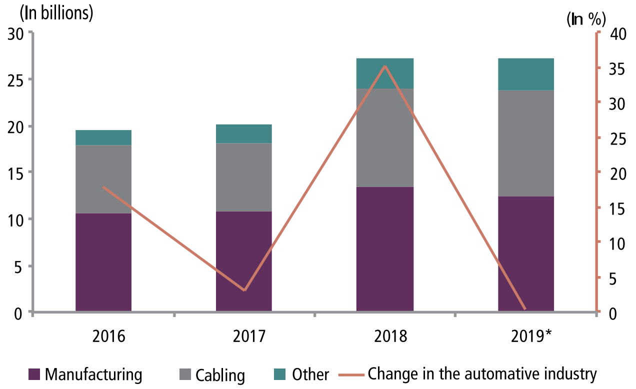
The increase in exports mainly reflects a rise of 16.1 percent in sales of phosphates and derivatives to 15.8 billion and, to a lesser extent, that of 4.3 percent in agricultural and agri-food products to 25.3 billion. The latter reflects increases of 6.9 percent for the food industry and 1.9 percent for agricultural commodities. However, automotive sector sales showed a virtual stagnation of 27.2 billion, mainly covering a drop of 6.8 percent for the car manufacturing segment and a rise of 5.9 percent for the cabling segment. At the same time, aeronautics exports rose 9.8 percent to 5.3 billion and electronics sales grew 4 percent to 3 billion.

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

Sectors/Segments	jan-apr 2019*	jan-apr 2018	Change	
			Value	In %
Exports	**100 372**	**96 084**	**4 288**	**4.5**
Phosphates and derivatives	**15 839**	**13 637**	**2 202**	**16.1**
Automotive	**27 245**	**27 169**	**76**	**0.3**
Construction	12 447	13 352	-905	-6.8
Cabling	11 338	10 708	630	5.9
Agriculture and Agribusiness	**25 334**	**24 285**	**1 049**	**4.3**
Agriculture, forestry, and hunting	12 816	12 575	241	1.9
Agri-food industry	11 941	11 175	766	6.9
Textile and leather	**13 042**	**13 018**	**24**	**0.2**
Ready-made clothes	8 384	8 288	96	1.2
Underwear	2 600	2 580	20	0.8
Shoes	954	1 045	-91	-8.7
Aeronautics	**5 277**	**4 808**	**469**	**9.8**
Electronics	**3 017**	**2 902**	**115**	**4.0**
Electronic components	1 594	1 444	150	10.4
Pharmaceutical industry	**430**	**413**	**17**	**4.1**
Other mining activities	**1 405**	**1 419**	**-14**	**-1.0**
Others	**8 783**	**8 433**	**350**	**4.2**

* Preliminary data
Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports at end of april



* Preliminary data
Source: Foreign Exchange Office.

2.1.2 Imports

The growth of imports was mainly attributed to increases of 7.2 percent in purchases of capital goods to 43.2 billion dirhams and 7.1 percent in semi-finished products to 36 billion. Similarly, the energy bill rose by 5.5 percent to 26.1 billion, with increases of 25.6 percent for "coal; cokes and similar solid fuels" and 12.7 percent for "petroleum gas and other hydrocarbons". Regarding other commodity groups, food purchases moved up 2.1 percent, reflecting mainly a 5.8 percent increase in wheat purchases. Imports of finished consumer goods and raw products grew by 0.8 percent to 36.2 billion and by 2 percent to 8.2 billion, respectively.

Overall, the trade deficit widened by 3.2 billion to 67.3 billion dirhams and the coverage ratio stood at 59.9 percent from 60 percent on average between January and April 2018.

Table 2.2 : Change in imports (in millions of dirhams)

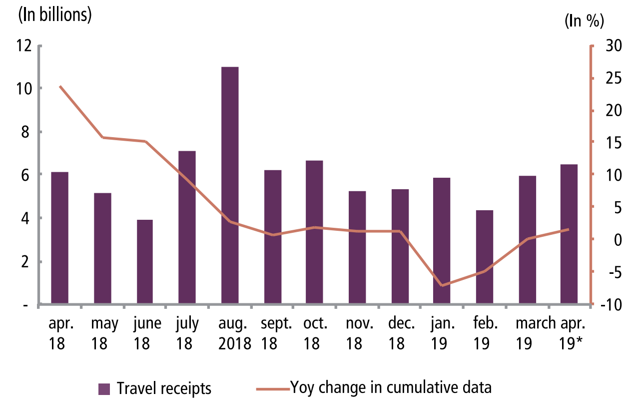
Groups of use	jan-apr. 2019*	jan-apr. 2018	Change	
			In value	In %
FOB imports	**167 636**	**160 118**	**7 518**	**4.7**
Energy products	**26 053**	**24 687**	**1 366**	**5.5**
Coals; cokes and similar solid fuels	3 560	2 835	725	25.6
Petroleum gas and other hydrocarbons	5 134	4 556	578	12.7
Equipment goods	**43 210**	**40 296**	**2 914**	**7.2**
Planes and other aircrafts and spacecraft	4 206	313	3 893	-
Machinery and varius appliances	4 386	3 729	657	17.6
Electrical appliances	1 922	1 567	355	22.7
Finished consumer goods	**36 218**	**35 942**	**276**	**0.8**
Synthetic fibers fabrics and threads	2 955	2 723	232	8.5
Hosiery fabrics	1 756	1 532	224	14.6
Semi-finished products	**35 973**	**33 582**	**2 391**	**7.1**
Semi-finished products of iron or steel	1 550	835	715	85.6
Plastic materials and diverse plastic works	4 811	4 356	455	10.4
Raw products	**8 232**	**8 072**	**160**	**2.0**
Crude and unrefined sulphur	2 952	2 321	631	27.2
Food products	**17 858**	**17 495**	**363**	**2.1**
wheat	5 328	5 037	291	5.8

* Preliminary data.
Source: Foreign Exchange Office.

2.2 Other components of the current account

Concerning services, imports decreased by 8.7 percent to 29.2 billion and exports stood at 56.4 billion, down 0.4 percent. The services balance resulted in a surplus of 27.2, up 10.5 percent over the same period of the previous year. In particular, travel receipts rose by 1.5 percent to 22.7 billion and spending grew by 13.1 percent to 5.9 billion.

Chart 2.2: Change in travel receipts*

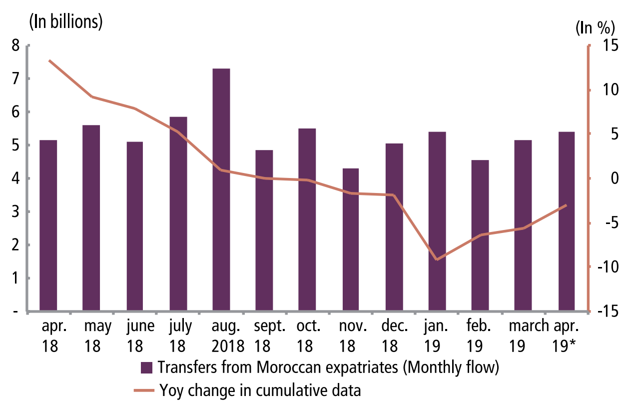


* Preliminary data

Source: Foreign Exchange Office.

Remittances from Moroccan expatriates fell by 2.9 percent to 20.5 billion dirhams.

Chart 2.3: Change in transfers from Moroccan expatriates



* Preliminary data

Source: Foreign Exchange Office.

2.3 Financial account

Regarding the main financial transactions, net FDI inflows fell by 1.8 billion to 5.8 billion, owing to a decrease of 1.1 billion in revenue and an increase of 652 million in sales. As to outflows of investment by Moroccans abroad, it reached 3.3 billion, from 2 billion in the same period of the previous year. This change was due to an increase of 1.5 billion in these investments, more significant than that of 73 million dirhams in sales.

Under these conditions and taking into account the other headings of the balance of payments, outstanding net international reserves amounted to 232.3 billion at end-April 2019, equaling 5 months and 3 days of imports of goods and services.

Table 2.3: Change in Direct investments (in million dirhams)

	jan-apr 2019*	jan-apr 2018	Change	
Foreign direct investments	**5 829**	**7 600**	**-1 771**	**-23.3**
Revenues	10 666	11 785	-1 119	-9.5
Expenses	4 837	4 185	652	15.6
Investments of Moroccans abroad	**3 332**	**1 953**	**1 379**	**70.6**
Revenues	4 039	2 587	1 452	56.1
Expenses	707	634	73	11.5

* Preliminary data
Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

The first quarter of 2019 recorded an easing of monetary conditions, further to the decrease in the effective exchange rate and in lending rates. Growth pace of loans to the nonfinancial sector improved slightly, covering loans granted to both businesses and individuals. For the other money supply counterparts, net claims on central government slowed down from 23.2 percent to 14.7 percent and net international reserves fell by 3.1 percent, less pronounced than the 4.1 decline recorded a quarter earlier. In all, growth rate of the money supply remained virtually unchanged at 4.2 percent in T1-2019.

On the real estate market, asset prices declined year-on-year by 0.7 percent in the first quarter of 2019, covering price declines by 1.1 percent for residential properties and by 0.4 percent for urban land as against a 0.9 percent rise in prices of commercial properties. The number of transactions fell by 12.7 percent, after they increased at the same scale the previous quarter. In the Casablanca Stock Exchange, the MASI fell by 4 percent in the T1-2019, while the trade volume remained almost unchanged from the first quarter of 2018, at 11.8 billion.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

In the first quarter of 2019, banks' liquidity needs increased to DH72.9 billion on average, due to higher currency in circulation. As a result, Bank Al-Maghrib increased its injections to 73.8 billion, including 70.7 billion in the form of 7-day advances and 2.5 billion in the form of secured loans granted as part of the program of financing VSMEs.

The latest data available indicate that the liquidity deficit widened to 75.2 billion in April before returning to 73.1 billion in May.

As such, the interbank rate remained close to the key rate, averaging 2.27 percent in the first quarter and 2.26 percent between April and May. In the Treasury bill market, interest rates on the primary market continued to decrease in April, and declined by 10 basis points for the 2-year maturity and 15 basis points for the 15-year maturity. The same evolution profile has been observed in the secondary market.

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

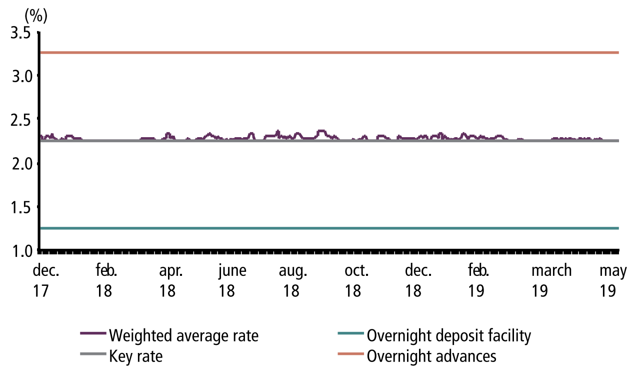
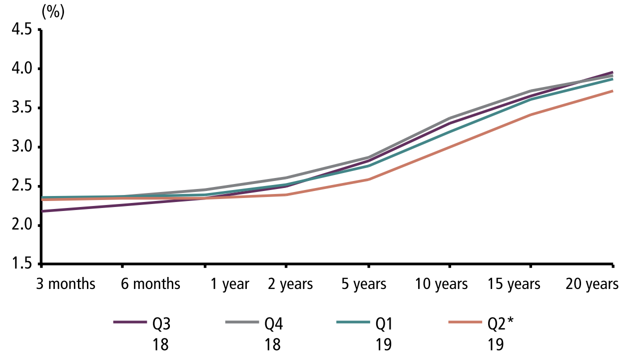


Table 3.1: Change in Treasury bond yields in the primary market

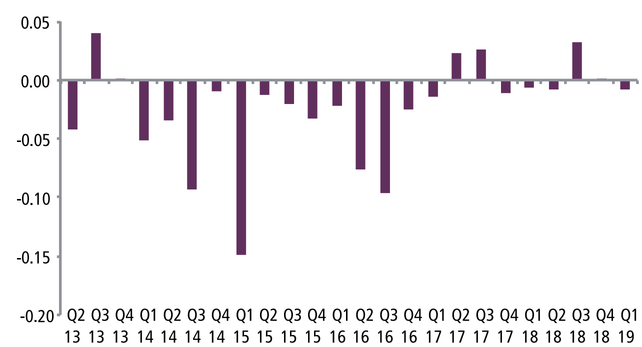
	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	apr.
52 weeks	2.32	2.26	2.36	2.29	2.35	2.31	2.42	2.45	2.37	2.33
2 years	2.52	2.41	2.49	2.44	2.53	2.50	2.58	2.60	2.51	2.41
5 years	2.83	2.78	2.83	2.77	2.81	2.76	2.82	2.86	2.77	2.65
10 years	3.27	3.27	3.32	3.28	3.28	3.24	3.28	3.34	3.19	3.06
15 years	3.87	3.87	3.87	3.71	3.68	3.68	3.70	-	3.64	3.49

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



In the other markets, issuance rates of certificates of deposit decreased in the first quarter of 2019. In contrast, deposit rates increased slightly by 7 basis points to 2.78 percent for the 6-month deposits and by 3 points to 3.06 percent for one-year deposits. Hence, banks' financing cost remained almost stable in the first quarter of 2019.

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



In terms of lending rates, Bank Al-Maghrib's survey among Banks for T1- 2019 revealed a 17 basis point decrease in the overall average rate to 4.89 percent. By institutional sector, interest rates on loans granted to companies declined by 22 points as a result of declines in all credit categories. By company size, these rates fell by 15 points for large companies and 32 points for SMEs. Concerning loans to individuals, their interest rates were down 8 points, reflecting a 20-point decline in rates on housing loans and a 4-point drop in consumer loans.

Table 3.2 : Change in lending rates

	2018				2019
	Q1	Q2	Q3	Q4	Q1
Global	**5.43**	**5.36**	**5.35**	**5.06**	**4.89**
Personal loans	**5.78**	**6.09**	**5.79**	**5.68**	**5.60**
Real estate loans	4.94	5.00	4.85	4.90	4.70
Consumer loans	6.4	6.57	6.32	6.45	6.41
Loans to businesses	**5.28**	**5.12**	**5.18**	**4.9**	**4.68**
Creditor accounts and cash advances	5.23	5.02	5.15	4.82	4.54
Equipment loans	5.51	5.2	4.9	4.82	4.67
Real estate loans	5.41	5.98	5.85	6.14	5.61
individual entrepreneurs	**6.23**	**7.08**	**6.8**	**6.41**	**6.39**

Source : BAM.

Table 3.3: Deposit rates

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
6 months	2.86	2.8	2.81	2.80	2.79	2.78	2.80	2.71	2.78
12 months	3.2	3.1	3.09	3.10	3.15	3.10	3.07	3.04	3.06

3.1.2 Exchange rate

In the first quarter of 2019, the euro depreciated by 0.5 percent against the US dollar. Under such circumstances, the national currency remained almost stable against the euro and fell slightly by 0.5 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham was down by 3 percent against the Chinese Yuan, 3.1 percent against the Turkish lira and by 1.5 percent against the Brazilian real. As a result, the effective exchange rate depreciated by 0.8 percent in nominal terms and by 1.1 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

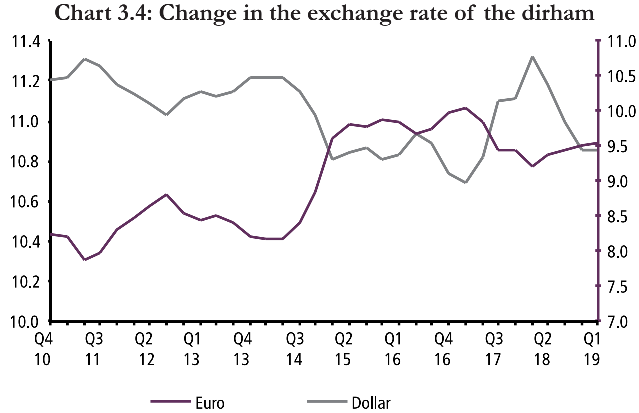
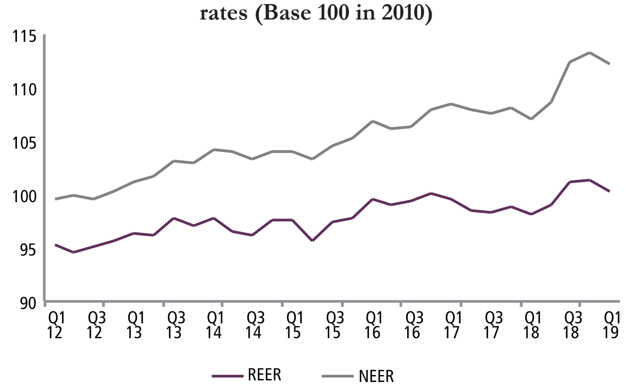


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

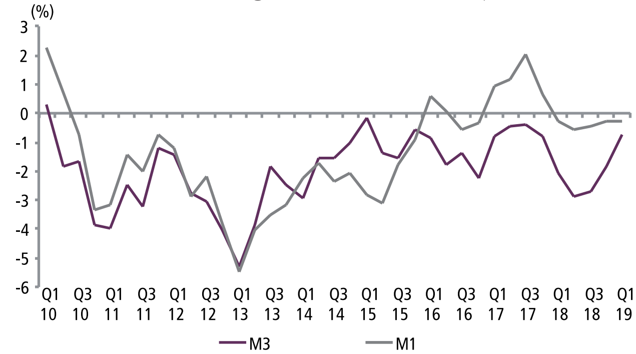
In terms of foreign currency transactions, the average volume of banks' currency sales to customers decreased in T1-2019 by 1.3 percent to DH22.5 billion and by 8.6 percent to 21.4 billion for purchases. In the same vein, forward sales declined by 29.7 percent to 2.4 billion while forward purchases fell slightly by 0.8 percent to 10.5 billion. During this period, Bank Al-Maghrib did not carry out any foreign currency purchase or sale operations with banks. As a result, the latter's net foreign exchange position stood at DH4.6 billion at end-March 2019, as against 3.8 billion at end-December 2018.

3.1.3 Monetary situation

M3 growth rate remained virtually unchanged at 4.2 percent in the first quarter of 2019. Analysis of the evolution of its components shows a deceleration of demand deposits from 4.9 to 3.4 percent following the slower growth, from 5 percent to 3.5 percent, for households and from 6.5 percent to 2.4 percent for private companies. In the same direction, time deposits increased by 4.6 percent after 5.8 percent, essentially reflecting the deceleration of those of financial companies. For the other components, currency in circulation rose from 6.6 percent to 7.7 percent and foreign currency deposits increased 1.5 percent after they decreased by 3.2 percent one quarter before.

By main counterpart, M3 growth covers a slower drop of net foreign reserves from 4.1 percent to 3.1 percent, a more rapid growth of bank loans from 2.2 percent to 4.2 percent, and a slowdown of net claims on central government from 23.2 percent to 14.7 percent.

Chart 3.6: Money gap1 (in % of M3 and M1 equilibrium outstanding amount in real terms)



1:The money gap, calculated in real terms, is the difference between the actual level of the 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

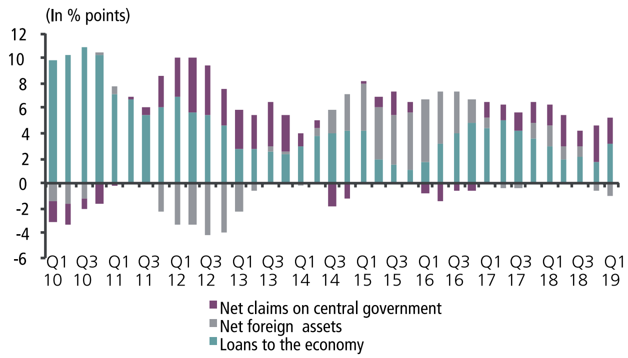
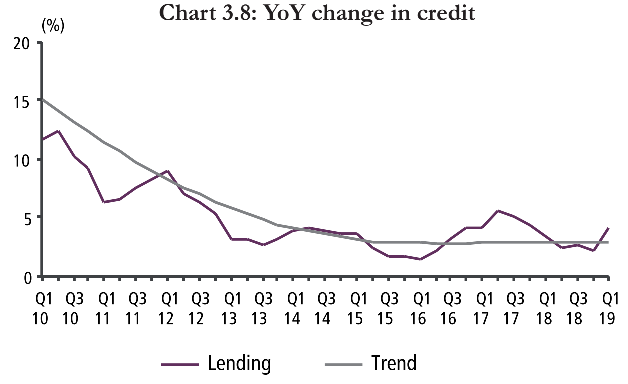


Chart 3.8: YoY change in credit

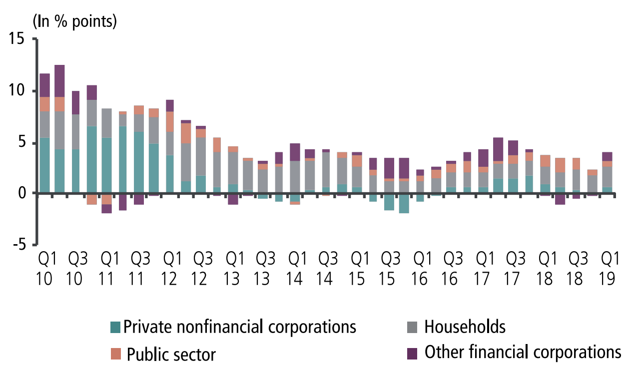


The growth rate of loans to the non-financial sector rose from 2.6 percent in T4-2018 to 3.7 percent in the first quarter of 2019. This reflects the more rapid growth rate of loans to private enterprises and, to a lesser extent, loans to private individuals.

Loans to private enterprises grew by 1.4 percent after their 0.1 percent decline a quarter earlier, due to the 5.6 percent higher cash facilities, as against their 0.2 percent decline, and the slower decrease of property development loans from 5.3 percent to 4.5 percent. In contrast, equipment loans declined 1.3 percent after rising 0.1 percent in the previous quarter. For their part, loans granted to public companies increased from 4.1 percent to 4.8 percent, as a result of a 17.4 percent increase in cash facilities instead of 0.2 percent a quarter earlier.

Loans to individual entrepreneurs rose by 3.6 percent after 3.8 percent. This trend reflects slowdowns for cash facilities from 21.6 percent to 17.7 percent and for property development loans from 10.3 percent to 0.1 percent. On the contrary, equipment loans rose by 6.3 percent after their stable growth in the fourth quarter of 2018.

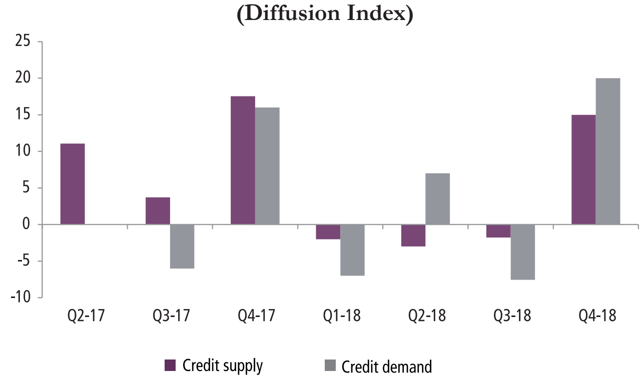
Chart 3.9: Institutional sectors' contribution to YoY change in credit



By business sector, the quarterly data at end-March 2019 show respective increases of 4.3 percent and 4.1 percent in loans for the sectors «Trade, car repairs and household goods» and «Transport and communication» after their declines by 1.4 percent and 4.6 percent a quarter earlier. Conversely, loans to the «food and tobacco industries» slowed down from 14.3 percent to 7 percent and those to the «electricity, gas and water» branch fell 14.7 percent, more marked than the 6 percent observed the previous quarter. In the same direction, loans granted to companies of the «Construction» sector declined by 1 percent after their 1.2 rise.

Chart 3.10: Change in supply and demand

(Diffusion Index)



Loans to individuals rose by 6.1 percent after 5.8 percent, namely due to the slower consumer loans, from 6.3 percent to 6 percent, and the 6.3 percent stable housing loans.

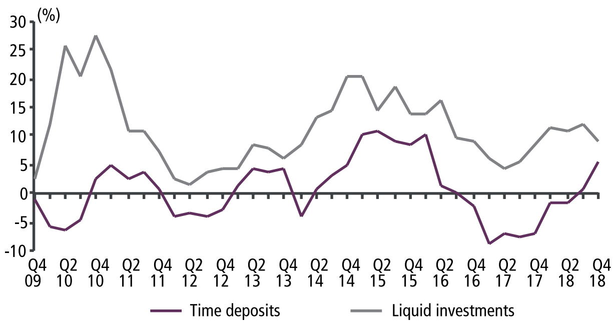
As for outstanding claims, they rose 3.4 percent in T1-2019 and their ratio to bank credit remained unchanged at 7.7 percent. This development covers a 9.1 percent increase in household claims and a stability of those of private nonfinancial enterprises.

Regarding loans granted by financial companies other than banks to the nonfinancial sector, their growth rate fell from 6.6 percent at the end of December 2018 to 5.2 percent at the end of March 2019. This trend covers 11.5 percent lower loans distributed by offshore banks, after their 3.2 percent rise, and a more rapid growth of loans granted by finance companies from 6 percent to 6.2 percent.

The latest data available, which concern April 2019, show a slight deceleration of bank credit to 4 percent. More particularly, growth rate of loans to the nonfinancial sector fell to 3.3 percent, mainly reflecting a decline in loans to public enterprises and a slowdown in loans to individual entrepreneurs.

On the other hand, liquid investment aggregates rose 8 percent after 9.2 percent. This trend includes an acceleration of T-bills growth rate from 5.6 percent to 6.7 percent, a deceleration of that of bonds funds assets from 18.3 percent to 14.2 percent, as well as a more rapid decline in share and composite mutual funds, from 5.6 percent to 11.1 percent.

Chart 3.11: YoY change in liquid investments and time deposits



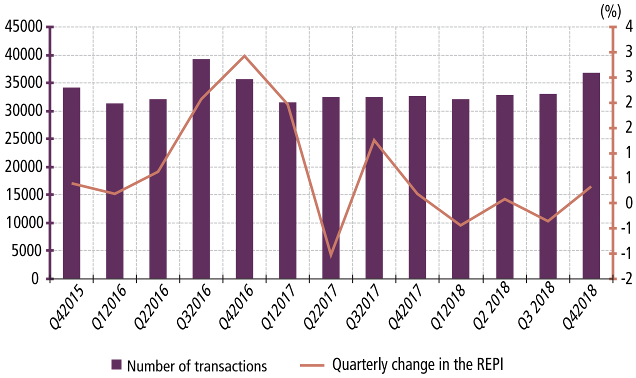
3.2 Asset prices

3.2.1 Real estate assets

In the first quarter of 2019, the real estate price index was down 0.7 percent quarter-to-quarter. This change reflects price decreases equaling 1.1 percent for residential properties and 0.4 percent for urban land, while prices of commercial properties rose 0.9 percent. At the same time, the number of transactions contracted by 12.7 percent after they increased by 12.6 percent the previous quarter. The decline in sales affected all categories, with rates of 13.4 percent for residential properties, 12.2 percent for urban land and 8.5 percent for commercial properties.

In the main cities, prices recorded quarterly increases of 1 percent in Marrakech and 1.3 percent in Kenitra, while the other cities experienced declines ranging from 1 percent in Oujda to 3.3 percent in Rabat. Regarding transactions, the decrease, widespread in all major cities, was most pronounced in Marrakech, at 34.9 percent, El Jadida at 23.4 percent and Tangier at 21.9 percent.

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



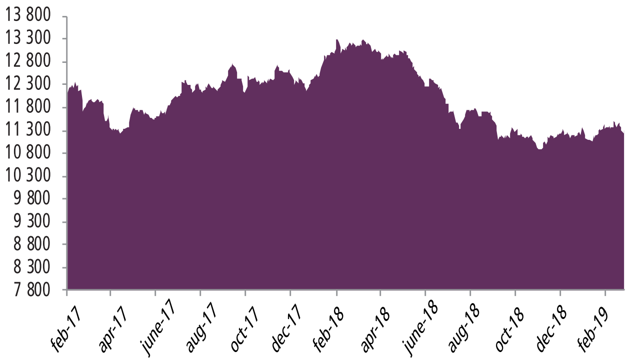
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

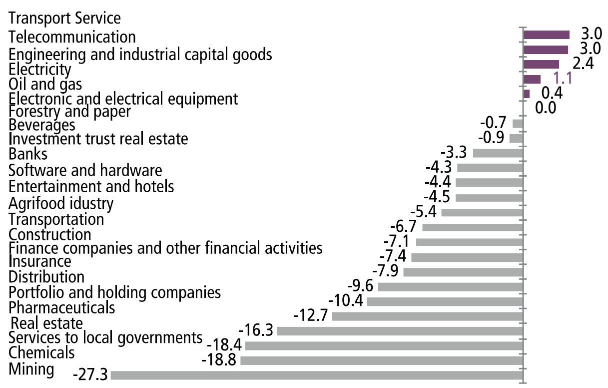
At the end of the T1-2019, the MASI declined by 4 percent compared to the last quarter of the previous year. This trend mainly reflects the decline in the sectoral indexes of «participation and real estate development» by 23 percent, «insurance» by 18.4 percent, «Construction» by 15.3 percent and «banks» by 5.1 percent.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

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



Source : Casablanca Stock Exchange.

Regarding the volume of transactions, it stood at DH11.8 billion in the first quarter, after 11.9 billion in the same quarter of the previous year. In the central market, the total amount of trade fell from 9.1 billion to 5.1 billion while that of block transactions rose from 2.1 billion to 3.5 billion. As for capital increases, they reached DH715.7 million.

Under these conditions, market capitalization fell to DH561.7 billion, down 3.5 percent quarter-to- quarter.

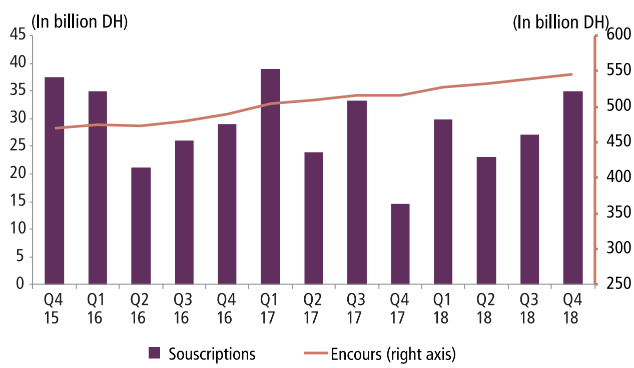
The latest available data point to a 2.6 percent rise in the benchmark index in April, followed by a 1.7 percent decline in May, thus equaling a 3.2 percent counter performance since the beginning of the year. In terms of trade volume, it totaled 1.8 billion in April and 2.1 billion in May and market capitalization stood at 559.6 billion, down 3.9 percent compared to end-December 2018.

3.2.2.2 Sovereign debt market

Treasury issues in the domestic market amounted to DH31 billion in the first quarter, down 3.9 billion quarter-to-quarter and up 1.1 billion year-on-yearLong maturities represented 55 percent of these issues, against 38 percent for medium ones.

Data at end- April indicate that Treasury issues reached DH19.5 billion, 56 percent of which concerned long maturities while medium maturities represented 41 percent. Taking into account total repayments of 20.6 billion, outstanding Treasury bills amounted to 554.3 billion at end-April, up 1.5 percent from the beginning of the year.

Chart 3.15: Change in outstanding Treasury bonds



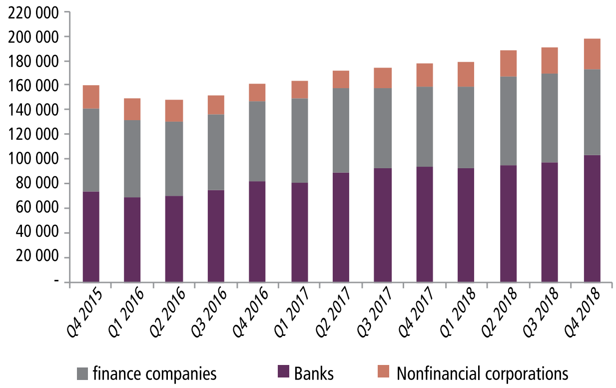
Source : BAM.

3.2.2.3 Private debt market

In the private debt market, issues totaled DH 14 billion in the first quarter of 2019, up from 21 billion in T4-2018. Bank lending amounted to 10.1 billion in the form of certificates of deposit, while those of nonfinancial companies decreased by 1.8 billion to stand at 1.7 billion, in the form of commercial paper.

In April, issues reached 8.2 billion against 4.7 billion on average since the beginning of the year. Taking into account repayments, the outstanding private debt increased by 3.4 percent, since the beginning of the year, to reach DH204.6 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 securities

During the first quarter of the year, subscriptions to mutual fund securities posted gains of 34.5 percent to 250.4 billion and redemptions were up 35.4 percent to 238.5 billion. Hence, the total amount raised reached 11.9 billion, which particularly concerned "short-term bonds" and "medium and long-term bond funds", with 5.4 billion and 8.7 billion respectively. Their performance stood at 1.4 percent for medium and long-term mutual funds bond, 0.6 percent for short-term ones, 1.1 percent for «diversified» funds and 0.5 percent for "equity" and "money-market" funds.

Under such circumstances, net assets of mutual funds grew to 451.2 billion, up 3.8 percent from one quarter to the other, mainly reflecting the 5.8 percent rise for bond funds, while net assets "Money market" and "equity" mutual funds fell by 3.2 percent and 2 percent respectively.

Data as of May 24, 2019 show a 5.5 percent increase in mutual funds' net assets since the beginning of the year to DH458.7 billion. Except for "diversified" and "money market" funds, the rise concerned all categories, reaching particularly 17.6 percent for «short-term bond funds» at 79.4 billion and 5,9 percent for "medium and long term bond funds" to 258.4 billion.

4. FISCAL POLICY STANCE

Fiscal execution for the first four months of 2019 shows a 5-billion reduced deficit to 9.7 billion, partly reflecting the 3.8 billion improved positive balance of the Treasury's Special Accounts to 11.1 billion. Ordinary resources increased by 6.3 percent as a result of improved tax and non-tax revenues. Indeed, direct tax revenues increased by 11.5 percent, driven by the IT revenues and the solidarity contribution on profits. Similarly, indirect tax revenues rose by 3.1 percent, with higher ICT receipts and lower VAT revenues. On the other hand, overall spending rose by 3.8 percent, mainly reflecting higher spending in other goods and services and investment, as wages and transfers to local governments declined.

Taking into account the 9.5-billion reduced stock of outstanding payments, the Treasury's financing requirement stood at 19.2 billion, up by 1.4 billion from the same period in 2018. This requirement was financed by net domestic resources of 15.1 billion, down by 6.1 billion, and external financing, at 4.2 billion. Under these conditions, the direct public debt would have increased by 1.7 percent compared to its December 2018 level. Regarding the Treasury financing conditions on the auction market, rates applied on the primary market have globally moved downwards in the first four months of 2019, compared to the same period in 2018.

4.1 Current receipts

At the end of the first four months of 2019, current receipts improved by 6.3 percent compared to the same period of 2018. This covers a 5.1 percent increase in tax revenues to 83.3 billion, equaling an achievement rate of 33.9 percent, and a 25.7 percent rise in non-tax receipts to 4.3 billion.

Direct tax revenues increased by 11.5 percent to 34.8 billion, further to the collection of 1.9 billion as part of the Solidarity Contribution, the 13.2 percent increase of IT to 16.6 billion and the 1.2-percent down CT to 15.7 billion. More particularly, IT revenues include a decline by 3.9 percent to 2.7 billion of tax revenues from the payrolls provided by the Personnel Expenditure Department and a decrease by 20.2 percent to 1.1 billion of those from real estate profits.

On the other hand, indirect taxes increased by 3.1 percent to DH38.8 billion, covering 19.3 percent growth of ICT revenues to 10.4 billion and a 1.8 percent decline of VAT receipts to 28.4 billion. This decline includes a rise of 4.4 percent to 18.8 billion in VAT receipts on imports and 12-percent lower revenues of domestic VAT to 9.6 billion. The latter includes repayments of 4.4 billion against 2.3 billion at end-April 2018. The evolution of ICT revenues was mainly induced by higher tax receipts of manufactured tobacco by 27.6 percent to 4.4 billion and of energy products by 15.2 percent to 5.6 billion.

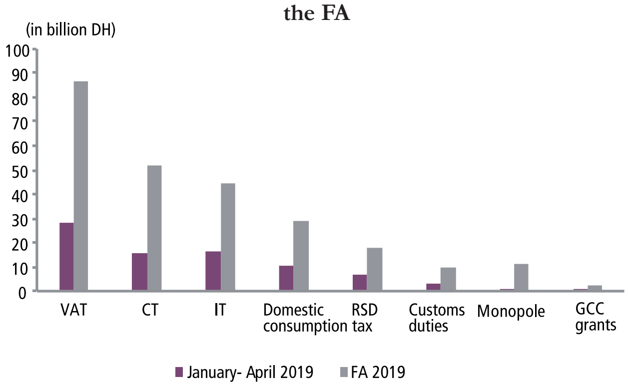
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. apr. 2018	Jan. apr. 2019	Change in %	FA 2019	Achie-vements against the FA (%)
Current revenues	**83.3**	**88.5**	**6.3**	**268.0**	**33.0**
Tax revenues	**79.2**	**83.3**	**5.1**	**246.0**	**33.9**
- Direct taxes	31.2	34.8	11.5	102.7	33.9
Including CT	15.9	15.7	-1.2	52.0	30.2
I.T	14.7	16.6	13.2	44.6	37.2
- Indirect taxes	37.6	38.8	3.1	115.8	33.5
VAT*	28.9	28.4	-1.8	86.7	32.7
DCT	8.7	10.4	19.3	29.1	35.8
- Customs duties	3.4	3.1	-10.0	9.4	32.9
- Registration and stamp duties	7.0	6.7	-4.9	18.0	36.9
Nontax revenues	**3.4**	**4.3**	**25.7**	**18.7**	**22.7**
- Monopoles	1.2	0.9	-27.5	11.5	7.8
- Other receipts	2.2	3.4	55.9	7.3	46.1
Including GCC grants	0.1	0.3	120.4	2.0	16.2
Recettes des CST	**0.7**	**0.9**	**41.7**	**3.3**	**28.5**

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

On the other hand, revenues from customs and registration and stamp duties fell by 10 percent to 3.1 billion and by 4.9 percent to 6.7 billion.

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

The non-tax receipts' increase has mainly resulted from the higher GCC grants, which moved from 147 million to 324 million, from payments of Treasury's special accounts in favor of the general budget, which rose by 647 million to 1.1 billion as well as from the 276-million lower debt expenses to 1.2 billionOn the other hand, monopolies revenues fell by 27.5 percent to 888 million, of which DH556 million from Bank Al-Maghrib, 150 million from the ANRT and 100 million from the ONDA.

4.2 Expenditure

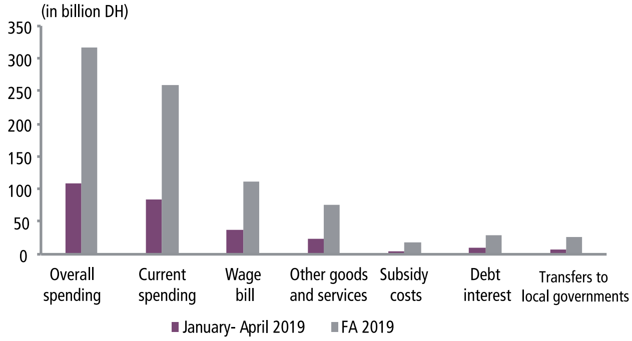
For the first four months of the year, overall spending rose by 3.8 percent to 109.3 billion. This change resulted from increases by 3.3 percent to 84.8 billion in current expenditures and by 5.7 percent to 24.5 billion in investments. Operating expenses reached 60 billion, up 4.2 percent from the same period in 2018, mostly as a result of the 11.6 percent increase to 24 billion in expenditures for other goods and services, including, above all, increases by 9.3 percent to 4.7 billion in payments to the Moroccan Pension Fund, by 15.5 percent to 8.2 billion in transfers to public institutions and by 30 percent to 1.2 billion in those to the Treasury's special accounts. Meanwhile, payroll declined by 0.2 percent to 36.1 billion, with a 1-percent rise in its structural component and a 16.3-percent decrease in retroactive payment of the part served by Treasury's Staff Expenses Department.

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

	Jan.-apr. 2018	Jan.-apr. 2019	Change in %	FA 2019	Achie-vements against the FA (%)
Overall spending	**105.3**	**109.3**	**3.8**	**317.4**	**34.4**
Current spending	**82.1**	**84.8**	**3.3**	**259.8**	**32.6**
Goods and services	57.6	60.0	4.2	186.7	32.1
Personal	36.1	36.1	-0.2	112.2	32.1
Other goods and services	21.5	24.0	11.6	74.6	32.1
Debt interests	10.6	11.0	3.3	28.7	38.2
Clearing	5.2	5.3	1.2	18.4	28.7
Transfer to local governments	8.7	8.5	-1.8	26.0	32.7
Investment	**23.2**	**24.5**	**5.7**	**57.6**	**42.6**

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

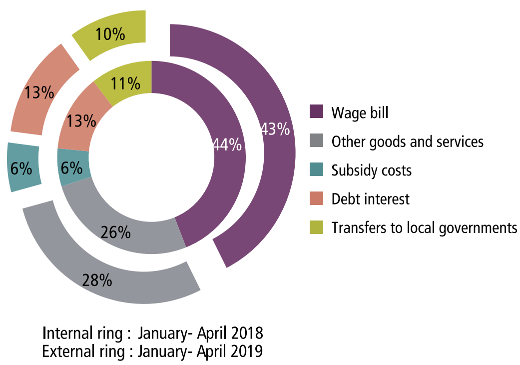
Chart 4.2: spending execution compared to the FA



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

Debt interest payments increased by 3.3 percent to 11 billion, further to the 3.3 percent rise in interests on both domestic and external debt to 10.3 billion and 708 million, respectively.

Chart 4.3: Structure of current spending

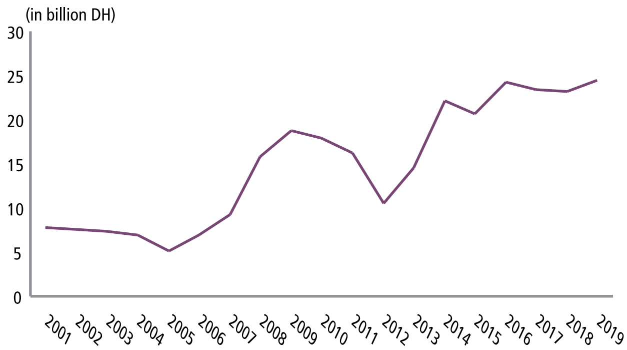


Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Subsidy expense stood at DH5.3 billion, up 1.2 percent from end-April 2018. Data made available by the Subsidy Fund on the first quarter of the year show a 15.6 percent decline to 2.4 billion for the butane subsidy and an increase of 2.3 percent to 852 million for the one allocated to sugar. According to the Subsidy Fund, the average price of butane gas on the international market fell by 4.8 percent, from an average price of $ 493 per tonne in the first four months of the year to 468 per tonne in the same period in 2019.

Implemented up to 42.6 percent compared to the FA, capital expenditure increased by 5.7 percent to 24.5 billion. This change covers a 24.5 percent rise to 13.6 billion in common expenses and a 7.4 percent decrease to 11.1 billion in Ministry spending.

Chart 4.4: Investment spending, January to October total

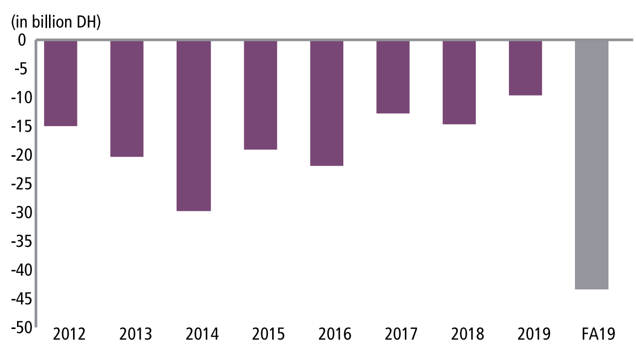


Source : Ministry of Economy and Finance (TEFD).

4.3 Deficit and Treasury Financing

The budget balance thus dropped by 5 billion to 9.7 billion, largely related to the 3.8 billion improvement in the positive balance of the Treasury's special accounts to 11.1 billion. Besides, taking into account the outstanding expenses paid by the Treasury, equaling 9.5 billion, as against 3.2 billion a year ago, the latter's need for funding increased from 1.4 billion to 19.2 billion.

Chart 4.5: Fiscal balance, January to August total



Source : Ministry of Economy and Finance (TEFD).

This requirement was covered by net domestic resources of 15.1 billion, down 6.1 billion, and by a positive external net inflow of 4.2 billion, compared to a negative net inflow of 3.3 billion recorded one year ago. Gross external drawings amounted to DH 7.6 billion, mainly from the World Bank, at 6.9 billion and the AfDB, at 661 million.

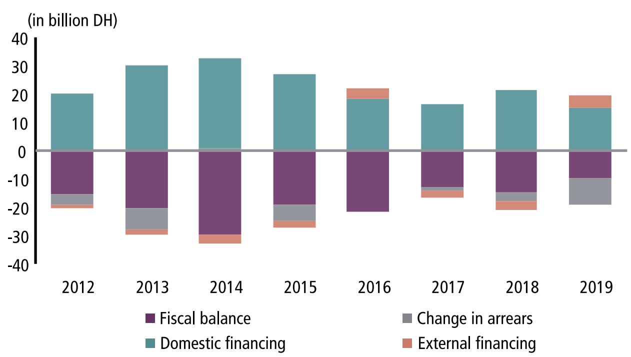
Table 4.3: Absolute gap FA (in billions of dirhams)

	Jan. apr. 2018	Jan. apr. 2019	FA 2019	Absolute gap FA/Jan. apr. 2019
Current balance	**1.2**	**3.8**	**8.2**	**4.5**
Balance of TSA	7.3	11.1	6.0	-5.1
Primary balance	-4.1	1.3	-14.7	-16.0
Fiscal balance	**-14.7**	**-9.7**	**-43.4**	**-33.7**
Change in arrears	-3.2	-9.5	0.0	
Financing requirements	**-17.9**	**-19.2**	**-43.4**	**-24.1**
Domestic financing	21.2	15.1	19.9	4.8
External financing	-3.3	4.2	18.5	14.3
Privatization	0.0	0.0	5.0	5.0

Source : Ministry of Economy and Finance (TEFD).

As regards domestic financing, the amounts raised by the Treasury in the auction market amounted to 8.1 billion, up from 11.6 billion a year earlier. Net subscriptions were mainly made in long-term maturities, namely 15-year bills for 8.2 billion, 10-year bills for 7.7 billion and 20-year bills for 3 billion. As for net repayments, they concerned 2-year bills for 8.5 billion and 52-week bills for DH3.7 billion.

Chart 4.6: Fiscal balance and financing , at end of april*



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

The Treasury's financing conditions on the auction market prove to be favorable, as shown by the downward trend in weighted average rates. Decreases reached 15 bps for 20-year maturities, 11 bps for 10-year maturities, 8 bps for 15-year maturities and 5 bps for 5 year-maturities. At the same time, WAR of 52-week bills was up 2 bps to 2.36 percent while it stood at 4.43 percent for 30-year maturities.

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

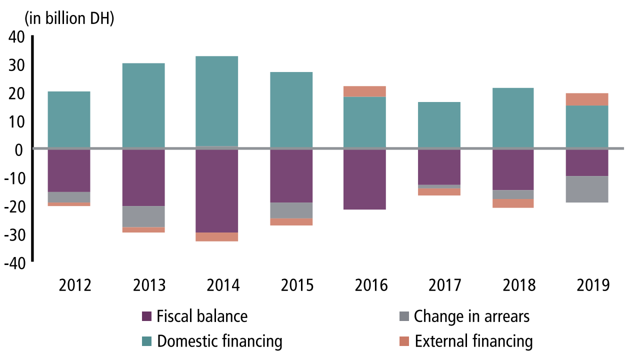
	2014	2015	2016	2017	2018	At end apr. 2019
Treasury external debt	**141.1**	**140.8**	**142.8**	**153.2**	**148.1**	**152.2**
Change in %	8.7	-0.2	1.4	7.3	-3.4	2.8
Treasury domestic debt	**445.5**	**488.4**	**514.7**	**539.1**	**574.6**	**583.1**
Change in %	5.0	9.6	5.4	4.8	6.6	1.5
Outstanding direct debt	**586.6**	**629.2**	**657.5**	**692.3**	**722.7**	**735.3**
Change in %	5.8	7.3	4.5	5.3	4.4	1.7

Source : Ministry of Economy and Finance (TEFD).

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

Based on the financing flows, estimates show that direct debt at end-April 2019,report an increase,.with a 1.7 percent increase in the domestic debt of the treasury and a 2.8 percent inits external component..

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

In the fourth quarter of 2018, growth moved down to 2.9 percent from 4.4 percent a year earlier, due to the deceleration from 13.6 percent to 3.5 percent in agricultural activities and from 3.2 percent to 2.9 percent in nonagricultural ones. On the demand side, this trend reflects positive contributions of 2.2 percentage points from its domestic component and 0.7 point from net exports. For the year as a whole, the GDP growth stood at 3 percent from 4.2 percent in 2017, with an increase of 4 percent in the agricultural value added, after a rebound of 15.2 percent, and a rise of 2.6 percent in nonagricultural activities compared to 2.9 percent.

For the first half of 2019, growth would have stood at 2.6 percent, from 2.9 percent in the previous year, with a rate of 3.5 percent in the nonagricultural value added, as against 2.9 percent, and a decline of 3.7 percent in agricultural activities, as opposed to an increase of 4.2 percent. On the demand side, the growth of household final consumption would have slowed to 2.9 percent from 3.2 percent. At the same time, investment would have decelerated sharply from 5.5 percent to 1.8 percent.

In the labor market, job creation fell significantly to 15 thousand jobs in the first quarter of 2019, from 116 thousand jobs over the same period a year earlier. Agriculture lost 152 thousand jobs, while nonagricultural activities created 167 thousand posts, mostly in services. Taking into account a 0.4 percent drop in the labor force, the unemployment rate fell from 10.5 percent to 10 percent nationally, from 15.6 percent to 14.5 percent in the cities, while it rose from 3.5 percent to 3.8 percent in rural areas. Regarding the cost of labor, the latest available data for the first quarter of 2019 show an annual increase of 2 percent in the private sector wage index, as against 2.3 percent in nominal terms, and 2.2 percent from 0.2 percent, in real terms.

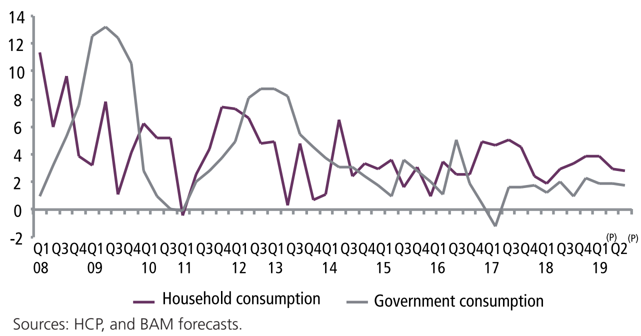
5.1 Domestic demand

5.1.1 Consumption

The national accounts data for the fourth quarter of 2018 show an acceleration from 1.9 percent to 3.9 percent in the growth in household consumption compared to the same period of 2017, and its contribution to growth rose from 1.1 percentage point to 2.2 points. Its growth over the whole year of 2018 stood at 3.3 percent, from 3.8 percent.

For the first half of 2019, available indicators point to a deceleration in household consumption expenditure to 2.9 percent from 3.2 percent, impacted mainly by the fall in transfers from Moroccan expatriates, imports of finished consumer goods and agricultural value added. Similarly, the quarterly household survey, conducted by the HCP, indicate that the confidence index deteriorated to 79.1 points from 87.3 points in the same quarter of the previous year.

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



Sources: HCP, and BAM forecasts.

The growth of the general government consumption accelerated to 1.9 percent from 1.2 percent, bringing its growth over the year as a whole up to 2.5 percent from 1.9 percent a year ago.

In the first two quarters of 2019, the general government consumption would have increased by 1.9

percent compared to 1.5 percent, particularly due to the faster growth of operating expenses.

5.1.2 Investment

Investment fell 1 percent in the fourth quarter of 2018, after an increase of 8.3 percent a year earlier. As a result, its contribution to growth was negative at 0.3 percentage point instead of a positive contribution of 2.9 points in the same period of 2017. However, for the year as a whole, the pace of growth improved by 5.9 percent from 4.1 percent.

In the first half of 2019, investment growth would have slowed down to 1.8 percent from 5.5 percent a year earlier, as suggested by the slowdown of equipment loans in the first quarter of 2019, coupled with a virtual stagnation in imports of capital goods. In addition, Bank Al-Maghrib's quarterly survey for the first quarter indicate that the business climate was normal for 90 percent of the companies surveyed. Regarding the real estate market, the number of transactions increased by 4.5 percent in March 2019 for residential property, while it decreased by 4 percent for commercial property.

5.2 Foreign demand

Although slowing, foreign trade in goods and services contributed positively to growth in the fourth quarter of 2018, by 0.7 point from 0.2 point in the same quarter of last year. Indeed, exports of goods and services decelerated to 4.5 percent from 14.3 percent and imports to 2.1 percent from 10.5 percent.

Throughout the year, the contribution of net exports to growth turned negative at 1.3 percentage point.

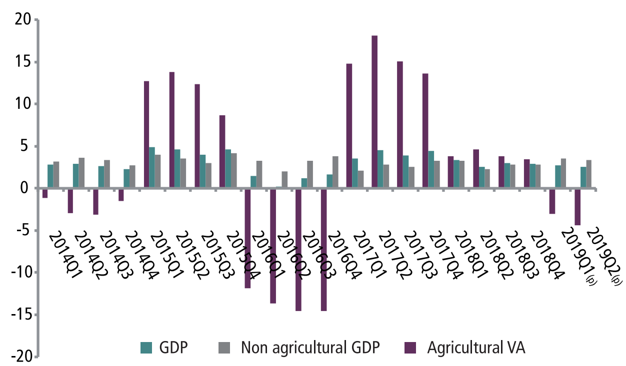
In the first half of 2019, exports would have grown faster than imports of goods and services. Indeed, exports would have risen by 5.1 percent, as against 6.8 percent, mainly thanks to the increase in phosphate and derivative shipments in the first quarter of 2019. Imports would have slowed down from 7.2 percent to 4 percent, as indicated by the drop in energy imports and the virtual stagnation of capital goods purchases in the first quarter of 2019.

5.3 Overall supply

In 2018, economic growth stood at 3 percent from 4.2 percent in 2017, covering a slowdown from 15.2 percent to 4 percent in agricultural value added and from 2.9 percent to 2.6 percent in nonagricultural activities.

In the first half of 2019, the pace of economic activity should decelerate to 2.6 percent from 2.9 percent. Agricultural value added would have been down 3.7 percent from 4.2 percent a year earlier, reflecting a 40.5 percent drop in the cereal harvest to 61 million quintals. Nonagricultural activities would have continued to improve at a rate of 3.5 percent as against 2.9 percent.

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

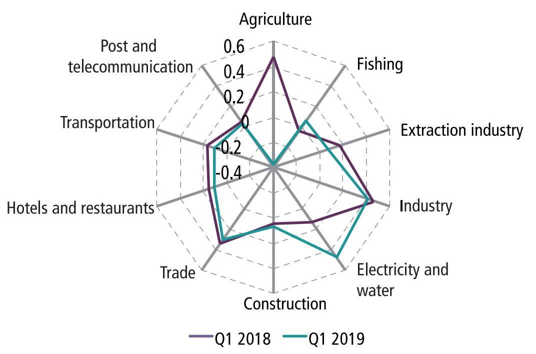


Sources: HCP data, and BAM forecasts.

In the secondary sector, the growth of activity would have accelerated to 4.6 percent from 3.1 percent. This trend would reflect a rebound of 21.8 percent in the electricity and water sector, as opposed to 5.5 percent, in connection with the reinforcement of electricity production from renewable sources and the commissioning of Safi thermal power station (SAFIEC).

Similarly, the processing industries value added would have grown by 3.1 percent, from 2.9 percent, particularly thanks to the uptrend of foreign demand for the food sector and the improved production of fertilizers and phosphoric acid. Construction would have grown, albeit at a still slow pace, by 1.5 percent, as against 0.7 percent. On the other hand, extractive activity would have posted deceleration from 7.8 percent to 3.8 percent.

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



Sources: HCP data, and BAM forecasts.

In the tertiary sector, activity should grow by 2.9 percent, as against 3 percent a year earlier. By industry, the value added is expected to slow down from 6.4 percent to 4.6 percent in the "hotels and restaurants" sector, from 4.3 percent to 3.2 percent in transport services and from 2.5 percent to 2 percent for posts and telecommunications. The activity in the trade branch should maintain its growth rate of 4.4 percent, observed at the same period a year earlier.

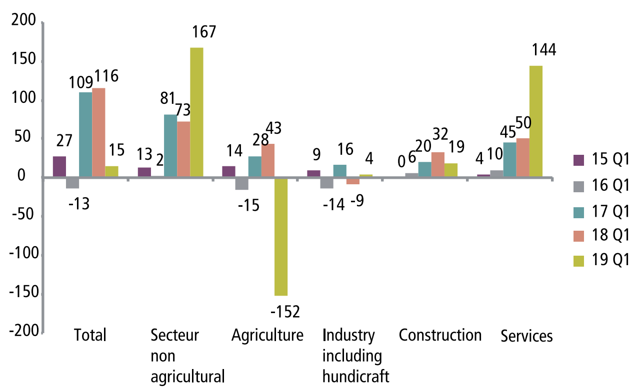
5.4 Labor market and output capacity

5.4.1 Activity and employment

In the first quarter of 2019, the labor force aged 15 and over dropped by 0.4 percent to 12.1 million people overall. It grew 0.6 percent in urban areas and fell by 1.7 percent in rural ones. Taking into account a 1.7 percent increase in the working-age population, the participation rate fell again from 47.1 percent to 46.2 percent nationally. By area of residence, it decreased from 42.4 percent to 41.7 percent in the cities and from 55.4 percent to 54.4 percent in rural areas.

At the same time, job creation was limited to 15 thousand jobs from 116 thousand in the same period of last year. The employed labor force thus increased by 0.1 percent to nearly 10.9 million people. This weak creation is attributed to a significant loss of 152 thousand jobs in agriculture that almost offset the increase of 167 thousand in nonagricultural activities. By sector of activity, services generated 144 thousand jobs, including 63 thousand jobs in the "non-store retail trade" and 23 thousand in "personal and domestic services", while the construction sector created 19 thousand jobs and industry including crafts 4 thousand posts.

Chart 5.4: Job creation by sector (in thousands)



Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force dropped by 4.8 percent to 1.21 million people and the unemployment rate fell from 10.5 percent to 10 percent nationally, from 15.6 percent to 14.5 percent in urban areas and rose from 3.5 percent to 3.8 percent in rural areas. Among young people aged 15 to 24 in particular, this rate was down 1.6 point to 24.1 percent nationally and 3.2 points to 40.3 percent in cities.

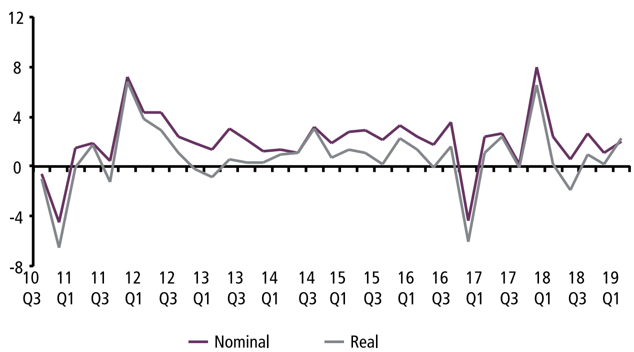
In line with the decrease in unemployment, underemployment[1] fell in the first quarter of 2019. Its rate fell back from 10 percent to 9.6 percent nationally, from 9.4 percent to 9 percent in urban areas and from 10.7 percent to 10.4 percent in rural areas.

5.4.3 Productivity and wages

In nonagricultural activities, the apparent labor productivity would have improved by 1.3 percent in the first quarter of 2019, from 2.3 percent a year earlier, reflecting a rise of 3.7 percent as against 3.4 percent in the value added and 2.4 percent from 1.1 percent in the workforce employed.

The average salary, calculated on the basis of CNSS data, grew year on year by 2 percent in the first quarter of 2019, as opposed to 2.3 percent in the same period of the previous year in nominal terms and by 2.2 percent as against 0.2 percent in real terms.

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

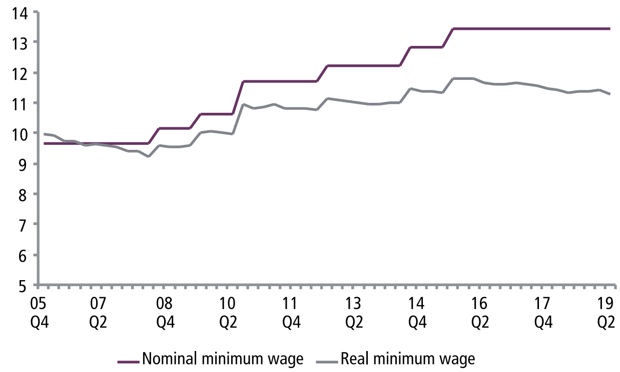


Sources: CNSS, and BAM calculations.

The guaranteed minimum industrial wage (SMIG) remained in the first quarter of 2019 at 13.46 dirhams in nominal terms. Taking into account a 0.2 percent drop in the consumer price index, the SMIG grew in real terms by 0.2 percent and should decrease by 0.3 percent in the second quarter.

1 Underemployed population includes persons who worked: (i) during the reference week less than 48 hours but are willing to work additional hours and are available to do so, or (ii) more than the threshold and who are looking for another job or are willing to change their job because of a mismatch with their training or qualification or insufficient income.

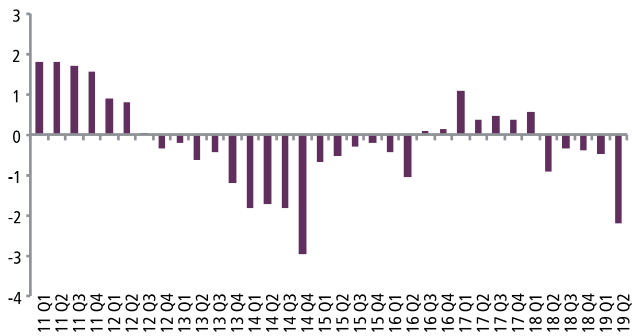
Chart 5.6: Hourly minimum wages in nominal and real terms (in DH/h)



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

Under these conditions, the output-gap should remain negative during the first half of 2019.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		Q1 2018	Q1 2019
Participation rate (%)		**47.1**	**46.2**
Urban		42.4	41.7
Rural		55.4	54.4
Unemployment rate (%)		**10.5**	**10.0**
Youth aged between 15 and 24 years old		25.7	24.1
Urban		15.6	14.5
Youth aged between 15 and 24 years old		43.5	40.3
Rural		3.5	3.8
Job creation (in thousands)		116	15
Urban		77	109
Rural		39	-94
Sectors			
- Agriculture		43	-152
- Industry including handicraft		-9	4
- BTP		32	19
- Services		50	144
Nonagricultural apparent productivity (change in %)		**2.3**	**1.3**
Average wage index (change in %)	**Nominal**	**2.0**	**2.3**
	Real	**2.2**	**0.2**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

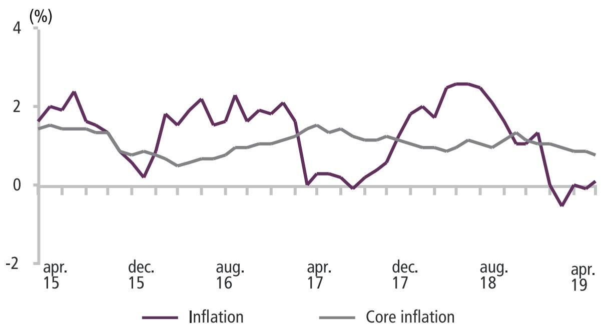
Inflation stood at an exceptionally low level of -0.2 percent in the first quarter of 2019, before accelerating slightly in April to 0.2 percent, bringing its average over the first four months of the year to -0.1 percent. This weakening is attributable to the sharp drop in volatile food prices, which reached 6.2 percent in the first quarter and 3.4 percent in April, compared to a rise of 2.6 percent in 2018. It is also due to the decline of 6.6 percent then 1.2 percent in April in fuel and lubricant prices. Core inflation stood at 0.9 percent in the first quarter and 0.8 percent in April, while prices for regulated products rose 1.4 percent on average between January and April.

In the short term, inflation should remain low at around 0.3 percent in the second quarter, while its underlying component would stand at 0.8 percent.

6.1. Inflation trends

Inflation slowed sharply in the first quarter of 2019, showing negative rates for the first time since the first quarter of 2010. It thus moved back to -0.2 percent, from 1.9 percent in 2018, before posting a slight acceleration to 0.2 percent in April. This low rate of inflation is attributable to lower volatile food prices and fuel and lubricant prices as well as slower core inflation. Tariffs for regulated products also contributed to the weakening of inflation, as the dissipation of the effect of a previous regulatory decision more than offset the impact of higher DCT on tobacco in January 2019, provided for in the 2017 Finance Law.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

Table 6.1: Change in inflation and its components

(In %)	MoM			YoY		
	feb. 19	march 19	apr. 19	feb. 19	march 19	apr. 19
Headline inflation	**0.0**	**0.0**	**0.6**	**0.0**	**-0.1**	**0.2**
- Volatile food prices	0.1	-0.9	5.4	-4.5	-6.2	-3.4
- Fuels and lubricants	3.5	5.2	2.6	-7.9	-1.0	-1.2
- Administered prices	0.0	0.1	0.0	1.4	1.5	1.5
Core inflation	**-0.1**	**-0.1**	**0.1**	**0.9**	**0.9**	**0.8**
- Food products	-0.2	-0.2	-0.2	-0.1	-0.2	-0.4
- Clothing and footwear	-0.2	-0.3	-0.1	0.9	0.6	0.9
- Housing, water, gas, electricity and other fuels[1]	0.3	0.1	0.2	2.2	1.9	1.9
- Furnishings, household equipment and routine house maintenance	0.0	0.0	0.1	1.7	1.7	1.7
- Health[1]	1.2	0.0	-0.5	3.4	3.4	2.9
- Transportation[2]	-0.1	0.1	0.0	0.9	0.9	0.9
- Communication	0.0	0.0	0.0	0.3	0.3	0.3
- Entertainment and culture[1]	0.3	0.9	0.1	0.9	1.7	1.6
- Education	0.0	0.0	0.0	3.4	3.4	3.4
- Restaurants and hotels	0.0	0.1	0.1	1.6	1.5	1.1
- Miscellaneous goods and services [1]	0.1	-0.1	0.3	0.9	0.7	0.6

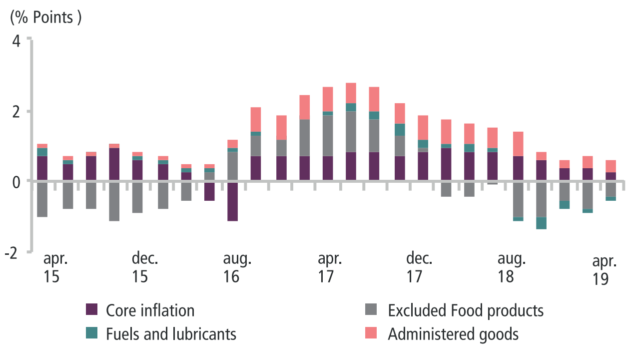
1 Excluding administered goods.
2 Excluding fuels and lubricants and regulated products.
Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

The decline in volatile food prices, which began since the second quarter of 2018, continued until the first quarter of 2019 before easing in April. Indeed, these prices fell by 6.2 percent on average in the first three months of the year, reflecting a decline in all products.

However, their decline was limited to 3.4 percent in April, due to supply shocks on certain products as well as to the high demand on the eve of the month of Ramadan. With the exception of citrus fruits and fresh fish, the slow fall impacted all other commodities and was most noticeable for fresh vegetables whose prices decreased by only 3.6 percent in April, as against 11 percent one quarter ago.

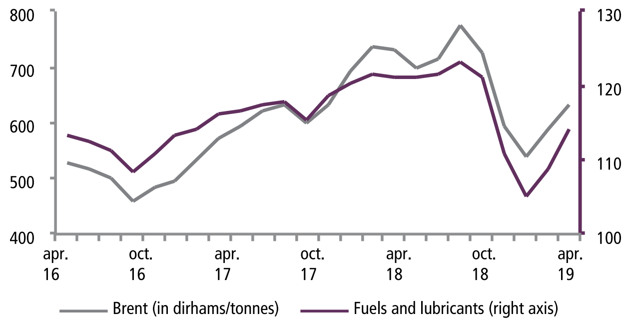
Chart 6.2: Contribution of the prices of major CPI items to inflation, YoY



Sources: HCP, and BAM calculations.

With regard to fuels and lubricants, after an increase of 5.2 percent in 2018, their prices dropped by 6.6 percent in the first quarter and by 1.2 percent in April, reflecting the trends of world petroleum prices. Indeed, Brent prices were temporarily tilted to the downside, standing at $63.3/bl in the first quarter of 2019, from $71.1/bl in 2018, before rising again to $71.2/bl in April owing to supply factors.

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



Sources: World Bank, HCP, and BAM calculations.

The growth of prices for regulated goods averaged only 1.4 percent during the first four months of 2019, as against 2.8 percent in 2018, mainly due to the dissipation of the effect of the increase in stamp duties in January 2018, which more than offset the 15.2 percent rise in prices of tobacco in January 2019, itself caused by the increase in DCT on dark tobacco provided for in the 2017 Finance Law.

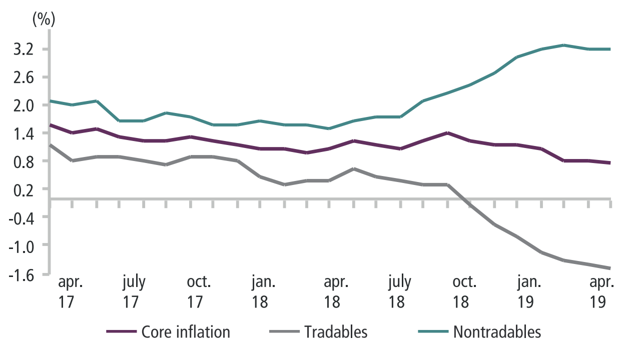
Their contribution to inflation thus halved, averaging 0.3 percentage point in the first four months of 2019, from 0.6 percentage point in 2018.

6.1.2. Core inflation

Core inflation decelerated further from 1.1 percent in 2018 to 0.9 percent in the first quarter and then to 0.8 percent in April. By component, this trend is attributable to the drop of 0.1 percent in the first quarter and 0.4 percent in April in food prices included therein, as opposed to an average increase of 0.8 percent in 2018. Conversely, prices rose by 3.4 percent on average between January and April 2019, as against 2.5 percent in 2018 for “education” and 0.9 percent as against 0.1 percent for “transport” excluding transport with regulated tariffs.

On the other hand, the breakdown of the CPI basket into tradable and nontradable goods indicates that the slowdown in core inflation over the first four months of the year is due to a decline in tradable prices, after a rise in 2018, which more than offset the acceleration of nontradable prices.

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



Sources: HCP, and BAM calculations.

Indeed, tradable goods prices fell by 1.4 percent between January and April, whereas they had raised by 0.3 percent in 2018, owing to a sharp drop in prices for "oils" and to a lesser extent, a decline in "dry legume" prices. In total, the contribution of this product category to core inflation stands at -0.7 percentage point, from 0.1 percent on average in 2018.

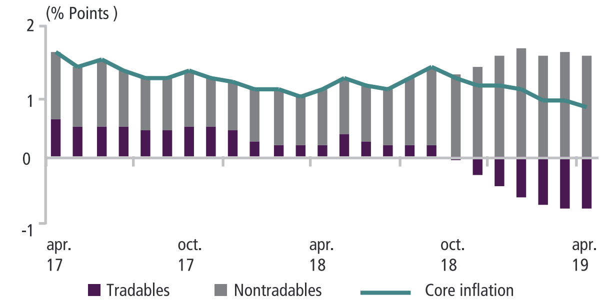
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	feb. 19	march 19	apr. 19	feb. 19	march 19	apr. 19
Tradables	-0.3	-0.1	-0.1	-1.3	-1.4	-1.5
Nontradables	0.2	0.1	0.1	3.3	3.2	3.2
Core inflation	-0.1	-0.1	0.1	0.9	0.9	0.8

Sources: HCP, and BAM calculations.

The growth of nontradable prices accelerated sharply from 2 percent in 2018 to 3.2 percent on average over the first four months of 2019, mainly reflecting the substantial increase from 3.1 percent to 7.4 percent in prices of "fresh meat". They thus contributed to core inflation by 1.5 percentage point from 0.9 point in the previous year.

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 should accelerate in the second quarter, while maintaining a low level. It would thus stand at 0.3 percent from -0.2 percent a quarter earlier, driven by the expected slow fall of volatile food prices as well as fuel and lubricant prices.

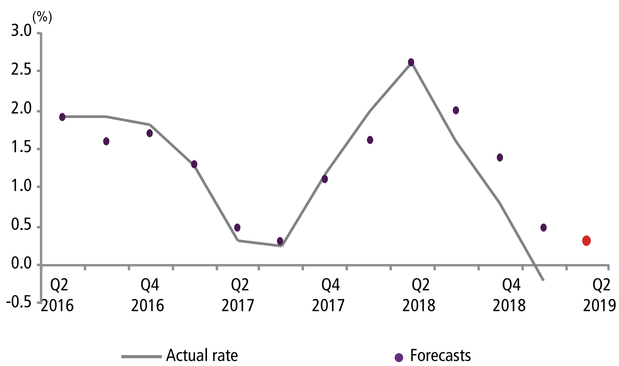
Indeed, reflecting the combined effect of high demand during the month of Ramadan and the supply shocks affecting certain products, namely fresh vegetables, volatile food prices should see their fall back to 3.6 percent from 6.2 percent in the first quarter.

Fuel and lubricant prices are also expected to drop only 0.7 percent, compared with 6.6 percent a quarter earlier, due to the anticipated rise in international petroleum prices.

Prices for regulated products would follow the same trend, i.e. 1.4 percent, observed in the first quarter, in the absence of relevant government decisions.

Core inflation, which measures the fundamental price trend, would remain close to its 0.8 percent level registered in April.

Chart 6.6: Inflation short-term forecasts and actual rates

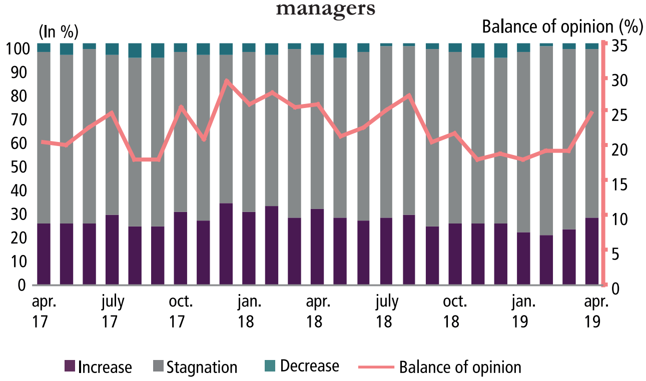


Source: BAM.

6.3. Inflation expectations

Bank Al-Maghrib's business survey in the industry of April 2019 indicates an increase to 28 percent in the proportion of industrialists expecting inflation to increase over the next three months. The share of respondents anticipating a decline was limited to 3 percent. The percentage of manufacturers predicting a stagnation of inflation remains high at 69 percent.

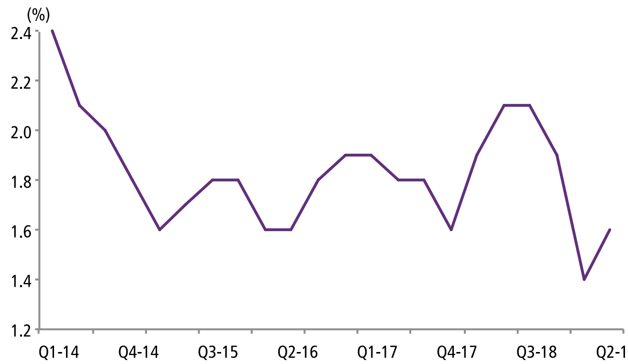
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

In addition, the findings of Bank Al-Maghrib inflation forecast survey for the second quarter of 2019 indicate that financial experts anticipate an inflation rate of 1.6 percent over the next eight quarters.

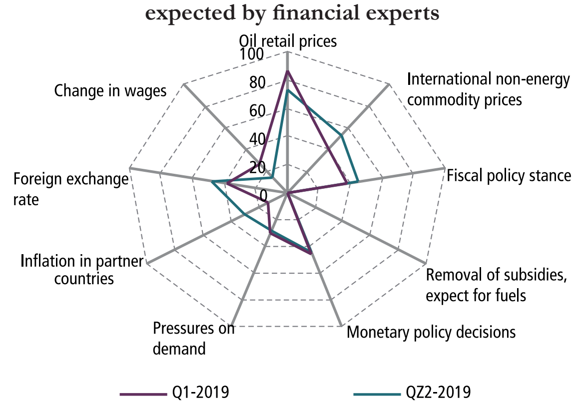
Chart 6.8: Inflation expectations by financial experts*



Source: BAM's quarterly survey on inflation expectations.
* From the second quarter of 2016, the expectation horizon increased from 6 to 8 quarters.

The latter consider that pump price trends, monetary policy decisions and world prices for non-oil commodities are expected to significantly impact the future inflation trends.

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



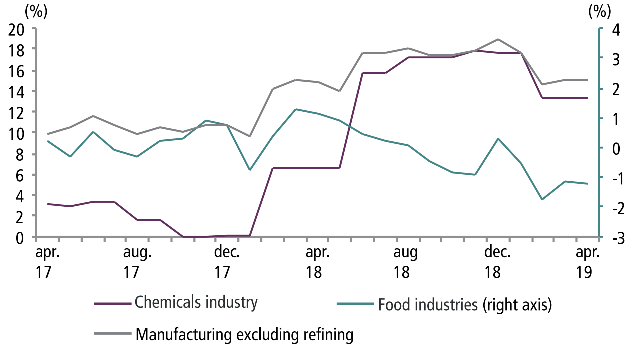
Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Producer prices

The growth of producer prices in manufacturing industries excluding oil refining slowed down to 2.3 percent in April from 2.5 percent in the first quarter and 2.6 percent on average in 2018.

This slowdown is mainly due to a decline to 13.4 percent in producer prices in the "chemical industry" in April, compared to 14.8 percent in the first quarter and to a 0.8 percent decrease in the "textile industry", after a rise of 1.8 percent.

Chart 6.10: YoY change in the main industrial producer price indexes



Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Weakened by political uncertainties, geopolitical tensions, the escalation of the trade war as well as some temporary factors peculiar to certain countries, global growth would slow down in 2019 before bouncing back moderately in 2020.

In the United States in particular, the expansion of economic activity is expected to decelerate, partly due to the dissipation of the impact of fiscal stimulus measures. In the eurozone, growth would decline in 2019, undermined by many internal and external factors, before returning to a more sustained momentum in 2020. Regarding the main emerging countries, growth would continue to decelerate in China, albeit at a contained pace in view of the fiscal and monetary stimulus measures. Similarly, the expansionary orientation of economic policies should continue to spur growth in India.

In the commodities market, energy prices would drop over the forecast horizon from their 2018 levels, albeit at a lower level compared to the March projections, given the further tightening of global supply, itself induced by geopolitical tensions and the greater than expected reduction in production of OPEC countries. In addition, phosphate fertilizer prices are expected to stand lower than in 2018, while crude phosphate prices are expected to increase at a higher rate than in March. On the other hand, after falling in 2018, food prices are expected to increase gradually over the forecast horizon.

Under these conditions, global inflation is expected to settle in the medium term at rates below those recorded in 2018. In the euro area in particular, it would slow down in 2019 before posting a modest upward trend over the forecast horizon, while in the United States, it would gradually renew with rates close to the Fed's target.

At the domestic level, after widening to 5.5 percent of GDP, current account deficit is expected to ease to 4.5 percent in 2019 and 3.1 percent in 2020, particularly as a result of the drop in the oil bill and the acceleration in sales of manufactured cars in 2020. This forecast also takes into account the assumption of donations by GCC countries of 2 billion dirhams in 2019 and 1.8 billion in 2020. With regard to FDIs, and having recorded an exceptional inflow in 2018 relating to a sale transaction in the insurance sector, they should stand at an amount equivalent to nearly 3.4 percent of GDP over the forecast horizon.

Regarding net international reserves, and assuming two successive international borrowing operations by the Treasury, they should strengthen to 239 billion by end-2019 before returning to 234.5 billion by end-2020. Their coverage would thus stand at 5 months and 4 days and 5 months and 1 day of imports respectively.

On the monetary side, lending rates in the first quarter of 2019 decreased by 17 basis points to 4.89 percent on average, driven by corporate credit rates, notably to SMEs. Credit growth to the non-financial sector is expected to hover around 3.5 percent in 2019, before accelerating to 4.3 percent in 2020. In turn, the real effective exchange rate should slightly appreciate in 2019 before posting a relative depreciation in 2020. Overall, monetary conditions should remain appropriate.

As concerns public finance, the process of fiscal consolidation would slow down somewhat. After reaching 3.7 percent of GDP in 2018, fiscal deficit, excluding privatization receipts, should reach 4.1 percent in 2019, unchanged from the March MPR and 3.8 percent in 2020, up 0.3 point, mainly due to the impact of the social dialogue agreement.

Growth would continue to be impacted by weather conditions over the forecast horizon. After slowing to 3 percent in 2018, it would decelerate again to 2.8 percent in 2019, as a result of a 3.8 percent drop in agricultural value

added, while nonagricultural activities would continue to grow, with an expected value-added at 3.6 percent. On the demand side, this change is due to the expected weakening of domestic demand, albeit at a lower level compared to the March projections, given the expected effects of increases in wage and family allowances as part of the social dialogue. In 2020, growth should stand at 4 percent, boosted by a 6 percent rise in agricultural value added and a non-agricultural growth rate of 3.9 percent. Domestic demand would gain momentum, while net exports are set to maintain a slightly negative contribution.

Against this background, core inflation is expected to slow to 0.8 percent in 2019, before gradually strengthening over the remainder of the forecast horizon, in connection with the expected gradual decline in the negative cycle of domestic demand and the expected depreciation of the REER. However, in light of the expected rise in prices of regulated products and the decline in those of fuels and lubricants, assuming a drop in international oil prices, inflation is expected to drop 0.6 percent in 2019 before moderately accelerating to 1.2 percent in 2020.

7.1 Underlying assumptions

Deceleration of global growth in 2019

The heightened uncertainty continues to weigh on global growth and to darken its outlook. Risk factors remain largely related to concerns over Brexit terms, the escalation of the trade war, the intensification of political and geopolitical tensions, and the vulnerability of emerging markets.

Thus, the global economy would experience a marked moderation of its pace in 2019 and a slight recovery in 2020. In the United States, the expansion of economic activity would slow down from 2.9 percent in 2018 to 2.5 percent in 2019 and then to 1.6 percent in 2020, partly due to the dissipation of the effects of the fiscal stimulus measures. At the same time, the strength of the labor market is expected to continue, with unemployment rates remaining low. In the euro area, growth is expected to decelerate sharply from 1.8 percent in 2018 to 1.4 percent in 2019, weakened by many negative internal and external factors, before rebounding to 1.9 percent in 2020, in connection with the preservation of favorable monetary conditions. The labor market situation, however, would continue to improve, with the unemployment rate falling to around 7.6 percent in 2020.

In the main emerging countries, growth should continue to decelerate in China from 6.6 percent in 2018 to 6.5 percent in 2019, then to 6.2 percent in 2020, with rates remaining contained thanks to fiscal stimulus measures. Similarly, the expansionary stance of economic policies should continue to support growth in India, which, although decelerating, would maintain a sustained pace of 6.6 percent in 2019, before strengthening to 7.5 percent in 2020. For its part, growth in Brazil is expected to accelerate from 1.1 percent to 1.7 percent in 2019 and 2.3 percent in 2020, particularly due to a rise in investment. These projections remain nonetheless conditional on the successful implementation of fiscal reforms, including the pension system.

Chart 7.1: Growth in the euro area

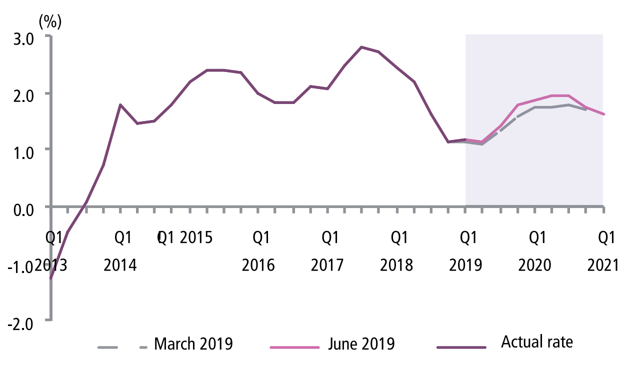
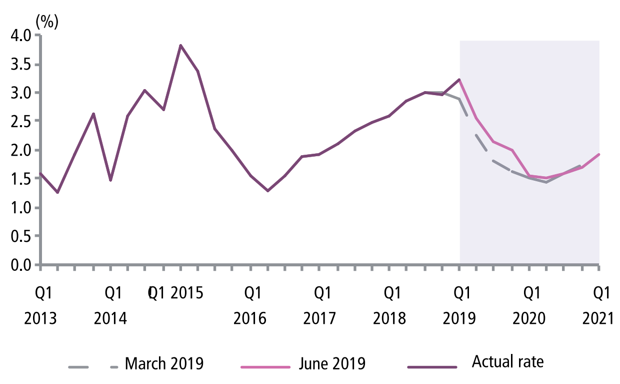


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of may 2019.

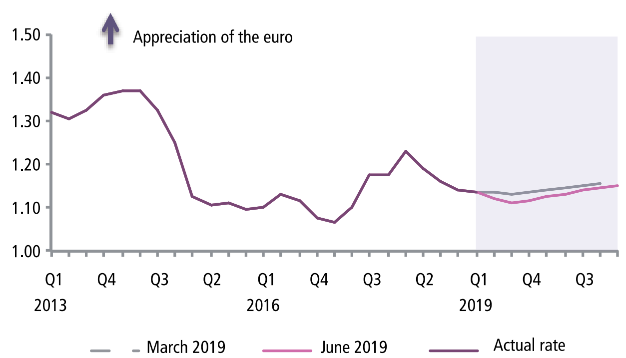
1 Global Projection Model Network.

Weakening of the euro against the dollar in 2019 and a slight upward trend in the medium term

Impacted by the deterioration of growth prospects in the euro area and the increase in uncertainties surrounding them, the euro would end the year 2019 down by nearly 5 percent to 1.12 dollar on average. In 2020, it should rise moderately to $ 1.14, mainly in view of the expected recovery in economic activity in the euro area.

At the same time, amid signs of weakening activity and increasing downside risks to its outlook, the Fed reiterated that it will be patient about future increases in federal funds rates. Similarly, and in a context of low inflation levels, more accommodative measures have been announced by the ECB, including keeping its rates unchanged at least through the first half of 2020 and the launch of a new series of quarterly targeted longer-term refinancing operations (TLTRO-III).

Chart 7.3: USD/ EUR exchange rate



Source: GPMN forecasts of may 2019.

Easing of upward pressure on energy prices in the medium-term

Recent developments in energy prices continued to be volatile, due in particular to fears of a more pronounced slowdown in global demand and supply disruptions, which in turn were largely impacted by political and geopolitical tensions. In terms of outlook, upward pressure on prices is expected to ease. In particular, Brent price would end the year 2019 on an average of $67.8/bl, down 4.6 percent year-on-year, before falling again to $63.8/bl in 2020. These forecasts were, however, revised upwards by $4.6 and $2.1 respectively, in view of the further tightening of world supply.

In the phosphate and derivatives market, phosphate fertilizer prices trended downward at end-2018, mainly due to weaker demand from China and India and lower costs of some inputs. In terms of outlook, the price of the DAP in particular would decrease by 6 percent to $ 370/t in 2019, after increasing 21.8 percent a year earlier, and would rise to $377/t in 2020, a sharp downward revision compared to the March projections. On the other hand, the price of crude phosphate is expected to increase to $ 105/t in 2019 and $107/t in 2020, after averaging $ 88/t in 2018. For their part, food prices overall trended upward at the start of the year and are expected to continue this trend over the forecast horizon, after falling 3.5 percent in 2018.

Under these conditions, global inflation is expected to stand below the levels seen in 2018 over the forecast horizon. In the United States in particular, it should reach 1.8 percent in 2019, after 2.4 percent in 2018, before rising to 2.2 percent in 2020. At the same time, it would maintain in the euro area levels below the ECB target; that is 1.3 percent in 2019 and 1.4 percent in 2020, after 1.8 percent in 2018.

Chart 7.4: Brent price

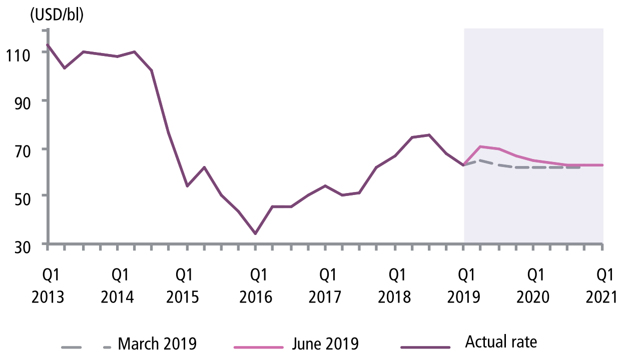


Chart 7.5: FAO food product price index

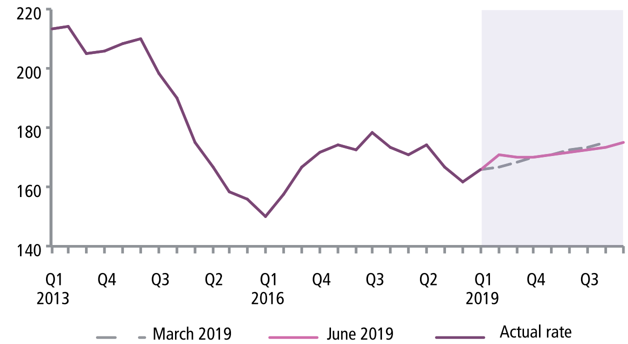


Chart 7.6: Inflation in the euro area

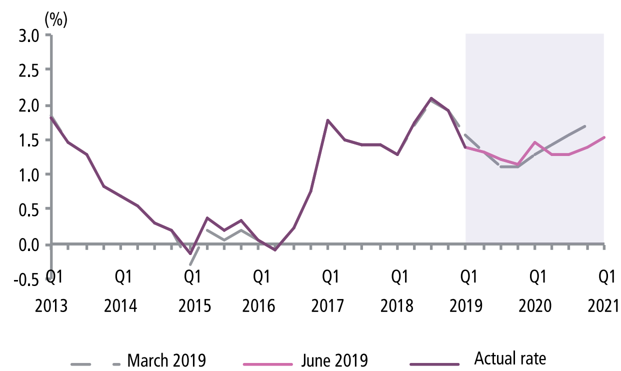
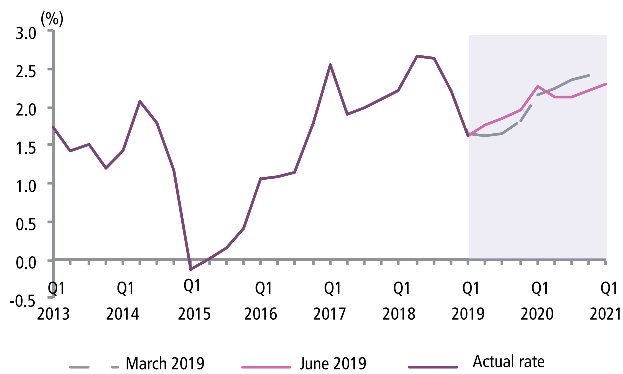


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of may 2019.

A cereal production of 61 million quintals expected for 2018-2019 and a normal crop year projected for 2019-2020

According to the Ministry of Agriculture, cereal output for the 2018-2019 crop year would reach 61 million quintals (MQx), down 40.5 percent from the previous crop year and 26.3 percent compared to the average of the last five years. For the other crops, production was set to increase by 17 percent for citrus fruits and by 22.3 percent for olives, while it would drop by 9 percent for dates. For animal breeding, rangelands were expected to improve.

For the 2019-2020 crop year, the assumption of an average cereal production of 80 MQx was maintained, along with a continuation of the trend performance of other crops.

7.2 Macroeconomic projections

Easing of the current account deficit over the forecast horizon

After a widening in 2018 to 5.5 percent of GDP, the current account deficit is expected to ease to 4.5 percent in 2019 and 3.1 percent in 2020, notably in conjunction with a drop in the energy bill coupled with acceleration in sales of manufactured cars in 2020. This forecast takes into account the assumption of an inflow of donations from GCC countries of 2 billion dirhams in 2019 and 1.8 billion in 2020.

In 2019, exports growth is expected to slow to 6 percent, particularly in connection with the slowdown in sales of phosphates and derivatives. In 2020, it should speed up to 7.3 percent, mainly reflecting an increase in car manufacturing, under the assumption of doubling the production capacity of the Peugeot plant. At the same time, imports are set to decelerate to 3.3 percent in 2019 and 2.8 percent in 2020, largely as a result of the expected fall in the energy bill and the limited rise in purchases of capital goods.

Regarding travel receipts and Moroccan expatriates' remittances, their growth rates are expected to increase to 3.3 percent and 3.6 percent respectively in 2019, then to 4.1 percent and 4.5 percent in 2020.

In addition, after the high level recorded in 2018 following a sale in the insurance sector, FDIs are expected to stabilize at around 3.4 percent of GDP over the forecast horizon.

Taking into account the assumptions of GCC donations and two successive borrowing operations by the Treasury on the international market, one in 2019 and the other in 2020, NIR are expected to increase to 239 billion in 2019 before returning to 234.5 billion by 2020. They would thus continue to cover a little more than 5 months of imports of goods and services.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (june/march)	
	2015	2016	2017	2018	2019	2020	2019	2020
Exports of goods (FOB)	8.6	3.5	10.3	10.6	6.0	7.3	1.2	1.2
Imports of goods (CAF)	-4.9	10.3	6.7	9.8	3.3	2.8	0.4	-0.4
Travel receipts	-1.4	5.0	12.3	1.3	3.3	4.1	0.1	0.2
Expatriate remittances	4.8	4.0	5.3	-1.5	3.6	4.5	0.2	0.2
Current account balance (% of GDP)	**-2.1**	**-4.1**	**-3.4**	**-5.5**	**-4.5**	**-3.1**	**-0.3**	**0.4**
Net international reserves in months of goods and services' imports	**6.0**	**6.3**	**5.6**	**5.1**	**5.1**	**5.0**	**0.0**	**0.0**

Sources: Foreign Exchange Office and BAM forecasts.

Appropriate monetary conditions overall and continued gradual improvement in bank lending to the non-financial sector

The real effective exchange rate (REER) would post slight changes over the forecast horizon. It would appreciate slightly in 2019, as the inflation differential in favor of Morocco would mitigate the expected appreciation of the dirham mainly against the euro. In 2020, the REER is likely to report a relative depreciation, the result of a quasi-stagnation in nominal terms and a domestic inflation still lower compared to its partners and competitors.

Based on projections of net international reserves and the upward trend in currency in circulation, the liquidity deficit is expected to increase from 69 billion dirhams at end-2018 to 71 billion at end-2019, then to 86 billion at end-2020. Regarding bank lending to the non-financial sector, its growth would stand at 3.5 percent in 2019, before accelerating to 4.3 percent in 2020.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (june/ march)	
	2015	2016	2017	2018	2019	2020	2019	2020
Bank lending to the nonfinancial sector	0.3	3.9	3.8	3.1	3.5	4.3	0.4	-0.1
M3	5.7	4.7	5.5	4.1	4.3	3.8	0.3	0.1
Liquidity surplus or deficit, in billion dirhams	-16.5	-14.7	-40.9	-69.0	-71.0	-86.0	-0.4	-1.2

Slowdown in the fiscal consolidation process

Compared to the March 2019 projections, fiscal deficit forecasts remained unchanged in 2019 and adjusted upward by 0.3 percentage point of GDP in 2020. On the basis of the available data, the deficit, excluding privatization receipts, should stand at 4.1 percent of GDP in 2019 and 3.8 percent in 2020. This forecasting exercise was marked by the integration of the effects of the social dialogue agreement with mainly the decision to increase the salaries of civil servants and family allowances. Salary adjustments for military personnel and amendments to the basic statute of the Directorate General of National Security staff (DGSN) are not taken into account.

Given the slight revision in growth numbers for 2019, tax revenues have been revised upward. On the expenditure side, the new measures resulting from the social dialogue agreement led to upward adjustments for the wage bill and to the fall in expenditure on other goods and services compared with the March projections. This was done by reallocating a provision set up by the Government under the 2019 Finance Act, which limited the impact on the fiscal deficit for that year.

In 2020, the impact of the social dialogue agreement would become more pronounced compared to 2019, leading to an upward revision of the wage bill and spending on other goods and services. On the revenue side, tax revenues are expected to grow at a higher pace than nominal GDP and take into account the remaining donations from GCC countries estimated at 1.8 billion dirhams.

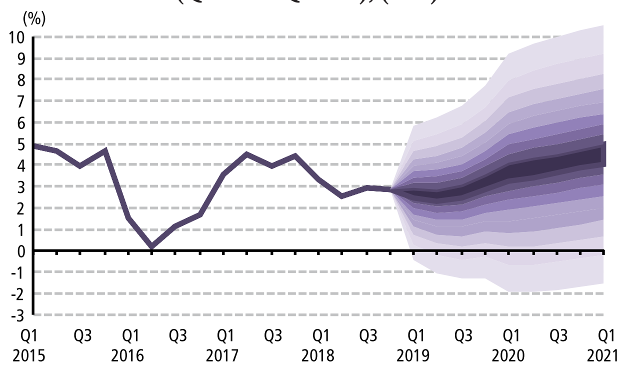
Continued recovery of non-agricultural activities

After slowing to 3 percent in 2018, domestic growth would continue to be impacted by weather conditions over the forecast horizon. It would decelerate again to 2.8 percent in 2019, as a result of a 3.8 percent drop in agricultural value added, a projection which is almost unchanged from March. Conversely, nonagricultural activities would continue to improve, with a growth in their value added estimated at 3.6 percent, as against 3.4 percent announced in March, the high-frequency indicators suggesting better than expected performances in the first quarter at the level of the manufacturing industry, electricity generation and extractive activities.

On the demand side, its domestic component would weaken. In fact, impacted by the fall in agricultural incomes, growth of household final consumption should decelerate, albeit at a slower pace than expected in March, taking into account the expected positive effects of wage and family allowances rises under the social dialogue. Similarly, the increase in investment would slow down, while the final consumption of public administrations would maintain a steady pace, mainly as a result of the expected strengthening of operating expenditures. At the same time, the negative contribution from net exports is expected to ease, reflecting a moderation in the pace of imports of goods and services, which in turn reflects the pace of domestic demand. The dynamism of exports would, for its part, show a relative slowdown, reflecting the expected deceleration of economic activity among the main trading partners.

In 2020, domestic growth would stand at 4 percent, boosted by a 6 percent increase in agricultural value added and a 3.9 percent rise in non-agricultural growth. Domestic demand is expected to regain a more steady momentum, driven by renewed vigor in household consumption and investment. In addition, growth in government consumption would accelerate as a result of continued increases in operating expenditures. At the same time, net exports are set to maintain a negative contribution to growth, as the expected rise in imports of goods and services would more than offset that of exports, which, particularly benefiting from a recovery in foreign demand, should see a strengthening of their momentum.

Chart 7.8: Growth outlook over the forecast horizon (Q1 2019 - Q1 2021), (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 (june/ march)	
	2015	2016	2017	2018	2019	2020	2019	2020
National GROWTH	**4.5**	**1.1**	**4.2**	**3.0**	**2.8**	**4.0**	**0.1**	**0.1**
Agricultural VA	11.9	-13.7	15.2	4.0	-3.8	6.0	0.0	0.0
Nonagricultural VA	1.8	2.1	2.9	2.6	3.6	3.9	0.2	0.1
Net tax on subsdies	18.1	8.8	3.1	4.6	2.9	3.0	0.0	0.0

Sources: HCP data, and BAM forecasts.

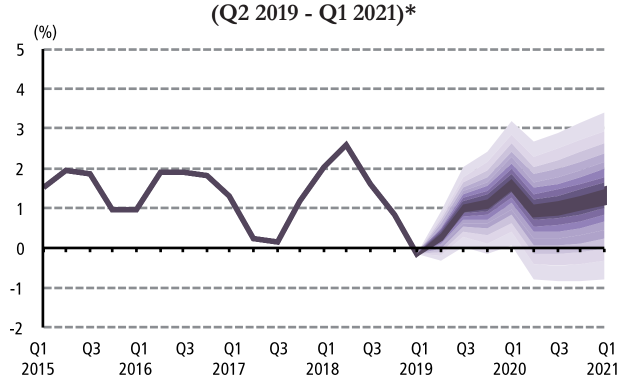
Relatively low levels of inflation over the medium term, after acceleration in 2018

Underlying inflationary pressures would remain low in 2019 and strengthen progressively over the medium term, in line with the expected gradual unwinding of the negative domestic demand cycle and the expected depreciation of the REER. The fundamental component of inflation would continue to slow down to 0.8 percent in 2019, after posting 1.1 percent in 2018, before rising to 1.5 percent in 2020.

As to the other components, the prices of regulated products are expected to increase in 2019, incorporating, inter alia, the rise of ICT on tobacco, before resuming their trend rate in 2020. Prices of fuels and lubricants should, for their part, post declines over the forecast horizon, albeit at a lower level compared to March, especially in light of the upward revisions to oil price forecasts. As to prices of volatile food products, they would end the year on a slight decline, as the expected continuation in the short term of their upward trend that began in April would mitigate the sharp decline observed in the first quarter, before stabilizing in 2020, assuming a gradual dissipation of the effects of supply shocks.

In short, after standing at 1.9 percent in 2018, inflation would fall to 0.6 percent in 2019 before accelerating moderately to 1.2 percent in 2020.

Chart 7.9: Inflation forecast over the horizon (Q2 2019 - Q1 2021)*



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

Sources: HCP data, and BAM forecasts and calculations.

Table 7.4: Inflation

	Actual rates				Forecasts			Gap (june/ march)	
	2015	2016	2017	2018	2019	2020	Horizons of 8 quarters (Q2 2019-Q1 2021)	2019	2020
Inflation	**1.6**	**1.6**	**0.7**	**1.9**	**0.6**	**1.2**	**1.1**	**0.0**	**0.1**
Core inflation	1.4	0.8	1.3	1.1	0.8	1.5	1.3	0.0	0.1

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

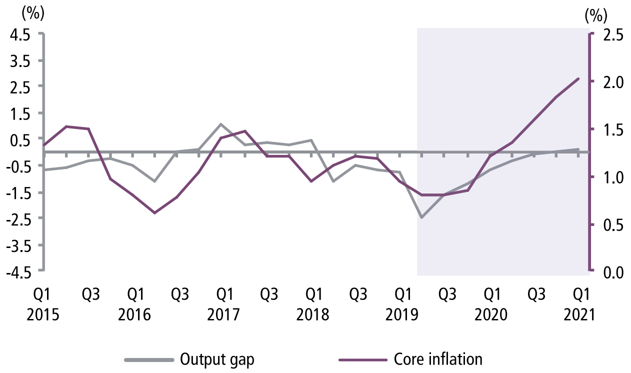
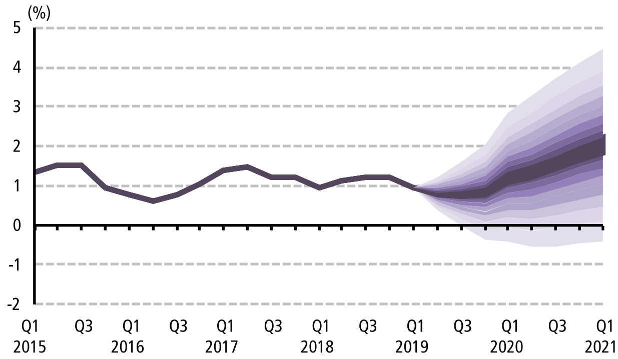


Chart 7.11: Projections of core inflation over the forecast horizon (Q2 2019 - Q1 2021)*



* 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 forecasting takes place in a context marked by an increase in risks which, in the event of their materialization, can affect the central projection. The balance of risks is pointing downward for growth and balanced for inflation.

Uncertainties surrounding the central trajectory of domestic growth forecasts are mainly related to external factors, including higher energy prices and a further deterioration in foreign demand. The latter in particular remains surrounded by major downside risks, largely related to the escalation of the trade war, concerns over Brexit terms, and the intensification of political and geopolitical tensions. With regard to inflation forecasts, higher oil prices than those included in the central scenario, following a sharper tightening of global supply, could lead to a rise in consumer prices, through their direct effects on domestic prices of fuels and indirect on production costs. On the other hand, a further weakening of domestic demand and/or eventually a further appreciation of the real effective exchange rate, particularly in view of the downward pressure on the currencies of some emerging countries, could lead to lower inflation rates compared to those adopted in the central forecast scenario.

Concerning the projections of the other variables, those of the NIRs remain dependent in particular on international borrowings of the Treasury and, to a lesser extent, on the concretization of GCC grants.

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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