بنك المغرب
BANK AL-MAGHRIB

MONETARY POLICY REPORT

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FOREWORD

By virtue of Article 6 of Law No. 40-17 on the Statutes of Bank Al-Maghrib, promulgated by the Royal Decree No. 1-19-82 , dated 21 June 2019 (17 Chaoual 1440 A.H.), "The Bank shall define and conduct monetary policy with full transparency and within the economic and financial policy of the Government. The main objective of the Bank is to maintain price stability. The Bank shall define the objective of price stability and conduct monetary policy. "

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, September 24, 2019

1. The Board of Bank Al-Maghrib held its third quarterly meeting of the year on Tuesday, September 24.

2. At this meeting, the Board analysed the recent economic development and the macroeconomic forecasts prepared by the Bank for the next eight quarters.

3. Based on these assessments, particularly those of medium-term prospects for 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.

4. Besides, considering the persisting substantial liquidity requirements over the forecast horizon, the Board decided to reduce the monetary reserve rate from 4 percent to 2 percent, thus allowing a permanent liquidity injection of slightly over 11 billion dirhams.

5. The Board noted that after having reached 1.9 percent in 2018, inflation remains low this year, standing at 0.2 percent on average over the first eight months, mainly due to lower volatile food prices. Based on Bank Al-Maghrib's forecasts, inflation would remain low during the next months to stand at 0.4 percent for the year as a whole. In 2020, it would speed up to 1.2 percent, driven by its core component, which would, mainly due to the expected recovery of internal demand, reach 1.6 percent, as against 0.7 percent forecast for 2019.

6. At the international level, after a relatively good performance at the beginning of the year, economic activity in advanced countries started slowing down in the second quarter and its outlook deteriorated in a context of trade disputes, geopolitical tensions and Brexit-related uncertainties. In the United States, as the impact of fiscal stimulus measures fades out, growth would decline from 2.9 percent in 2018 to 2.2 percent in 2019 and 1.8 percent in 2020, while it would fall, in the euro area, from 1.9 percent to 1.2 percent before improving slightly to 1.4 percent. Regarding labor markets, conditions would remain favorable, with unemployment rates at around 4 percent in the United States and around 7.5 percent in the euro area. In the main emerging economies, growth would continue to decelerate in China and would stand slightly above 6 percent. In India, it would drop to 6.1 percent in 2019 before rebounding to 7.8 percent in 2020, owing to fiscal and monetary stimulus measures.

7. On the commodity markets, and due to concerns over global demand, oil prices in the last few months recorded a downward trend overall, punctuated by periods of high volatility. More particularly, the

Brent price declined to $64.8/bl on average over the first eight months of the year, down by 9.4 percent year-on-year. It is expected to average $63.7/bl in 2019 and be slightly above $60/bl in 2020. Regarding phosphates, the price of phosphate rock reached in the first eight months of the year higher levels overall compared to the same period in 2018. According to the latest World Bank forecasts of last April, it is expected to reach $105/t on average in 2019, and evolve close to this level in 2020. As for phosphate fertilizers, the prices continued their downward trend, due to weaker global demand. For the year as a whole, they are expected to average $370/t for di-ammonium phosphate (DAP) and $340/t for triple superphosphate (TSP) and would increase slightly to $377/t and to $343/t respectively in 2020.

8. In this context, inflation is expected to drop in the euro area to 1.3 percent in 2019 and 1.2 percent in 2020, well below the ECB's objective. In the United States, it would decline by 0.5 point to 1.9 percent in 2019 and run closer to the FED's objective in 2020.

9. Concerning monetary policy decisions, central banks of the main advanced economies have interrupted the normalization of their monetary policies in order to start a new easing cycle. Hence, after the cut of last July, the first since 2008, the FED decided, during its meeting held on September 17 and 18, to lower, once again, the target range of the federal funds rate by 25 basis points to [1.75 percent-2 percent]. This decision was nonetheless characterized by wider divergence among members of the Committee compared to the last two meetings. On the other hand, during its meeting of September 12, the ECB unveiled a series of measures to strengthen the accommodative stance of its monetary policy. It thus reduced the interest rate on the deposit facility by 10 basis points to -0.50 percent and declared that it expects its key rates to remain at their present or lower levels until it sees that the inflation outlook robustly converges towards its goal. The ECB also decided to resume, as of November 1, its net asset purchases for a monthly amount of 20 billion euros and change the modalities of the new series of targeted longer-term refinancing operations to preserve favorable lending conditions.

10. At the national level, the latest HCP data related to the first quarter indicate a year-on-year slowdown of growth from 3.5 percent to 2.8 percent, due to the 3.2 percent lower agricultural value added, after its 4 percent increase, and to a faster growth of nonagricultural activities from 3.3 percent to 3.8 percent. Value added of the latter, according to Bank Al-Maghrib's forecasts, is expected to grow by 3.6 percent in 2019, as against 2.6 percent in 2018. Taking into account also the downward revision by the Agriculture Department of the cereal harvest estimate for the 2018/2019 crop year to 52 million quintals, agricultural value added would decline by 4.7 percent, bringing domestic economic growth to 2.7 percent in 2019, as against 3 percent one year earlier. For 2020, the Bank expects growth to improve to 3.8 percent, with nonagricultural growth stabilizing at 3.6 percent and agricultural value added rising by 6.3 percent, assuming a cereal production of 80 million quintals.

11. In the labor market, according to HCP data, net job creation between the second quarters of 2018 and 2019 was limited to 7 thousand jobs, due to a loss of 176 thousand in agriculture and the creation of 183 thousand jobs in nonagricultural activities, mainly in the services sector. Taking into

account a 0.6 percent decrease in the labor force, the participation rate fell from 47 percent to 46 percent and unemployment rate dropped by 0.6 point to 8.5 percent.

12. For the external accounts, exports of goods rose by 3.3 percent at end-July, driven notably by an increase in sales of agricultural and agri-food products by 6.5 percent, of the automotive sector by 2 percent and of phosphate and derivatives by 3 percent. Conversely, imports grew by 3.7 percent, reflecting an 8.8 percent rise in purchases of capital goods, while the energy bill fell 2.1 percent. Travel receipts improved by 5.8 percent, whereas Moroccan expatriates' remittances declined by 1 percent. For 2019 as a whole, exports would increase by 3.9 percent, before improving markedly in 2020, assuming the implementation of the announced PSA plant production program. On the other hand, imports would slow down over the forecast horizon, with an expected drop in the energy bill and slower purchases of capital goods. At the same time, travel receipts would increase more rapidly in 2019 to stand at 76.3 billion dirhams, then grow at a relatively moderate pace in 2020 (to 78.8 billion), while Moroccan expatriates' remittances would increase slightly this year to 65.9 billion dirhams before gaining momentum next year (to 68.3 billion). Against this backdrop, and taking into account expected GCC grants of 2 billion in 2019 and 1.8 billion in 2020, the current account deficit would gradually ease from 5.5 percent of GDP in 2018 to 5.1 percent in 2019, then to 3.6 percent in 2020. As to FDI inflows, after an exceptional increase in 2018, proceeds would be close to 3.5 percent of GDP over the forecast horizon. Taking into account two planned Treasury borrowings from the international market, outstanding net international reserves would stand at 239 billion dirhams at end-2019 and 234.3 billion at end-2020, thus continuing to cover just over 5 months of imports of goods and services.

13. With respect to monetary conditions, the real effective exchange rate posted a quarterly increase of 0.3 percent during the second quarter, reflecting a rise in nominal terms, and is expected to increase slightly over the forecast horizon. As to lending rates, BAM's survey, in its improved and enlarged new version, indicates that they continued their downward trend, dropping anew by 4 basis points overall to 4.98 percent in the second quarter, particularly to the benefit of individuals and VSMEs. As a particular result of the expansion of currency in circulation, bank liquidity needs widened to 95.5 billion dirhams on a weekly average in August and are expected to stand at 77.6 billion at end-2019 before rising to 96 billion at end-2020. Against this background, bank loans to the nonfinancial sector grew at end-July by 3.7 percent overall and 3.1 percent for private businesses. They are expected to end the year up 3.7 percent, before improving by 4.7 percent at end-2020.

14. With regard to public finance, fiscal deficit, excluding privatization receipts, worsened in the first eight months of the year by 5.8 billion to 34.9 billion dirhams. Overall expenditure rose 5.4 percent, mainly as a result of higher expenses in «other goods and services». At the same time, revenues improved by 3.4 percent, with rises by 2.2 percent for tax revenues and by 21.3 percent for nontax ones. Under these circumstances, and in view of the impact of the agreement reached as part of the social dialogue, fiscal deficit excluding privatization receipts would, based on Bank Al-Maghrib projections, hover around 4 percent of GDP this year, before easing to around 3.8 percent in 2020, assuming continued revenue mobilization efforts and control of expenditure.

OVERVIEW

After a favorable trend at the beginning of the year, economic activity in the advanced economies decelerated overall in the second quarter, particularly due to trade disputes, geopolitical tensions and uncertainties related to the Brexit terms. Growth declined from 2.7 percent to 2.3 percent in the United States, mainly reflecting a decrease in exports and non-residential investment, and from 1.3 percent to 1.2 percent in the euro area, held back in particular by the weak dynamism of the German economy. The pace of economic activity also fell sharply in the United Kingdom, with GDP rising by 1.2 percent in the second quarter after 1.8 percent, following the inventory-reduction phenomenon and the wait-and-see attitude adopted by businesses.

As for the main emerging economies, China posted in the second quarter its lowest growth rate since 1992[1], at 6.2 percent. The Indian economy experienced a significant slowdown in growth, which fell from 5.7 percent to 4.9 percent, mainly due to the poor performance of the manufacturing and construction sectors. On the other hand, growth improved to 1 percent after 0.5 percent in Brazil, driven mainly by the favorable trend in agriculture and industry, and from 0.5 percent to 0.9 percent in Russia, benefiting from the rebound in the real-estate and trade sectors.

On the labor markets, the situation remains favorable. The unemployment rate stabilized month-on-month, at 3.7 percent in August in the United States, where 130 thousand new jobs were created, and at 7.5 percent in July in the euro area.

As for financial markets, stock market indices in both the main advanced and emerging economies trended downward in August, mainly due to the intensification of trade tensions. In particular, the Dow Jones depreciated by 3.8 percent month-on-month, the EuroStoxx 50 by 4.3 percent, the NIKEEI 225 by 4.5 percent and the MSCI EM by 7.3 percent.

In sovereign debt markets, rates on 10-year bills continued their downtrend in August, reaching -0.7 percent for Germany, -0.3 percent for France, 0.1 percent for Spain, 1.4 percent for Italy and 1.6 percent for the United States. For emerging economies, this rate remained unchanged at 6.5 percent in India, rose from 6.8 percent to 6.9 percent in Brazil and fell from 3.2 percent to 3.1 percent in China and from 15.9 percent to 15.3 percent in Turkey.

On foreign exchange markets, between July and August, the euro depreciated by 0.8 percent against the dollar, while it appreciated by 1.7 percent against the pound sterling. The currencies of the main emerging countries depreciated overall against the dollar, with the exception of the Turkish lira, which rather appreciated. In particular, the Chinese yuan lost 2.7 percent compared to July, averaging 7.1 for one dollar, its lowest level since 2008. The annual growth rate of bank credit accelerated to 6.1 percent in August, from 5.6 percent, in the United States and to 3.6 percent in July, from 3.5 percent, in the euro area.

1Date from which quarterly data are available.

In commodity markets, oil prices declined in August, amid trade tensions and fears of weakening global demand. In particular, Brent prices fell by 7.4 percent month-on-month and by 19 percent year-on-year, to an average $59.3 per barrel. Excluding energy, prices continued in August the drop started a year ago, with annual declines of 4.5 percent for agricultural products and 2.6 percent for metals and minerals. Prices of phosphate and derivatives dropped by 10.9 percent year-on-year to $78/t for raw phosphate, by 28.4 percent to $292.9/t for DAP and by 23.2 percent to $275/t for TSP.

Against this background, inflation remained stable at 1 percent in August in the euro area, while it decelerated from 1.8 percent to 1.7 percent in the United States and from 2.1 percent to 1.7 percent in the United Kingdom.

In this context, the central banks of the main advanced economies interrupted the normalization process of their monetary policies to initiate a new easing cycle. Thus, on September 12, the ECB decided to reduce the interest rate on the deposit facility by 10 basis points to -0.50 percent, and to keep the interest rates on the main refinancing operations and the marginal lending facility unchanged at 0 percent and 0.25 percent, respectively. It indicated that it expects its key rates to remain at or even below current levels until the inflation outlook converges on a sustainable basis to levels below, but close to, 2 percent over the medium term. With regard to non-conventional measures, the ECB decided to resume, as of November 1, net purchases under its asset purchase programme (APA) for a monthly amount of €20 billion, and to change the terms of its new series of targeted longer-term refinancing operations in order to preserve favorable lending conditions. On the other hand, following the reduction introduced in July, which was the first since 2008, the FED decided at its meeting on 17 and 18 September to lower, once again, the target range of the federal funds rate by 25 basis points to [1.75 percent-2 percent].This decision was nonetheless characterized by wider divergence among Committee members compared to the last two meetings.

Nationally, external accounts data at end-July 2019 indicate, compared to the same period in 2018, a 4.3 percent increase in the trade deficit to 122.8 billion dirhams. Imports rose by 3.7 percent, driven mainly by an 8.8 percent increase in imports of capital goods and a 5 percent increase in purchases of finished consumer goods. The energy bill fell by 2.1 percent to 45 billion. Exports rose by 3.3 percent, reflecting increases in sales by 6.5 percent for agricultural and agri-food products, 2 percent for the automotive sector and 3 percent for phosphates and derivatives. In parallel, travel revenues increased by 5.8 percent to 40.9 billion while remittances from Moroccan expatriates decreased by 1 percent, to 37.4 billion dirhams.

In addition, the net flow of FDI decreased by 2.1 billion dirhams to 10.5 billion while that of Moroccan direct investments abroad increased by 3 billion dirhams to 5.6 billion. The stock of net international reserves stood at $231.8 billion at end-July 2019, equivalent to five months of goods and services' imports.

At the monetary level, the need for bank liquidity increased in the second quarter to 75.1 billion dirhams on average per week, due to the increase in currency in circulation. Bank Al-Maghrib thus raised the volume of its injections to 76 billion. Regarding lending rates, second quarter data show a continued downtrend with a further decline of 4 points quarter-on-quarter and 19 points year-on-year to 4.89 percent. Monetary conditions were also marked by a quarterly appreciation of 0.4 percent in nominal terms and 0.3 percent in real terms in the effective exchange rate during the second quarter. Under these circumstances, the growth rate of credit to the non-financial sector remained stable at 3.7 percent in the second quarter, reflecting an acceleration in the growth of loans to private companies and households and a decline in business lending.

As regards public finance, budget execution for the first eight months of 2019 shows a fiscal deficit, excluding privatization, of 34.9 billion, up 5.8 billion compared to the same period in 2018. This trend reflects, on the one hand, a 5.4 percent increase in overall expenditure, mainly due to a 12.3 percent rise in costs related to other goods and services and a 3.6 percent rise in the wage bill. On the other hand, ordinary revenues excluding privatization improved by 3.4 percent, reflecting a 2.2 percent increase in tax revenues and a 21.3 percent rise in non-tax revenues. As for donations from GCC countries, inflows reached 889 million dirhams at end-August.

To finance its cash deficit, the Treasury used net domestic resources up to 35.3 billion, as well as privatization receipts worth 4.4 billion and net external loans worth 4.8 billion. In this context, according to BAM's estimates, the Treasury's debt increased by 2.7 percent compared to its level at end-December 2018. As for the Treasury's financing conditions on the auction market, they remained favorable during the first eight months of 2019, with a decline in the weighted average rates on the primary market.

National accounts data for the first quarter of 2019 show a slowdown in economic growth to 2.8 percent from 3.5 percent a year earlier, with agricultural value added down 3.2 percent after a 4 percent increase. In contrast, non-agricultural activities growth increased to 3.8 percent from 3.3 percent in the same quarter of 2018. Analysis of demand shows a positive contribution of its domestic component with 3.6 percentage points, while that of net exports was negative, with 0.8 percentage points.

In the labor market, between the second quarter of 2018 and the same quarter of 2019, job creations were limited to 7 thousand compared to 117 thousand a year earlier. This trend covers a loss of 176 thousand jobs in agriculture and a creation of 183 thousand in nonagricultural activities, mainly in services. Taking into account a net outflow of 70 thousand jobseekers, the participation rate fell from 47 percent to 46 percent at the national level, and the unemployment rate dropped from 9.1 percent to 8.5 percent.

In the asset market, real-estate prices fell further quarter-on-quarter, by 0.6 percent in the second quarter of 2019, which was widespread across all categories. Thus, prices decreased by 0.4 percent for residential property, 0.8 percent for urban land and 1.5 percent for commercial property.

Similarly, the number of transactions fell by 7.3 percent after a decline of 12.3 percent in the first quarter. On the stock market, after a 4 percent decline, the MASI appreciated by 3.4 percent in the second quarter of 2019 and the volume of tradeing almost doubled to 24.2 billion. Under these conditions, market capitalization increased by 3.8 percent, to 583.1 billion dirhams, on a quarterly basis.

Inflation accelerated sharply to 0.8 percent in August from 0.3 percent in July, bringing its average over the first eight months of 2019 to 0.2 percent. This change is mainly attributable to the 1.7 percent rise in volatile food prices, after a 0.7 percent fall, and, to a lesser extent, to the increase of core inflation from 0.5 percent to 0.8 percent, as well as the 1.6 percent rise in the prices of regulated products, compared to 1.5 percent. Prices of fuel and lubricants fell again by 2.9 percent compared to 2.6 percent a month earlier.

In terms of outlook, trade conflicts and uncertainties over Brexit continue to weigh on global economic activity, leading to a widespread slowdown and deteriorating prospects. In the euro area, economic growth is expected to decelerate from 1.9 percent in 2018 to 1.2 percent in 2019, before accelerating slightly to 1.4 percent in 2020, backed by the accommodative monetary policy stance. In the United States, with the fading of the effects of fiscal stimulus, it is expected to slow down to 2.2 percent this year, from 2.9 percent a year earlier, and to 1.8 percent in 2020. Labor market conditions are projected to remain favorable, with the unemployment rate continuing to fall in the euro area and remaining low in the United States.

In the main emerging economies, growth is expected to continue its deceleration in China, from 6.6 percent in 2018 to 6.3 percent in 2019 and 6.1 percent in 2020. It is expected to slow down in India from 7.4 percent to 6.1 percent in 2019, due to low investment and foreign demand, before accelerating to 7.8 percent in 2020, backed by the expansionary stance of the monetary and fiscal policies.

In commodity markets, Brent oil prices are expected to close the year at an average level of $63.7/bl before declining again to $60.9 /bl in 2020. In addition, raw phosphate is projected to increase significantly to $105/t in 2019 and $107 in 2020, while the prices of its derivatives are expected to be lower than in 2018, at $370/t in 2019 and $377 in 2020 for DAP, and at $340 and $343, respectively, for TSP.

Against this backdrop, inflationary pressures would weaken overall. In the euro area, inflation is expected to remain below the ECB›s target, rising from 1.8 percent in 2018 to 1.3 percent in 2019 and then to 1.2 percent in 2020. In the United States, it is forecast to decelerate from 2.4 percent to 1.9 percent in 2019 before rebounding to 2.4 percent in 2020.

Nationally, the growth of goods exports is expected to slow from 10.6 percent in 2018 to 3.9 percent in 2019 and to accelerate to 8.4 percent in 2020, mainly in line with the sharp rise in automobile sales expected in 2020 assuming an increase in the production capacity of the PSA plant. The growth rate of imports is expected to slow from 9.8 percent to 3.4 percent in 2019 and then to 2.6 percent in 2020, mainly as a result of the planned reduction in the energy bill and the slowdown in the pace of capital goods purchases. In parallel, travel receipts and remittances of Moroccan expatriates should increase by 4.5 percent to 76.3 billion dirhams and by 1.5 percent to 65.9 billion dirhams, respectively, in 2019 and by 3.2 percent to 78.8 billion dirhams and by 3.6 percent to 68.3 billion dirhams in 2020. Also taking into account the GCC countries› projected grant inflows of 2 billion dirhams in 2019 and 1.8 billion dirhams in 2020, the current account deficit is expected to stand at 5.1 percent of GDP in 2019 and 3.6 percent in 2020 compared to 5.5 percent in 2018.

In addition, after exceptional revenues in 2018, largely in relation to a sale transaction in the insurance sector, FDI should stand at around 3.5 percent of GDP over the forecast horizon. Assuming two international borrowing transactions by the Treasury, in 2019 and in 2020, net international reserves would increase to 239 billion at end-2019 before falling back to 234.3 billion at end-2020, thus continuing to cover just over 5 months of goods and services imports.

Taking into account the expected change in net international reserves and the underlying increase in currency in circulation, the liquidity deficit is expected to widen to 77.6 billion at end-2019 and 96 billion at end-2020. With regard to monetary conditions, the real effective exchange rate is forecast to appreciate in 2019 and to decline in 2020. Bank credit to the nonfinancial sector is expected to improve, to 3.7 percent at end-2019 and 4.7 percent at end-2020.

In terms of public finance, the fiscal deficit excluding privatization is expected to hover around 4 percent of GDP in 2019, after 3.7 percent in 2018, before reaching 3.8 percent in 2020. These projections take into account the hypothesis of sustained revenue mobilization, a planned reduction in subsidization costs and an increase in operating expenses in line with the impact of the social dialogue agreement, the budgetary cost of which would total approximately 14.3 billion dirhams by 2021 according to estimates by the Ministry of Economy and Finance.

Concerning national accounts, growth is expected to slow again to 2.7 percent in 2019 from 3 percent in 2018, held back by a 4.7 percent decline in agricultural value added. This forecast has been revised downwards compared to the June forecasts in view of the updated cereal harvest estimate for the 2018-2019 crop year. Nonagricultural activities would continue their relative strengthening, with an increase in their value added by 3.6 percent after 2.6 percent. For the year 2020, Bank Al-Maghrib forecasts an acceleration in growth to 3.8 percent, reflecting a 6.3 percent improvement in the agricultural value added, assuming an average cereal harvest of 80 million quintals, and stable growth in nonagricultural activities at 3.6 percent.

Inflation is expected to slow significantly, from 1.9 percent in 2018 to 0.4 percent in 2019 before moderately accelerating to 1.2 percent in 2020. Its underlying component is expected to weaken to 0.7 percent and then increase to 1.6 percent in 2020, in line with the projected gradual decline in the negative domestic demand cycle and the expected easing of the appreciation of the REER.

The central scenario of forecasts remains surrounded by many risks that are generally tilted to the downside. With regard to growth, uncertainties relate mainly to external factors, including in particular a more marked deterioration in foreign demand. The latter remains subject to significant downside risks, particularly related to the trade war and concerns about Brexit terms. With regard to inflation forecasts, and taking into account the high uncertainties in the oil market, higher/lower prices than those taken into consideration in the central scenario could result in higher/lower inflation rates, through their direct effects on domestic fuel prices and indirect effects on production costs. External downward inflationary pressures may also stem from a possible increase in the appreciation of the real effective exchange rate, particularly in view of downward pressures on the currencies of some emerging countries. As for the projections of the other variables, those of the NIR in particular remain dependent mainly on the realization of the Treasury's borrowing operation on the international market planned in 2020 and, to a lesser extent, on the inflow of GCC grants.

1.INTERNATIONAL DEVELOPMENTS

The signs of recovery observed in some countries at the beginning of the year quickly faded away, confirming the overall downtrend in global growth amid rising trade tensions and uncertainties related to Brexit terms. With the exception of Japan where growth recovered slightly, second quarter data indicate a deceleration in the United States, the euro area and the United Kingdom. As regards the main emerging countries, growth continued to slow in China and India, while it improved relatively in Brazil and Russia. On the labor market, the situation remains favorable overall in the main advanced countries. Financial markets were impacted by the intensification of uncertainties, resulting in the decline of the main stock-market indices in advanced and emerging countries. Against this background, the main central banks maintained their accommodative monetary policies, moving towards greater flexibility in several advanced and emerging countries. In commodity markets, prices of energy and non-energy products fell year-on-year. Against this backdrop, the inflation rate declined in the United States, while it stagnated in the euro area.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, growth slowed down from 2.7 percent to 2.3 percent in the second quarter of 2019, mainly reflecting lower exports and lower non-residential investment. It also decelerated in the euro area from 1.3 percent to 1.2 percent, including mainly a sharp deceleration of growth in Germany to 0.4 percent after 0.9 percent, as a result of a negative contribution of foreign demand and the decline of investments in the construction sector (Box 1.1), and a strengthening of growth in France to 1.4 percent, backed by household spending and investment. At the same time, growth slowed down in Spain to 2.3 percent from 2.4 percent and remained negative in Italy at -0.1 percent.

In the United Kingdom, the pace of economic activity significantly slowed in the second quarter, to 1.2 percent after 1.8 percent, due in particular to the decline in inventories and the suspension of investments by companies waiting for more visibility as to the outcome of the country's exit from the EU. On the other hand, growth went up in Japan from 1 percent to 1.1 percent, driven by robust consumption and private investment.

Table 1.1: YoY change of quarterly growth

	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Advanced economies										
United States	**2.1**	**2.2**	**2.4**	**2.8**	**2.9**	**3.2**	**3.1**	**2.5**	**2.7**	**2.3**
Euro area	**2.1**	**2.5**	**2.8**	**2.8**	**2.5**	**2.2**	**1.7**	**1.2**	**1.3**	**1.2**
France	1.4	2.4	2.8	3.0	2.4	1.9	1.5	1.2	1.3	1.4
Germany	2.4	2.3	3.0	3.4	2.3	2.1	1.2	0.6	0.9	0.4
Italy	1.6	1.8	1.8	1.7	1.4	1.0	0.5	0.0	-0.1	-0.1
Spain	2.9	3.1	2.9	3.1	2.9	2.6	2.5	2.3	2.4	2.3
United Kingdom	**1.8**	**1.9**	**2.0**	**1.6**	**1.2**	**1.4**	**1.6**	**1.4**	**1.8**	**1.2**
Japan	**1.4**	**1.8**	**2.2**	**2.4**	**1.4**	**1.4**	**0.2**	**0.3**	**1.0**	**1.1**
Emerging economies										
China	**6.8**	**6.8**	**6.7**	**6.7**	**6.8**	**6.7**	**6.5**	**6.4**	**6.4**	**6.2**
India	**6.7**	**5.9**	**6.6**	**7.3**	**7.9**	**7.7**	**6.9**	**6.3**	**5.7**	**4.9**
Brazil	**0.1**	**0.6**	**1.4**	**2.2**	**1.2**	**0.9**	**1.3**	**1.1**	**0.5**	**1.0**
Turkey	**5.3**	**5.3**	**11.6**	**7.3**	**7.4**	**5.6**	**2.3**	**-2.8**	**-2.4**	**-1.5**
Russia	**1.5**	**2.5**	**2.3**	**0.3**	**1.9**	**2.2**	**2.2**	**2.7**	**0.5**	**0.9**

Source : Thomson Reuters.

Box 1.1: The slowdown of growth in Germany

After an average growth rate of 2.2 percent between 2010 and 2018, the German economy has started a period of deceleration since the second half of 2018. In the second quarter of 2019, growth weakened to 0.4 percent year-on-year and -0.1 percent quarter-on-quarter. This unfavorable trend is mainly due to the contraction of production in the industrial sector that began in the third quarter of 2018 and reached -5 percent in the second quarter of 2019, but with the notable exception of the pharmaceutical industry.

As regards demand, this trend is particularly due to the weakening of external demand and export difficulties, mainly in relation to the protectionist measures taken by the United States, which have a trade dispute, namely with China, to the implementation of new European anti-pollution standards, as well as to the uncertainties related to Brexit.

Chart B.1.1.1: Yoy change of industrial production

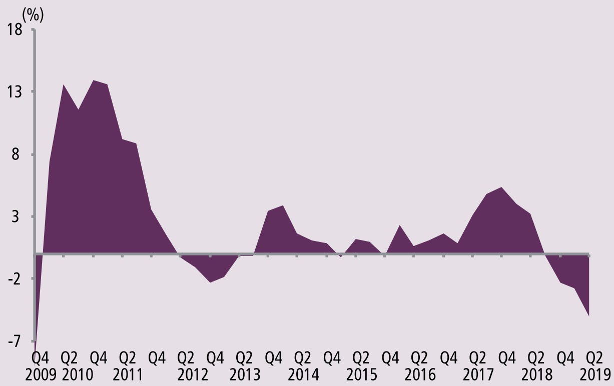
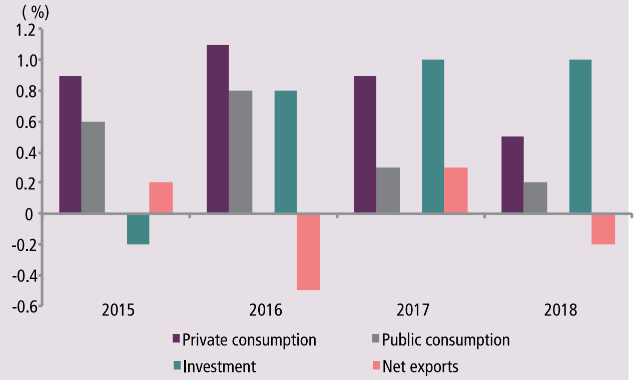


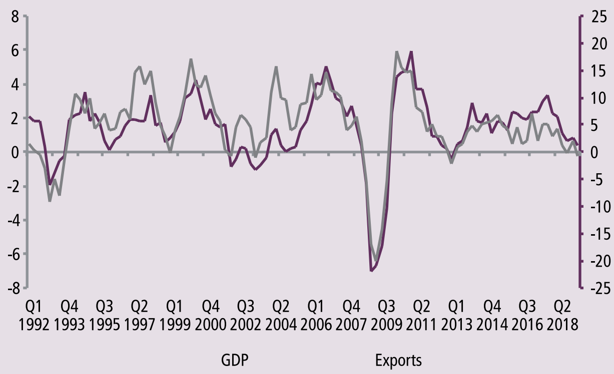
Chart B.1.1.2 : Change in the contribution to Growth



Sources : Datastream and Destatis.

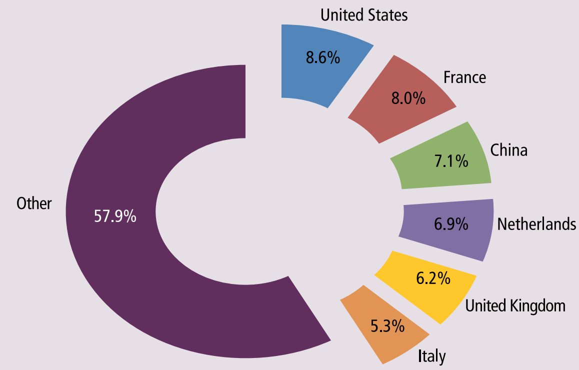
German exports to the United States remain concentrated in the automotive, pharmaceutical and chemical products and machinery and equipment. So far, the United States have postponed the decision to increase customs tariffs on automobiles, which could reach 25 percent next December. This decision would weigh heavily on exports and consequently on growth. On the other hand, the exposure of the German automobile sector to China is lower compared to the United States, with 0.5 percent of GDP. The machines and equipment sector is the second largest exporting sector in Germany with a level equivalent to that of the automotive industry. In recent years, China has imported a large amount of machinery and equipment and this trend is set to diminish considerably with the implementation of its «Made in China 2025» programme. Compared to the United Kingdom, the main sector is still the automotive industry (0.5 percent of GDP), but the German economy›s exposure to this country would depend on the Brexit modalities which remain uncertain.

Chart B.1.1.3: Yoy change of growth and exports (%)



Source : Datastream.

Chart B.1.1.4 : German exports by main destination, in 2018

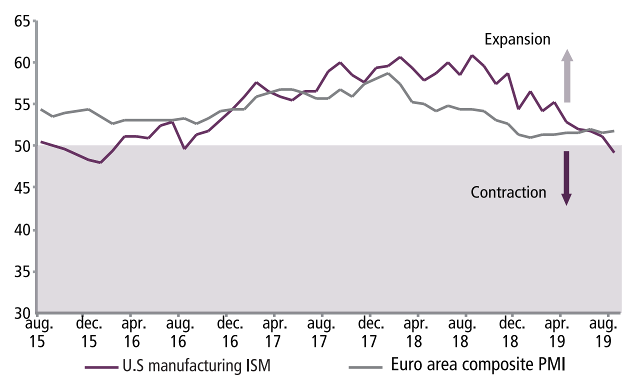


As for the outlook, and according to the latest IMF forecasts (July WEO), German growth is expected to slow further from 2.2 percent in 2017 and 1.4 percent in 2018 to 0.7 percent in 2019, before strengthening to 1.7 percent in 2020. These forecasts have been slightly revised downwards compared to those of April, due to weaker-than-expected external demand, which would also weigh on investment. Viewing this slowdown, the IMF considers that the authorities can use the available budgetary margins to increase public investment in physical and human capital or to reduce wage costs in order to stimulate potential production and ensure external rebalancing.

In the main emerging countries, growth in China declined to 6.2 percent after stagnating in the first quarter at 6.4 percent, mainly due to the trade dispute with the United States and the decline in global demand. Similarly, India›s growth slowed significantly to 4.9 percent in the second quarter after 5.7 percent, reflecting the poor performance of the manufacturing and construction sectors. In contrast, economic activity in Brazil improved, as growth recovered from 0.5 percent to 1 percent, driven mainly by the favorable trend in agricultural and industrial activities. Growth also recovered in Russia from 0.5 percent to 0.9 percent, in line with the rebound in the real estate and trade sectors.

With regard to leading activity indicators, the euro area composite PMI index rose to 51.8 points in August, after 51.5 a month earlier. Conversely, the ISM manufacturing index of the United States decreased in August to 49.1 points from 51.2 in July.

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 3.7 percent in August, with job creations falling to 130 thousand jobs from 159 thousand a month earlier. This rate also remained unchanged in July at 7.5 percent in the euro area. The number evolved differently among countries, mainly with a stagnation of the unemployment rate at 8.5 percent in France, a slight decline to 3.0 percent in Germany, an increase to 9.9 percent in Italy and a slight decline to 13.9 percent in Spain. In the United Kingdom, data available for the month of May show an increase in the unemployment rate to 3.8 percent from 3.7 percent a month earlier.

Table 1.2: Change in unemployment rate (%)

	2017	2018	2019		
			june	july	august
United States	**4.4**	**3.9**	**3.7**	**3.7**	**3.7**
Euro area	**9.1**	**8.2**	**7.5**	**7.5**	**N.A**
France	9.4	9.1	8.5	8.5	N.A
Germany	3.8	3.4	3.1	3.0	N.A
Italy	11.2	10.6	9.8	9.9	N.A
Spain	17.2	15.3	14.0	13.9	N.A
United Kingdom	**4.3**	**4.0**	**N.A**	**N.A**	**N.A**

Sources : Eurostat and BLS.

1.2 Monetary and financial conditions

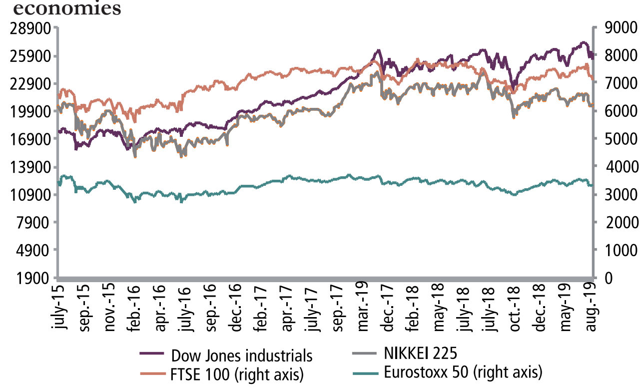
On the stock markets, the indices of the main advanced and emerging economies declined overall between July and August, mainly due to the intensification of trade tensions between the United States and China. The Dow Jones fell by 3.8 percent, the EuroStoxx 50 by 4.3 percent, the NIKEEI 225 by 4.5 percent and the FTSE 100 by 4.6 percent. These developments were coupled with a significant increase in volatility in both the US and European markets.

Similarly, for emerging economies, the MSCI EM fell sharply by 7.3 percent, including mainly declines of 6.2 percent for China, 4.2 percent for India and 3 percent for Turkey.

In the bond markets of the main advanced countries, sovereign yields continued to ease in August, supported by rising risk aversion. Thus, the 10-year bond rate fell to -0.7 percent for Germany, -0.3 percent for France, 0.1 percent for Spain and 1.4 percent for Italy. This rate also decreased significantly for US Treasury bills, from 2.1 percent to 1.6 percent on a monthly basis.

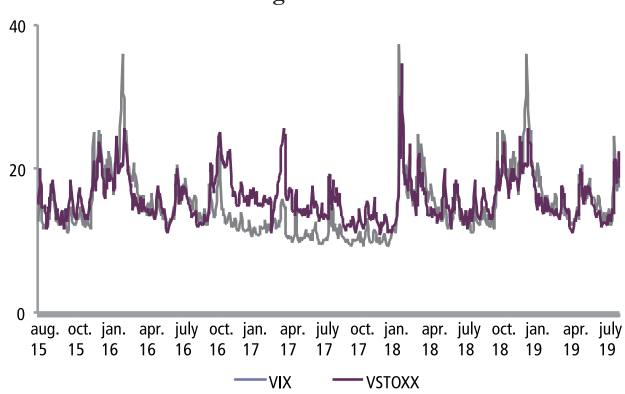
For the main emerging economies, the 10-year sovereign yield stagnated at 6.5 percent for India, fell from 3.2 percent to 3.1 percent for China and from 15.9 percent to 15.3 percent for Turkey, while it rose from 6.8 percent to 6.9 percent for Brazil.

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



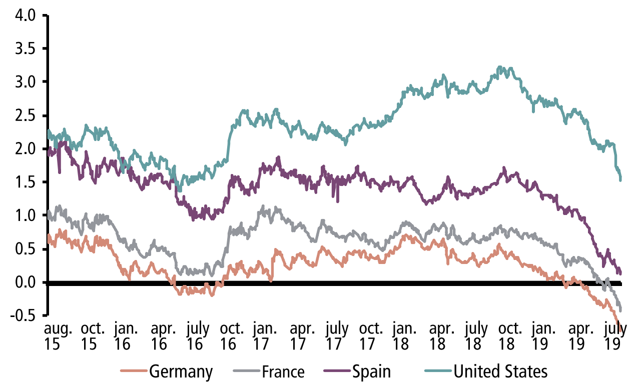
Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters.

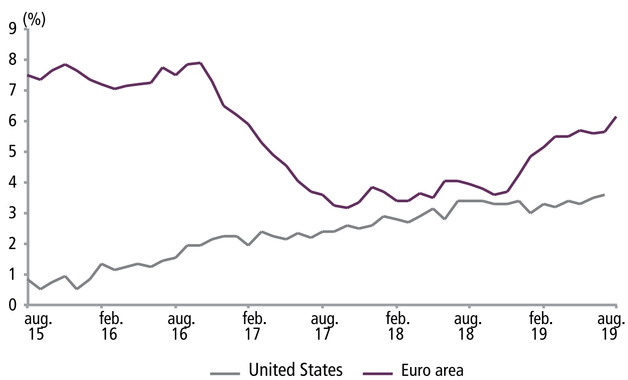
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters.

On the money markets, the 3-month Euribor remained unchanged at -0.4 percent, while the 3-month Libor fell slightly from 2.3 percent in July to 2.2 percent in August. As to the growth rate of bank credit, it increased in the United States to 6.1 percent in August after 5.6 percent, and rose in the euro area to 3.6 percent in July from 3.5 percent in the previous month.

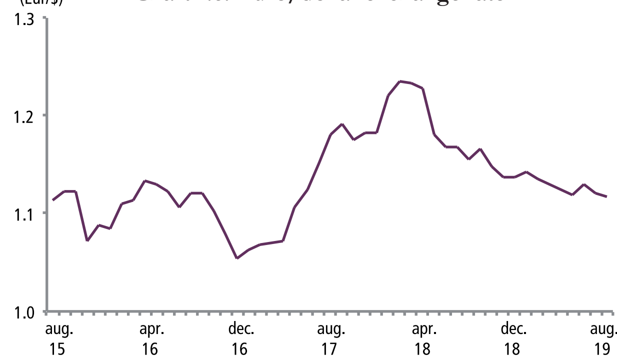
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

In the foreign exchange markets, the euro depreciated by 0.8 percent against the dollar and 2.7 percent against the Japanese yen in August, while it gained 1.7 percent against the pound sterling. Apart from the Turkish lira, which appreciated by 0.2 percent, the currencies of the other main emerging countries all depreciated against the dollar, with rates of 6.5 percent for the Brazilian real, 3.6 percent for the Indian rupee and 2.7 percent for the Chinese yuan. The latter stood at 7.17 yuan/1 dollar on August 28, its lowest level in 11 years.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

With regard to monetary policy decisions, the FED decided, at the end of its meeting on 17-18 September, to reduce the target range for the federal funds' rate by 25 basis points to 1.75 percent-2 percent. It pointed out that this action corroborates the view of its Committee that the most likely developments are a sustained expansion of economic activity, strong labor market conditions and an inflation rate close to the 2-percent target, although the uncertainties surrounding this outlook persist. It also indicated that it will continue to monitor the implications of new developments for the economic outlook and will take the appropriate action to support economic expansion, a strong labor market and an inflation rate close to its target.

Similarly, on 12 September, the ECB decided to reduce the interest rate on the deposit facility by 10 basis points to -0.50 percent and to keep the interest rate on the main refinancing operations and the marginal lending rate unchanged at 0 percent and 0.25 percent, respectively. It expects its key interest rates to remain at their current levels or even below until the inflation outlook converges on a sustainable basis to levels below, but close to, 2 percent over the medium term. With respect to non-standard measures, it decided to restart net purchases under its asset purchase programme (APP) at a monthly rate of 20 billion as from 1 November. It indicated that it will continue to reinvest, in full, the principal repayments made from maturing securities under the APP for an extended period past the date on which it starts raising its key rates and, in any case, for as long as necessary to maintain favorable liquidity conditions. In parallel, it decided to amend the terms of the new series of targeted longer-term refinancing operations (TLTRO III) in order to maintain favorable credit conditions. The interest rate for each operation will now be set at the level of the average rate applied to the main refinancing operations of the Eurosystem on the maturity of each TLTRO. For banks whose net eligible loans exceed a specific threshold, the rate applied in TLTRO III operations will be lower, and may be as low as the average interest rate of the deposit facility in force during the period of the operation. In addition, the maturity of the operations will be extended from two to three years.

As to the Bank of England, it maintained its key interest rate at 0.75 percent on 19 September. It pointed out that the growing uncertainty about the nature of withdrawal from the EU means that the economy might follow a wide range of paths in the coming years. The appropriate monetary policy response will depend on the impact of Brexit on demand, supply and the exchange rate.

In emerging countries, the Reserve Bank of India lowered its key interest rate by 35 basis points to 5.4 percent on 7 August, and indicated that this decision would help alleviate growth concerns by boosting demand. Similarly, the Central Bank of Russia decided on 6 September to lower its key interest rate by 25 basis points to 7 percent, while pointing out that inflation continued to slow down and that economic growth was weaker than expected. The Central Bank of Brazil also decided on 18 September to lower its key interest rate from 6 percent to 5.5 percent, while pointing out that the latest data on economic activity suggest a revival of the economic recovery process and that it will be gradual.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In a context marked mainly by an escalation of the trade dispute between the United States and China and fears of a weakening in global demand, oil prices fell in August, with in particular a drop in Brent prices by 7.4 percent month-on-month and 19 percent year-on-year to 59.3 dollars.

The price of natural gas on the European market increased by 1.6 percent month-on-month, but fell sharply by 54.5 percent year-on-year.

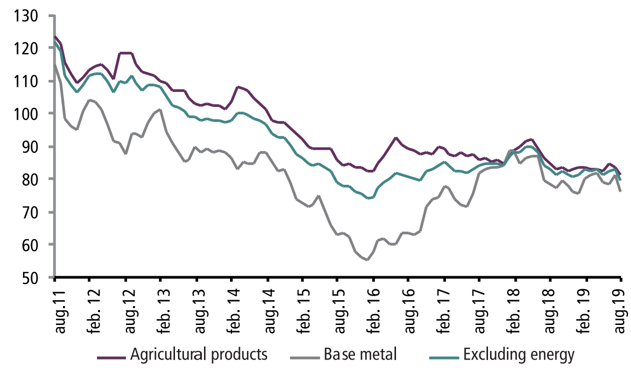
Chart 1.7 : World Brent prices (dollar per barrel)

Source : World Bank.

1.3.2 Non-energy commodity prices

As for non-energy commodity prices, they continued in August their uninterrupted decline since one year, with year-on-year declines of 2.6 percent for metals and ores and 4.5 percent for agricultural products. As to the price of durum wheat in particular, it fell by 7.7 percent month-on-month and by 23.4 percent year-on-year, mainly due to ample supply.

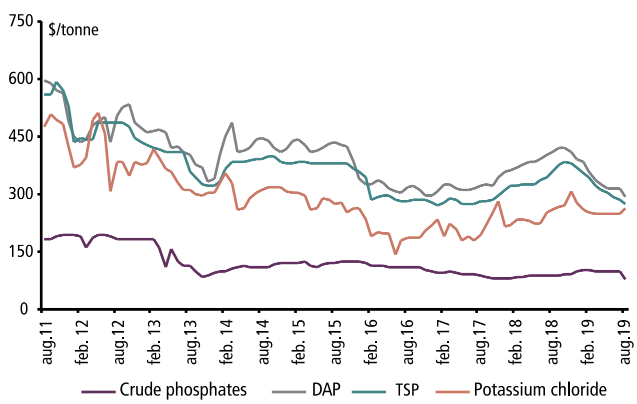
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

In the phosphate and derivatives market, prices fell between July and August by 20 percent to $78/t for raw phosphate, by 7 percent to $292.9/t for DAP and by 3.2 percent to $275/t for TSP. As for urea, its price rose by 6.1 percent to 262.5$/t while that of potassium chloride stagnated at 265.5$/t. Year-on-year, prices fell by 10.9 percent for raw phosphate, 28.4 percent for DAP and 23.2 percent for TSP. On the other hand, they increased by 23.2 percent for potassium chloride and 1 percent for urea.

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



Source: World Bank.

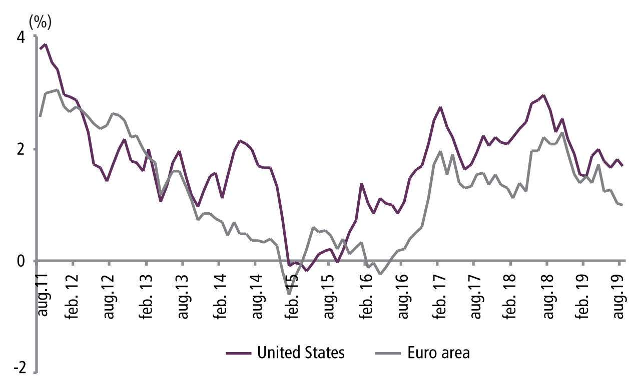
1.3.3 Inflation

In the euro area, inflation remained stable at 1 percent in August, covering decelerations from 1.1 percent to 1 percent in Germany and from 0.6 percent to 0.4 percent in Spain, stagnation at 1.3 percent in France and acceleration from 0.3 percent to 0.5 percent in Italy.

As regards the other main advanced economies, inflation slowed in August from 1.8 percent to 1.7 percent in the United States, from 2.1 percent to 1.7 percent in the United Kingdom and from 0.6 percent to 0.3 percent in Japan.

In emerging countries, inflation stagnated at 2.8 percent in August in China, slowed down from 4.6 percent to 4.3 percent in Russia and rose from 3.2 percent to 3.4 percent in Brazil and from 3.1 percent to 3.2 percent in India.

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



Sources: Eurostat and Thomson Reuters

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

	2017	2018	2019		
			june	july	august
United States	**2.1**	**2.4**	**1.6**	**1.8**	**1.7**
Euro area	**1.5**	**1.8**	**1.3**	**1.0**	**1.0**
Germany	1.7	1.9	1.5	1.1	1.0
France	1.2	2.1	1.4	1.3	1.3
Spain	2.0	1.7	0.6	0.6	0.4
Italy	1.3	1.2	0.8	0.3	0.5
United Kingdom	**2.7**	**2.5**	**2.0**	**2.1**	**1.7**
Japan	**0.5**	**1.0**	**0.7**	**0.6**	**0.3**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

Foreign trade data at end-July 2019 indicate that the trade deficit widened by 5.1 billion dirhams, compared to the same period last year, to 122.8 billion. This trend results from an increase of 10.4 billion or 3.7 percent in imports, higher than that of 5.3 billion or 3.3 percent in exports. The coverage ratio thus fell from 58.1 percent to 57.8 percent.

At the same time, travel receipts gained 5.8 percent, while remittances from Moroccan expatriates fell by 1 percent. In terms of main financial transactions, net FDI inflows dropped by $2.2 billion, while Moroccan investments abroad increased by $3 billion.

Under these conditions and taking into account other items of the balance of payments, Bank Al-Maghrib's net international reserves amounted at end-July 2019 to 231.8 billion dirhams, the equivalent of 5 months of goods and services imports.

2.1 Trade balance

2.1. 1 Exports

The increase in exports mainly reflects the 6.5 percent rise in agricultural and agri-food products to 38.1 billion, with increases of 4.8 percent for the food industry and 8.1 percent for agricultural products. Similarly, sales in the automotive sector increased by 2 percent to 44.3 billion, largely reflecting a 6.2 percent improvement in the wiring business. Construction exports, on the other hand, fell by 4.3 percent to 19.9 billion. Sales of phosphates and derivatives also increased by 3 percent to 30 billion, mainly as a result of a 23.3 percent hike in phosphoric acid exports, with a 17.2 percent increase in its shipments and a 5.2 percent rise in its export price. On the other hand, sales of fertilizers and raw phosphate fell by 2.5 percent and 8.8 percent respectively, mainly due to decreases in quantities.

As for exports in the aeronautics sector, they maintained their momentum with an increase of 11.5 percent to 9.3 billion. Conversely, sales in the textile and leather industry fell by 1.3 percent to 22.6 billion, with declines of 0.7 percent for the ready-made clothing segment, 2.4 percent for hosiery articles and 8.9 percent for shoes.

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

Sectors/Segments	jan.-july 2019	jan.-july 2018	Change	
			In value	In %
Exports	**168 294**	**162 984**	**5 310**	**3.3**
Phosphates and derivatives	**29 998**	**29 136**	**862**	**3.0**
Phosphates	4 173	4 578	-405	-8.8
Natural and chemical fertilizers	16 845	17 274	-429	-2.5
hosphoric acid	8 980	7 284	1 696	23.3
Automobile	**44 311**	**43 448**	**863**	**2.0**
Construction	19 869	20 766	-897	-4.3
Wiring	18 604	17 523	1 081	6.2
Car seats and interiors	2 672	2 546	126	4.9
Agriculture and Agribusiness	**38 066**	**35 730**	**2 336**	**6.5**
Agriculture, forestry, and hunting	16 724	15 464	1 260	8.1
Agri-food industry	20 176	19 244	932	4.8
Textile and leather	**22 610**	**22 907**	**-297**	**-1.3**
Ready-made clothes	14 402	14 508	-106	-0.7
Hosiery items	4 435	4 542	-107	-2.4
Shoes	1 734	1 903	-169	-8.9
Aeronautics	**9 255**	**8 297**	**958**	**11.5**
Assemblage	5 176	4 564	612	13.4
EWIS	4 032	3 692	340	9.2
Electronics	**5 052**	**5 112**	**-60**	**-1.2**
Electronic components	2 804	2 593	211	8.1
Speciality electronics	2 248	2 521	-273	-10.8
Pharmaceutical industry	**750**	**768**	**-18**	**-2.3**
Other mining extraction activities	**2 481**	**2 716**	**-235**	**-8.7**
Others	**15 771**	**14 870**	**901**	**6.1**

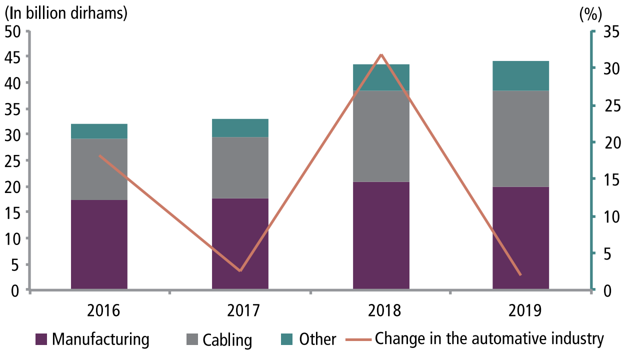
Source: Foreign Exchange Office.

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

	Jan.Jul. 2019/ Jan.Jul. 2018		
	Value	Quantity	Price
Phosphate rock	-8.8	-15.8	8.2
Natural and chemical fertilizers	-2.5	-1.8	-0.7
Phosphoric acid	23.3	17.2	5.2

Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports



Source: Foreign Exchange Office.

2.1.2 Imports

The increase in imports was mainly due to rises of 8.8 percent to 75.2 billion dirhams in capital goods acquisitions, in line with a 5.8 billion dirham rise in purchases of aircraft and other air or space vehicles, and 5 percent to 66.2 billion dirhams in purchases of finished consumer products. Similarly, acquisitions of semi-finished products went up 5 percent, to 62.4 billion. As for the energy bill, it fell by 2.1 percent to 45 billion, mainly reflecting a significant decline in imports of electricity energy and, to a lesser extent, a 1.6 percent decline in purchases of diesel and fuel oil with a 3 percent fall in imported quantities and a 1.5 percent increase in prices. As for the other product groups, food purchases dropped by 1.5 percent to 28.4 billion and gross product purchases by 4 percent, to 13.7 billion.

All in all, the trade deficit widened by 5.1 billion dirhams to 122.8 billion and the coverage ratio stood at 57.8 percent after 58.1 percent.

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

Groups of use	jan.-july 2019	jan.-july 2018	Change In value	Change In %
FOB imports	**291 124**	**280 748**	**10 376**	**3.7**
Energy products	**45 038**	**45 997**	**-959**	**-2.1**
Electric energy	49	1 662	-1 613	-97.1
Gasoil and fuel oil	22 532	22 888	-356	-1.6
Petroleum oil	2 419	2 537	-118	-4.7
Equipment goods	**75 236**	**69 137**	**6 099**	**8.8**
Planes and other air or space vehicles	7 043	1 262	5 781	-
Machines and various devices	7 187	6 166	1 021	16.6
Utility cars	3 683	2 938	745	25.4
Finished consumables	**66 151**	**63 000**	**3 151**	**5.0**
Parts and spare parts of passenger vehicles	10 999	10 351	648	6.3
Synthetic-fiber fabrics and threads	5 193	4 697	496	10.6
Ouvrages divers en matières plastiques	3 577	3 143	434	13.8
Semi-finished products	**62 394**	**59 404**	**2 990**	**5.0**
Semi-finished products of iron or stee	2 323	1 329	994	74.8
Plastic materials	8 478	7 986	492	6.2
Raw products	**13 724**	**14 294**	**-570**	**-4.0**
Raw or refined olive oil	68	308	-240	-77.9
Cobalt ore	155	355	-200	-56.3
Food products	**28 392**	**28 837**	**-445**	**-1.5**
Oil meal	2 985	3 327	-342	-10.3
Dried leguminous vegetables	214	511	-297	-58.1

Source: Foreign Exchange Office.

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

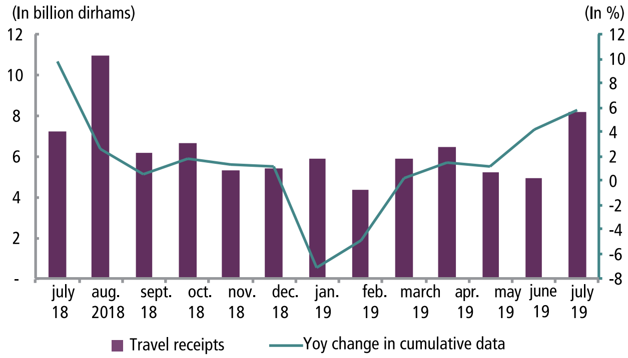
	jan.-july 2019/jan.-july 2018		
	Value	Quantity	Price
Gas oils and fuel oils	-1.6	-3.0	1.5
Petroleum gaz and other fuel	1.5	5.0	-3.3
Electric energy	-97.1	-	-
Coal, coke, and similar solid fuels	15.3	19.2	-3.2

Source: Foreign Exchange Office.

2.2 Other components of the current account

As regards services, exports increased by 2 percent to 101.6 billion, largely reflecting a 5.8 percent increase in travel receipts to 40.9 billion.

Chart 2.2: Change in travel receipts



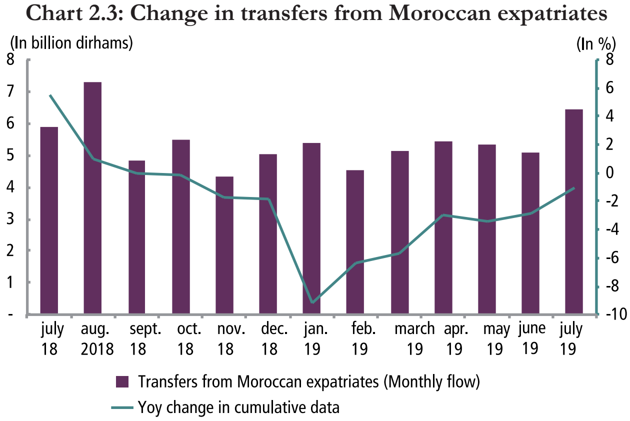
Source: Foreign Exchange Office.

At the same time, imports fell by 5.9 percent to 53.5 billion. In particular, travel expenditure increased by 6.7 percent to 11.4 billion, while transport services expenditure fell by 3 percent to 22.3 billion.

The surplus on the services balance thus amounted to 48.1 billion, up 12.5 percent compared with the same period of the previous year.

Transfers by Moroccan expatriates fell by 1 percent to 37.4 billion dirhams.

Chart 2.3: Change in transfers from Moroccan expatriates



Source: Foreign Exchange Office.

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

	2019	2018	Change	
			In value	In %
Imports	**53 536**	**56 868**	**-3 332**	**-5.9**
Travel	11 435	10 714	721	6.7
Transport service	22 349	23 037	-688	-3.0
Exports	**101 644**	**99 647**	**1 997**	**2.0**
Travel	40 948	38 703	2 245	5.8
Transport service	19 147	19 997	-850	-4.3
Balance	**48 108**	**42 779**	**5 329**	**12.5**

2.3 Financial account

In terms of the main financial transactions, net FDI inflows dropped by 2.1 billion dirhams to 10.5 billion, resulting from a decrease of 963 million dirhams in revenues and an increase of 1.2 billion in sales.

As for Moroccan direct investment outflows, they reached 5.6 billion after 2.7 billion over the same period of the previous year, under the effect of a 3 billion increase in these investments.

Under these conditions, the stock of net international reserves stood at 231.8 billion at end-July 2019, the equivalent of 5 months of goods and services' imports.

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

	jan.-july 2019	jan.-july 2018	Change	
			In value	In %
Foreign direct investments	**10 537**	**12 719**	**-2 182**	**-17.2**
Revenues	19 397	20 360	-963	-4.7
Expenses	8 860	7 641	1 219	16.0
Investments of Moroccans abroad	**5 645**	**2 673**	**2 972**	_
Revenues	994	1 007	-13	-1.3
Expenses	6 639	3 680	2 959	80.4

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

During the second quarter of 2019, monetary conditions were marked by a rise of the effective exchange rate and a decrease in the lending rate. As for lending to the nonfinancial sector, its growth rate stabilized at 3.7 percent, covering an improvement in loans to private companies and households and a decline in loans to public companies. With regard to the other money supply counterparts, the rise in net claims on the central government slowed down from 14.7 percent to 9.8 percent and net international reserves increased by 2.4 percent after falling by 3.1 percent one quarter earlier. Overall, the growth rate of the money supply remained unchanged at 4.2 percent in the second quarter of 2019.

On the real-estate market, asset prices fell again, quarter-on-quarter, by 0.6 percent in the second quarter of 2019. This trend affected all asset categories, with rates of 0.4 percent for residential properties, 0.8 percent for urban land and 1.5 percent for commercial properties. The number of transactions declined by 7.3 percent compared to 12.3 percent in the previous quarter. On the Casablanca stock exchange, the MASI gained 3.4 percent in the second quarter of 2019 after a 4 percent decline, and the trade volume reached 24.2 billion compared to 11.8 billion.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the second quarter of 2019, banks' liquidity needs increased to DH75.1 billion on average per week, as a result of the rise in currency in circulation. Bank Al-Maghrib increased its injections to 76 billion, including 73.3 billion in the form of 7-day advances and 2.7 billion in the form of guaranteed loans under the VSMEs financing program. It also carried out a 24-hour advance transaction for an amount of DH2 billion.

The latest available data indicate that the liquidity deficit widened to 78.6 billion in July and 95.5 billion in August. The volume of injections thus increased to 77.7 billion and then to 97.1 billion during the two months with three 24-hour advances, the largest of which reached 4.8 billion on August 9.

Against this background, the interbank rate remained very close to the key interest rate during the second quarter and in July, before rising to 2.44 percent in August. On the Treasury bill market, rates fell significantly in the second quarter for long maturities in both the primary and secondary markets and remained almost unchanged for all maturities in July and August.

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

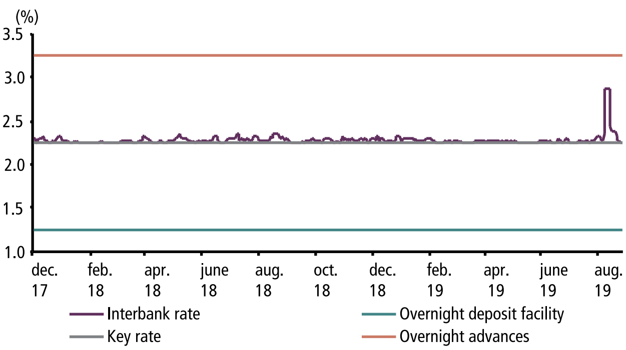
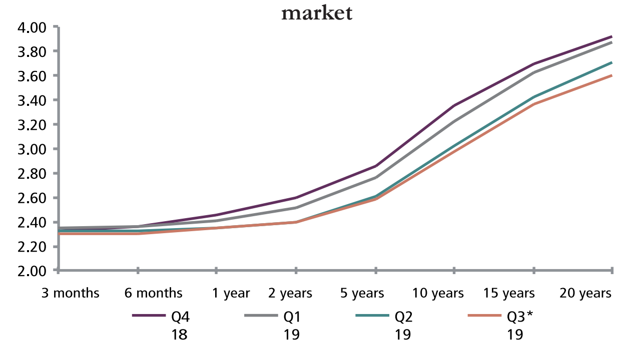


Table 3.1: Change in Treasury bond yields in the primary market

	2017			2018				2019	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	aug.
52 weeks	2.26	2.36	2.29	2.35	2.31	2.42	2.45	2.37	2.31	2.33
2 years	2.41	2.49	2.44	2.53	2.49	2.58	2.60	2.51	2.39	2.38
5 years	2.78	2.83	2.77	2.80	2.77	2.82	2.86	2.77	2.60	2.60
10 years	3.27	3.32	3.28	3.28	3.24	3.28	3.34	3.19	3.02	2.97
15 years	3.87	3.87	3.71	3.68	3.68	3.70	3.74	3.64	3.42	3.40

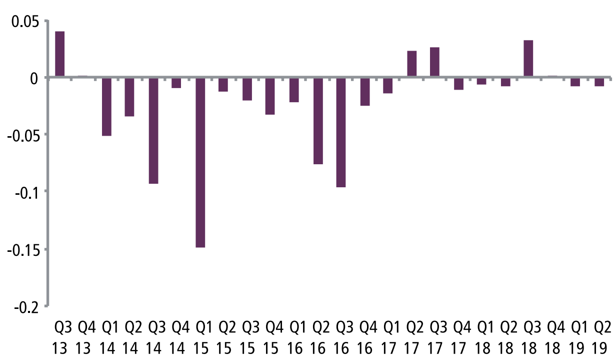
Chart 3.2: Term structure of interest rates in the secondary market



* Observed average in july and august.

On the other markets, the issuance rates of certificates of deposit increased overall in the second quarter of 2019. Borrowing rates decreased by 10 basis points to 2.68 percent for 6-month deposits and by 6 points to 3 percent for 1-year ones. Under these conditions, banks' financing[1] cost remained almost stable in the second half of 2019.

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



With regard to lending rates, the results of Bank Al-Maghrib's survey among banks for Q2-2019 show a 4 basis-points decrease in the overall average rate to 4.98 percent. By institutional sector, interest rates on loans to private companies declined by 7 points which affected all loan categories. By company size, rates declined by 15 basis points for large companies and 33 points for VSMEs. As for rates on loans to individuals, they decreased by 44 basis points, reflecting a fall of 52 points for rates on housing loans and 3 points for consumer loans.

1 Financing cost is calculated as weighted average of bank resources costs

Table 3.2 : Change in lending rates

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Global	**5.25**	**5.17**	**5.10**	**5.09**	**5.02**	**4.98**
Personal loans	**5.93**	**5.92**	**5.9**	**5.83**	**5.78**	**5.34**
Real estate loans	4.93	4.91	4.88	4.89	4.70	4.18
Consumer loans	6.76	6.84	6.61	6.84	6.74	6.71
Loans to businesses	**4.98**	**4.89**	**4.85**	**4.90**	**4.78**	**4.85**
Cash loans	4.96	4.78	4.70	4.81	4.72	4.70
Equipment loans	4.84	4.94	4.86	4.86	4.48	5.07
Real estate loans	5.20	5.72	5.71	5.91	5.59	5.46
individual entrepreneurs	**5.99**	**6.32**	**6.46**	**6.39**	**6.28**	**6.64**

Table 3.3: Deposit rates

	2017			2018				2019	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
6 months	2.8	2.81	2.80	2.79	2.78	2.80	2.71	2.78	2.68
12 months	3.1	3.09	3.10	3.15	3.10	3.07	3.04	3.06	3.00

3.1.2 Exchange rate

During the second quarter of 2019, the euro depreciated by 1.1 percent against the US dollar. Under these conditions, the national currency depreciated by 0.79 percent against the dollar and appreciated by 0.25 percent against the euro. Compared to the currencies of the main emerging countries, the dirham appreciated by 8.7 percent against the Turkish lira, by 3.1 percent against the Brazilian real and by 0.5 percent against the Chinese Yuan. As a result, the effective exchange rate appreciated by 0.4 percent in nominal terms and 0.3 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

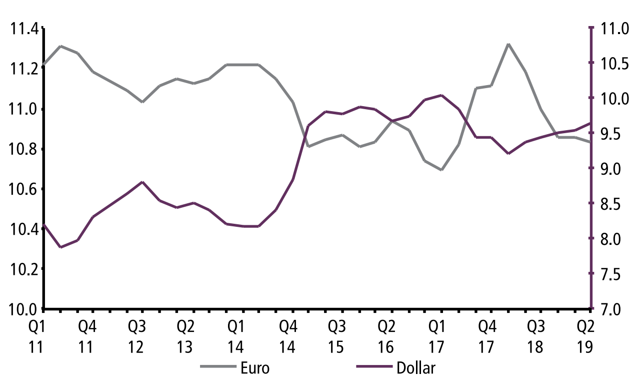
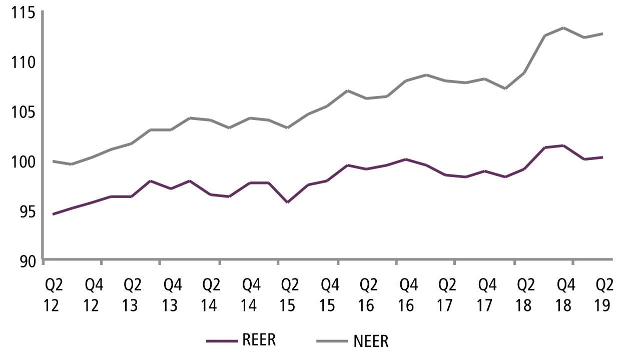


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Sources : BAM and IMF calculations.

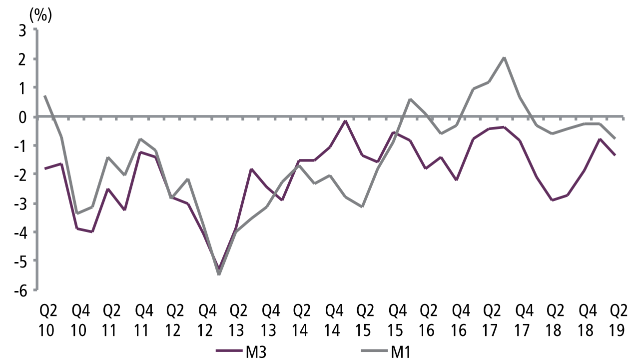
As to foreign currency transactions, the average volume of banks' spot transactions with customers increased in the second quarter of 2019 by 6.6 percent to DH24 billion for sales and by 15.5 percent to DH24.7 billion for purchases. At the same time, forward purchases increased by 26.7 percent to 13.3 billion while forward sales fell by 32.8 percent to 1.6 billion. During this period, Bank Al-Maghrib did not carry out any foreign exchange purchase or sale operation with banks. As a result, banks' net foreign exchange position was negative at DH6.3 billion at end-June 2019, compared with a positive balance of DH4.6 billion at end-March 2019. The latest figures show a negative position of 6.8 billion at end-July before turning positive at 3.5 billion at end-August.

3.1.3 Monetary situation

M3 growth rate remained unchanged at 4.2 percent in the second quarter of 2019. The analysis of the trend's components shows that the growth rate of demand deposits remained stable at 3.4 percent, mainly with a slight acceleration from 3.5 percent to 3.6 percent for household deposits and a slowdown from 2.4 percent to 1.8 percent for private companies' deposits. In parallel, time deposits growth rate decelerated from 4.6 percent to 1.3 percent, mainly as a result of the sharp slowdown in the growth of deposits by public companies from 90.6 percent to 40.5 percent and the 0.4 percent decline, after a 3.3 percent increase, in those of private companies. As regards the other components, the growth rate went up from 7.7 percent to 7.9 percent for currency in circulation and from 1.5 percent to 3.1 percent for foreign currency deposits.

By main counterpart, the change in M3 covers a 2.4 percent increase, after a 3.1 percent decrease, in net international reserves, an acceleration from 4.2 percent to 4.5 percent in bank credit, and a slowdown from 14.7 percent to 9.8 percent in the increase of net claims on the central government.

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



1 The money gap, calculated in real terms, is the difference between the 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

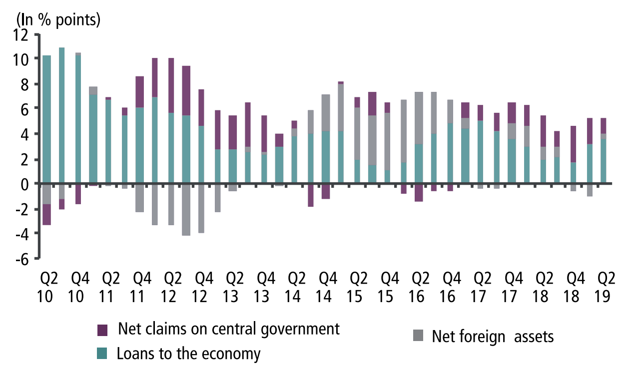
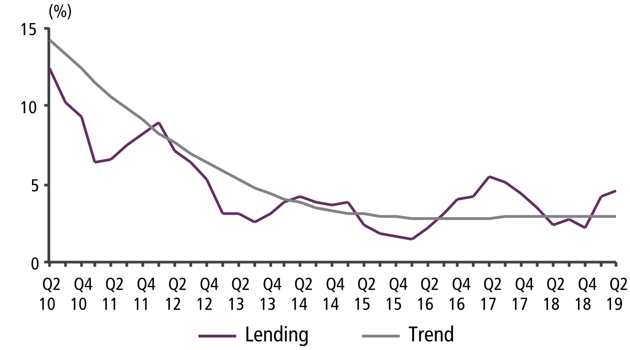


Chart 3.8: YoY change in credit



As for lending to the non-financial sector, its growth rate remained stable at 3.7 percent in the second quarter of 2019. This covers an increase in the growth rate of loans to private companies and households and a decline in lending to public companies after an increase a quarter earlier.

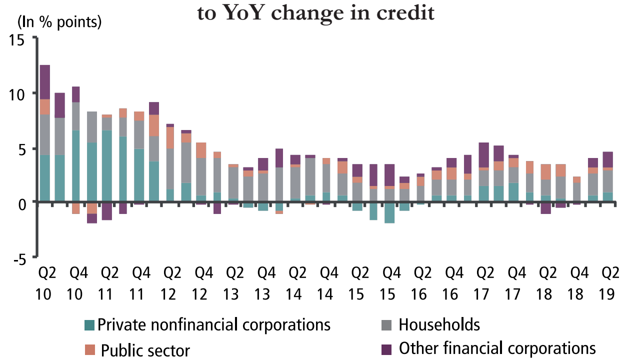
Thus, loans to private companies increased by 2.2 percent after 1.4 percent in the previous quarter, reflecting an increase in cash facilities from 5.6 percent to 5.9 percent, a slower decline in equipment loans from 1.3 percent to 1 percent and an increase in property development loans by 0.6 percent after a decrease of 4.5 percent. In contrast, lending to public companies fell by 1.1 percent after a 4.8 percent increase, reflecting a 1.1 percent decline in equipment loans after a 3.4 percent rise and a slowdown from 17.4 percent to 6 percent in cash facilities.

Loans to individual entrepreneurs increased by 5.8 percent after 3.6 percent. This trend reflects a more rapid growth from 6.3 percent to 12.4 percent in equipment loans. Conversely, the growth rate of cash facilities fell from 17.7 percent to 14.8 percent and loans to property development went down by 14.9 percent after a slight increase of 0.1 percent.

By business sector, the quarterly data for June 2019 show a deceleration in credit growth rate from 4.1 percent to 2.9 percent for the "transport and communication" branch, and decreases of 2.8 percent and 8.1 percent, respectively, in the "food and tobacco industries" and "extractive industries" after increases of 7 percent and 6.9 percent. On the other hand, the decrease of loans to the "construction" and "electricity, gas and water" branches slowed down from 1 percent to 0.5 percent and from 14.7 percent to 13 percent, respectively. In parallel, loans to "trade, car repairs and household goods" and "agriculture and fisheries" increased by 8.1 percent and 15 percent after rises of 4.3 percent and 12.3 percent one quarter earlier.

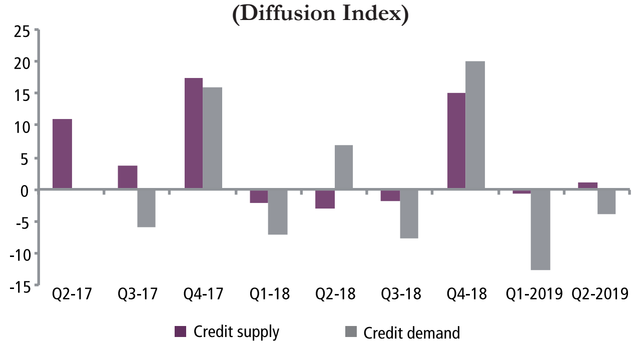
The growth rate of loans to individuals stabilized at 6.1 percent, with mainly a deceleration from 6.3 percent to 5.9 percent for housing loans and from 6 percent to 5 percent for consumer loans.

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



Nonperforming loans increased by 4.8 percent in the second quarter of 2019 and their ratio to bank credit remained unchanged at 7.7 percent. This trend reflects a 12.5 percent increase in the growth of household claims and 1 percent in private nonfinancial corporations' claims.

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

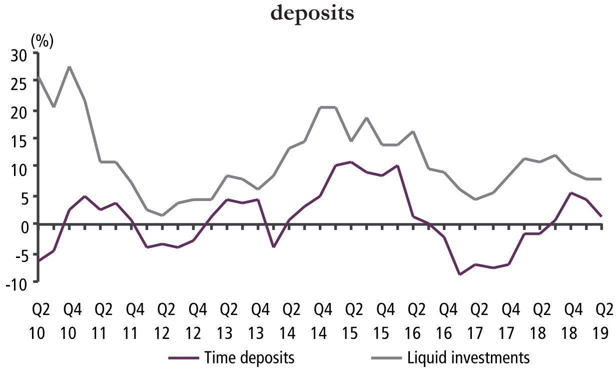


Loans granted by nonbank financial companies to the nonfinancial sector increased by 5.9 percent at end-June. This change reflects increases of 4.9 percent in loans granted by finance companies and 2.3 percent in loans granted by microcredit associations; while those distributed by offshore banks fell by 16.9 percent.

The latest available data for July 2019 show an acceleration in bank credit to 5.1 percent. In particular, the growth rate of lending to the nonfinancial sector stabilized at 3.7 percent, covering a further decline in lending to public companies, a slowdown in lending to households and a more rapid growth of loans to private companies.

As for liquid investment aggregates, their growth rate remained almost stable at 7.9 percent in the second quarter of 2019. This trend includes an acceleration in the growth rate of T-bills from 6.4 percent to 7.2 percent, a deceleration in the growth rate of bond fund securities from 14.2 percent to 11.9 percent, and a further decline in equity and diversified fund securities from 11.1 percent to 11.5 percent.

Chart 3.11: YoY change in liquid investments and time deposits



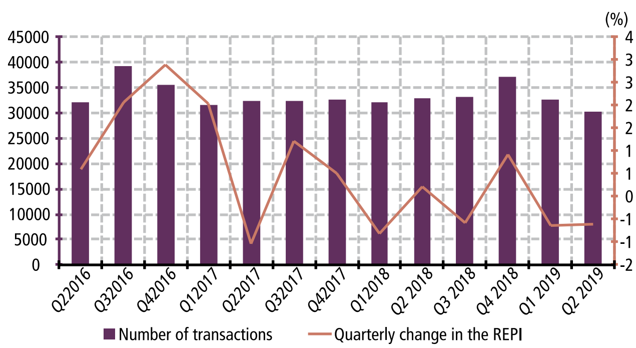
3.2 Asset prices

3.2.1 Real estate assets

In the second quarter of 2019, the price index for real-estate assets posted a further decrease of 0.6 percent. This decline affected all categories of assets, with rates of 0.4 percent for residential properties, 0.8 percent for urban land and 1.5 percent for commercial properties. Similarly, after a quarterly drop of 12.3 percent in Q1-2019, the number of transactions contracted by 7.3 percent, reflecting falls of 3 percent for residential properties, 19.3 percent for urban land and 15 percent for commercial properties.

In the main cities, prices showed quarterly increases of 2.3 percent in El Jadida, 1.4 percent in Casablanca and 1.1 percent in Oujda, while declines ranged from 1.2 percent in Fez and Meknes to 1.9 percent in Tangier. As for the number of transactions, it decreased in most major cities, except in Marrakech and Casablanca where it increased by 7.6 percent and 1.5 percent, respectively.

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



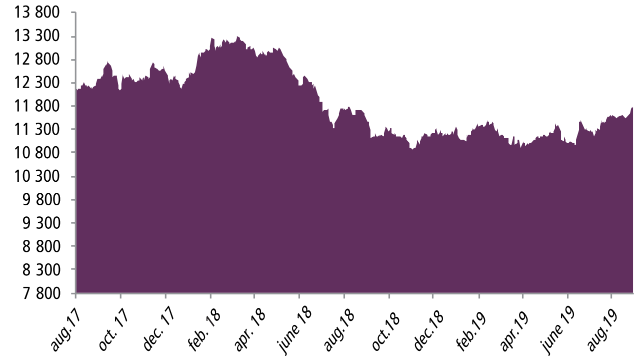
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

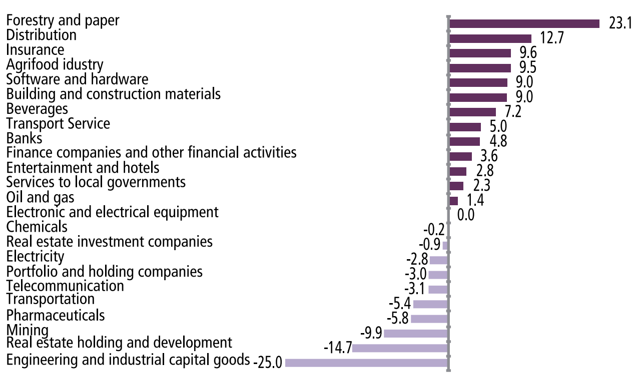
After a 4 percent decrease in the first quarter, the MASI appreciated by 3.4 percent, which brought its underperformance since the beginning of the year to 0.7 percent. This change mainly reflects rises in the sectoral indices of "agri-food" by 9.5 percent, "construction" by 9 percent and "banks" by 4.8 percent. On the other hand, indices of "participation and property development" and "telecommunications" decreased by 14.7 percent and 3.1 percent, respectively.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Change in the sectoral indexes in the second quarter of 2019 (in%)



Source : Casablanca Stock Exchange.

The volume of transactions amounted to DH24.2 billion in the second quarter, after DH11.8 billion a quarter earlier. In the central market, the total amount of trade rose from 5.1 billion to 9.6 billion and the total amount of trade for block transactions went up to 9.2 billion from 3.8 billion. As for capital increases, they amounted to nearly DH5 billion, and they were mainly carried out by the banking sector.

Under these conditions, market capitalization increased by 3.8 percent on a quarterly basis to DH583.1 billion.

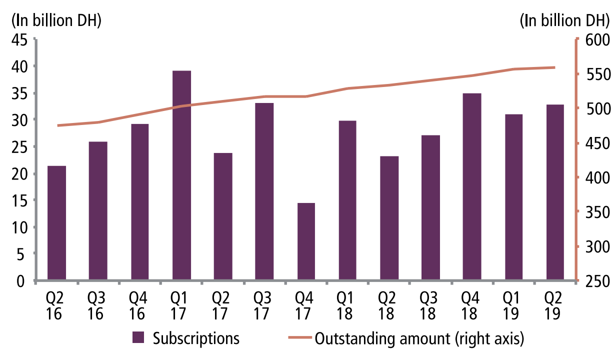
The MASI continued to grow in July and August with rates of 2.9 percent and 0.8 percent, respectively, bringing its year-to-date performance to 3.1 percent. As to the volume of trade, it totaled 11.3 billion during these two months, and market capitalization increased by 3.4 percent compared to end-December 2018, to 601.9 billion.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market amounted to DH32.7 billion in the second quarter, up 1.7 billion on a quarterly basis and 9.5 billion year-on-year. 57 percent of them concerned long maturities and 36 percent medium maturities.

In July and August, Treasury issues reached DH11 billion and 46 percent of them concerned medium maturities while 38 percent of them concerned long maturities. Taking into account redemptions for 3.6 billion, the outstanding amount of T-bills stood at 562.5 billion at end-August, up 3 percent compared to end-December 2018.

Chart 3.15: Change in outstanding Treasury bonds



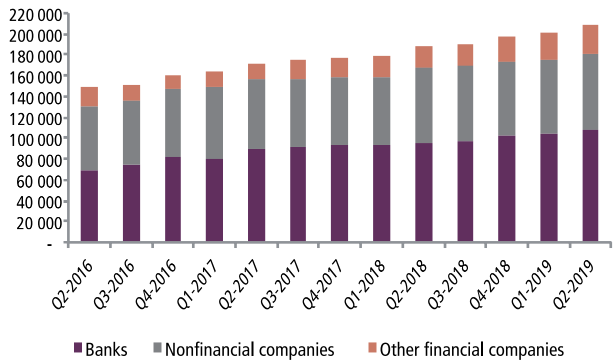
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issues totaled DH 22.2 billion in the second quarter of 2019, compared with DH14 billion in the previous quarter. Bank lending reached 16.1 billion after 10.1 billion and lending by nonfinancial companies increased from 1.7 billion to 3.5 billion.

In July and August, issues totaled 11.2 billion, bringing the total amount issued since the beginning of the year to 47.4 billion, up 6.2 percent compared to the same period of the previous year. Taking into account repayments, outstanding private debt increased by 5.8 percent since the beginning of the year, to DH209.2 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 second quarter of the year, subscriptions to mutual fund securities fell quarter-on-quarter by 25.4 percent to 186.9 billion and redemptions dropped by 19 percent to 193.2 billion. This resulted in a net outflow of 6.3 billion, which concerned "money-market", "diversified" and "bond" funds. Performance reached 4.2 percent for "equity" funds, 1.5 percent for "medium and long-term bond" funds, 0.8 percent for "short-term bond" funds and 0.6 percent for "money market" funds.

Under these circumstances, net assets of mutual funds did not vary significantly from one quarter to the next, standing at 451.2 billion. This stagnation mainly covers increases of 6.9 percent for "equity" funds and 1.1 percent for "medium and long-term bond" funds as well as decreases of 5.7 percent and 0.8 percent, respectively, for "money-market" and "short-term bond" funds.

Data as at August 23 indicate an increase in mutual funds' net assets by 4.8 percent since the beginning of the year to DH 455.9 billion, covering in particular an increase of 12 percent to DH 35.5 billion for "equity" funds, 6.4 percent to DH 259.7 billion for "medium and long-term bond" funds and 4.8 percent to DH 70.7 billion for "short-term bond" funds. The net assets of "money-market" and "diversified" funds fell by 4.1 percent and 1.9 percent to 58.4 billion and 27.3 billion, respectively. This trend is the result of net inflows of 6.9 billion and positive performances in all fund categories, particularly 7.9 percent for "equity" funds.

4. FISCAL POLICY STANCE

At the end of the first eight months of 2019, fiscal execution showed a budget deficit, excluding privatization, of 34.9 billion, up 5.8 billion compared to the same period in 2018. Overall spending increased by 5.4 percent, driven in particular by the rise of spending on goods and services, which reached 118.3 billion, up 6.7 percent, following a 12.3 percent increase in spending on other goods and services and a 3.6 percent rise in payrolls. Similarly, capital expenditure increased by 4.9 percent, with an execution rate of 71.2 percent, whereas subsidy expenses and transfers to local authorities decreased. In contrast, ordinary revenues excluding privatization improved by 3.4 percent, reflecting a 2.2 percent increase in tax revenues and a 21.3 percent rise in nontax revenues.

The stock of expenditure pending payment was reduced by 9.7 billion, bringing the cash deficit, excluding privatization, to 44.6 billion from 34.6 billion at end-August 2018. This requirement was financed by domestic resources with a net amount of 35.3 billion, including 16.3 billion raised on the auction market compared to 22.4 billion a year earlier, privatization income for 4.4 billion and net external financing for 4.8 billion. Under these conditions, direct public debt would have increased by 2.7 percent compared to its level at end-December 2018. As for the Treasury's financing conditions on the auction market, they remain favorable, as the average rates on the primary market were generally lower during the first eight months of 2019 than during the same period in 2018.

4.1 Current receipts

Budget execution in the first eight months of 2019 was marked by an increase of 3.4 percent in current receipts, excluding privatization, compared to the same period in 2018. This trend reflects a rise of 2.2 percent in tax revenues to DH155.2 billion, or an execution rate of 63.1 percent, and a 21.3 percent increase in nontax revenues to DH13 billion.

Direct taxes generated an amount of 61.2 billion, up 5 percent, mainly as a result of the collection of 2 billion in social solidarity contribution on profits[1], the 5.6 percent increase to 29.6 billion in income tax revenue and the 1.8 percent decrease to 28.2 billion in corporate tax revenue. The rise in income tax revenue covers mainly a 16.9 percent drop in proceeds of income tax on real-estate profits, to 2.2 billion, and a 1.7 percent increase, to 5.8 billion, in revenue from income tax on salaries paid by the Personnel Expenditure Department.

Indirect taxes, on the other hand, rose slightly, by 0.7 percent to 76.5 billion, covering a decrease of 1.3 percent to 56.9 billion in VAT receipts and an increase of 7 percent to 19.6 billion in domestic consumer tax (DCT) revenues. The decline in VAT receipts is due to the 8.5 percent drop in domestic VAT receipts, which was only partially offset by the 3 percent increase in import VAT receipts to 37.3 billion. The change in domestic VAT was impacted by the increase in refunds, which reached 7.4 billion against 3.7 billion a year earlier. As for DCT revenues, their rise is mainly due to the increase of 5.8 percent, to 11 billion, in DCT revenues on energy products and of 8.3 percent to 7.4 billion for manufactured tobacco.

1 The social solidarity contribution on profits was introduced by the 2019 Finance Act, is applicable to companies subject to corporate income tax and payable for the years 2019 and 2020.

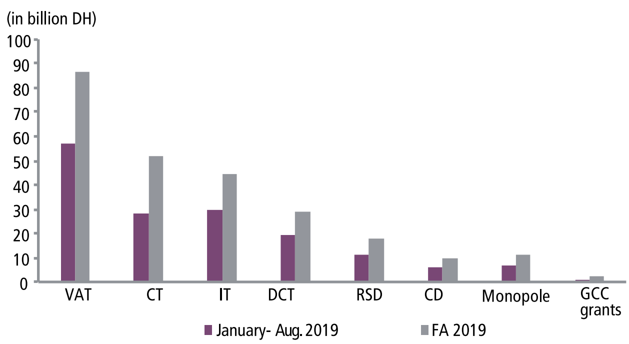
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. aug. 2018	Jan. aug. 2019	Change in %	FA 2019	Achievements against the FA (%)
Current revenues	**164.6**	**170.2**	**3.4**	**268.0**	**63.5**
Tax revenues	**151.9**	**155.2**	**2.2**	**246.0**	**63.1**
- Direct taxes	58.3	61.2	5.0	102.7	59.6
Including CT	28.7	28.2	-1.8	52.0	54.2
I.T	28.0	29.6	5.6	44.6	66.4
- Indirect taxes	75.9	76.5	0.7	115.8	66.0
VAT*	57.6	56.9	-1.3	86.7	65.6
DCT	18.3	19.6	7.0	29.1	67.3
- Customs duties	6.5	6.2	-3.7	9.4	66.2
- Registration and stamp duties	11.1	11.3	1.1	18.0	62.5
Nontax revenues	**10.7**	**13.0**	**21.3**	**18.7**	**69.3**
- Monopoles	5.3	6.7	26.8	11.5	58.3
- Other receipts	5.4	6.3	15.9	7.3	86.7
Including GCC grants	0.7	0.9	29.4	2.0	44.5
TSA revenues	**2.0**	**2.0**	**-0.2**	**3.3**	**59.5**

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

Custom revenues generated 6.2 billion dirhams, down 3.7 percent, while receipts from registration and stamp duties increased by 1.1 percent to 11.3 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

Nontax revenues, excluding privatization, increased by 21.3 percent to 13 billion, due in particular to revenues from debt charges which went from 479 million to 1.8 billion, the receipt of GCC grants for 889 million against 687 million a year earlier and a 26.8 percent increase in revenues of monopolies, to 6.7 billion. Out of this total, DH2 billion came from the OCP, 1.5 billion from Maroc Telecom, 1.3 billion from the ANCFCC (National Land Registry and Mapping Agency) and 711 million from Bank Al-Maghrib. On the other hand, the royalties of the gas pipeline decreased by 42 percent to 699 million.

4.2 Expenditure

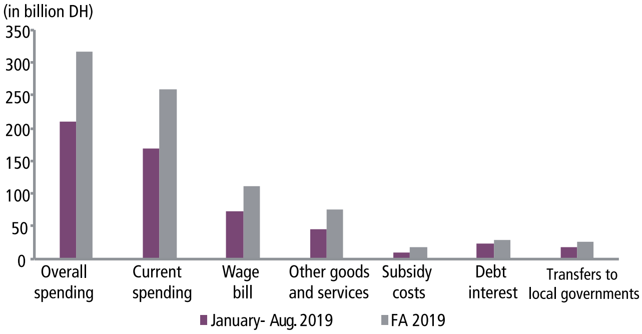
At the end of the first eight months of 2019, current expenditure amounted to 168.8 billion, up 5.5 percent, mainly driven by the rise of 6.7 percent to 118.3 billion in expenditure on goods and services. Spending on other goods and services increased by 12.3 percent to 45.1 billion, covering rises of 14 percent to 17.9 billion in transfers to public institutions and companies, 12.4 percent to 10.9 billion in payments to the Moroccan Pension Fund and 37.5 percent to 2.2 billion in transfers to the Treasury's special accounts. As for the payroll, it increased by 3.6 percent to 73.2 billion, with a 2.3 percent increase in its structural component and 33.7 percent in the back-pays on payrolls provided by the Personnel Expenditure Department.

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

	Jan.-aug. 2018	Jan.-aug. 2019	Change in %	FA 2019	Achievements against the FA (%)
Overall spending	**199.1**	**209.8**	**5.4**	**317.4**	**66.1**
Current spending	**160.0**	**168.8**	**5.5**	**259.8**	**65.0**
Goods and services	110.9	118.3	6.7	186.7	63.4
Personal	70.7	73.2	3.6	112.2	65.2
Other goods and services	40.2	45.1	12.3	74.6	60.5
Debt interests	20.7	23.1	11.8	28.7	80.6
Subsidy	11.2	10.3	-7.6	18.4	56.1
Transfer to local governments	17.3	17.1	-1.3	26.0	65.6
Investment	**39.1**	**41.0**	**4.9**	**57.6**	**71.2**

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

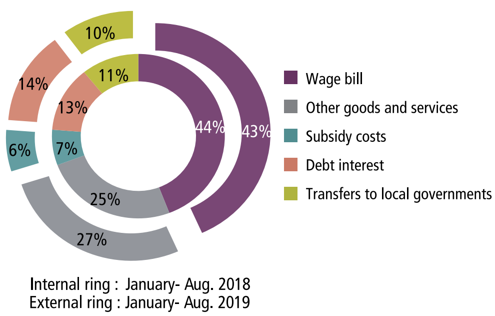
Chart 4.2: Spending execution compared to the FA



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

Debt interest charges, on the other hand, increased by 11.8 percent to 23.1 billion, as a result of the 13.2 percent rise to 20.9 billion in domestic debt interests, while interests on foreign debt stabilized at 2.2 billion.

Chart 4.3: Structure of current spending

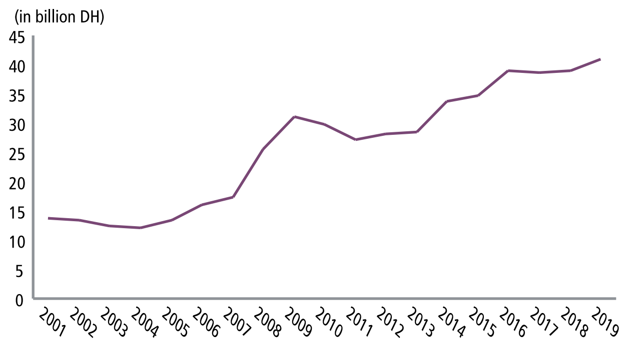


Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

As to the subsidy expense, it went down 7.6 percent to 10.3 billion. Data from the Caisse de compensation (Subsidization Fund), as at end-July 2019, indicate a decrease in the butane subsidy by 10.1 percent to 6 billion and an increase in the sugar subsidy from 1.4 percent to 2.1 billion. The average price of butane gas on the international market decreased by 20.4 percent to $ 414.4 per tonne in the first eight months of the year, and the price of sugar gained 1 percent to $ 294.3 per tonne.

Implemented up to 71.2 percent compared to the initial forecasts, capital expenditure increased by 4.9 percent to 41 billion, with common expenses up 18.6 percent, to 16.7 billion, and Ministries' spending down 1.2 percent, to 23.8 billion.

Chart 4.4: Investment spending, at end-august

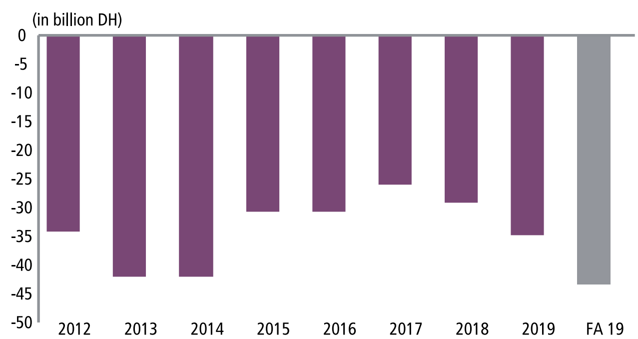


Source : Ministry of Economy and Finance (TEFD).

4.3 Deficit and Treasury Financing

Taking into account a decrease of 11.8 percent, to 4.8 billion, of the surplus in the Treasury's special accounts and the trend in income and expenditure at end-August 2019, budget execution shows a deficit, excluding privatization, of 34.9 billion, down 5.8 billion. In view of the reduction in outstanding expenditure for 9.7 billion, compared to 5.4 billion a year earlier, the Treasury's financing requirement increased by 10.1 billion to 44.6 billion.

Chart 4.5: Fiscal balance, at end-august



Source : Ministry of Economy and Finance (TEFD).

This requirement was financed by domestic resources for a net amount of 35.3 billion, by privatization revenues for 4.4 billion and by net external borrowing for 4.8 billion, while gross external drawings reached 10.1 billion, of which 7.9 billion came from the World Bank.

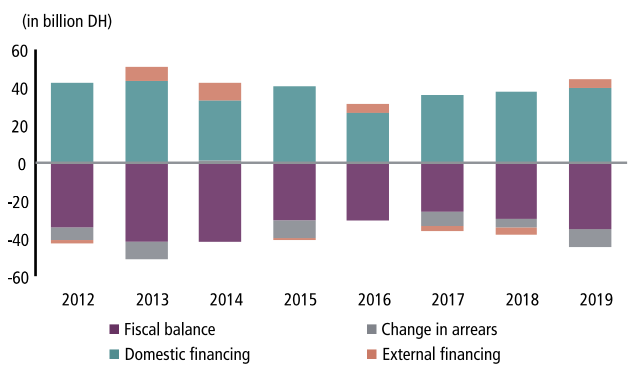
Table 4.3: Deficit financing (in billions of dirhams)

	Jan.-aug. 2018	Jan.-aug. 2019	FA 2019
Current balance	**4.6**	**1.3**	**8.2**
Balance of TSA	5.4	4.8	6.0
Primary balance	-8.4	-11.8	-14.7
Fiscal balance	**-29.1**	**-34.9**	**-43.4**
Change in arrears	-5.4	-9.7	0.0
Financing requirements	**-34.6**	**-44.6**	**-43.4**
Domestic financing	37.6	35.3	19.9
External financing	-3.0	4.8	18.5
Privatization	0.0	4.4	5.0

Source : Ministry of Economy and Finance (TEFD).

As to domestic financing, the amounts raised by the Treasury on the auction market amounted to 16.3 billion, instead of 22.4 billion a year earlier. Net subscriptions were mainly made in long-term maturities, namely 15-year and 10-year bills for 10.4 billion for each category, 20-year bonds for 5.1 billion and 5-year bills for 3.2 billion. As to net repayments, they concerned 2-year bills for an amount of 7.9 billion and 52-week bills for DH6.2 billion.

Chart 4.6: Fiscal balance and financing , at end-august*
In billion dirhams



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

Concerning the Treasury's financing conditions on the auction market, they remained favorable in the first eight months of 2019, as reflected in the decline of the weighted average rates (WAR). The declines observed reached 22 basis points (bps) for 20-year maturities, 21 bps for 10-year maturities, 19 bps for 15-year bonds and 13 bps for 5-year ones. Similarly, the weighted average rates on 2-year bills and 52-week bills decreased by 11 bps and 2 bps, respectively.

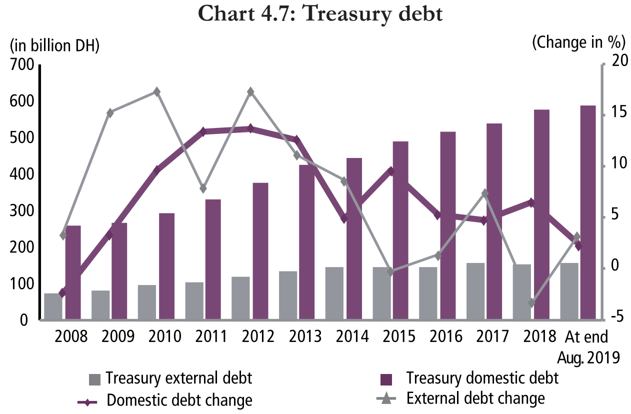
Table 4.4: Change in the Treasury debt (in billions of dirhams)

	2014	2015	2016	2017	2018	At end aug. 2019
Treasury external debt	**141.1**	**140.8**	**142.8**	**153.2**	**148.1**	**152.9**
Change in %	8.7	-0.2	1.4	7.3	-3.4	3.3
Treasury domestic debt	**445.5**	**488.4**	**514.7**	**539.1**	**574.6**	**589.2**
Change in %	5.0	9.6	5.4	4.8	6.6	2.5
Outstanding direct debt	**586.6**	**629.2**	**657.5**	**692.3**	**722.7**	**742.1**
Change in %	5.8	7.3	4.5	5.3	4.4	2.7

Source : Ministry of Economy and Finance (TEFD).
Concerning debt at end-august 2019, estimates are based on the flows of debt-generating net finance flows.

As to direct public debt, estimates based on financing flows show an increase of 2.7 percent at end-August 2019 overall, 2.5 percent for its domestic component and 3.3 percent for the external one.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

The latest national accounts data for the first quarter of 2019 show a deceleration in economic growth to 2.8 percent compared to 3.5 percent a year ago. Agricultural value added fell by 3.2 percent against a 4 percent increase, while the growth rate of nonagricultural activities accelerated from 3.3 percent to 3.8 percent. As for demand, its domestic component contributed 3.6 percentage points to growth, while the contribution of net exports was negative, with 0.8 percentage points.

In view of the latest infra-annual data available, activity would have continued to decelerate in the second and third quarters compared to the same period in 2018, with a rate of about 2.6 percent, mainly reflecting a 5.1 percent decline in agricultural value added. Nonagricultural activities, on the other hand, would have improved by 3.6 percent over the same period, after 2.4 percent a year earlier. On the other hand, demand forecasts show an acceleration in household and general government's consumption in the second and third quarters from 3.3 percent to 3.6 percent and from 2 percent to 2.8 percent, respectively. On the other hand, investment is expected to slow from 6.8 percent to 3.5 percent and net foreign demand is forecast to contribute negatively to growth.

In the labor market, job creation was limited to 7 thousand jobs between the second quarters of 2018 and 2019 compared to 117 thousand a year earlier. By sector, agriculture witnessed a significant loss, while nonagricultural activities posted a significant increase, concentrated in the tertiary sector. Taking into account a net outflow of 70 thousand jobseekers, the unemployment rate fell from 9.1 percent to 8.5 percent at the national level and from 13.7 percent to 12.4 percent in the cities. Concerning labor costs, the latest available data for the second quarter of 2019 show an annual increase in the private sector's wage index, by 1.8 percent, after 0.6 percent, in nominal terms and 1.6 percent, against a decrease of 2 percent, in real terms.

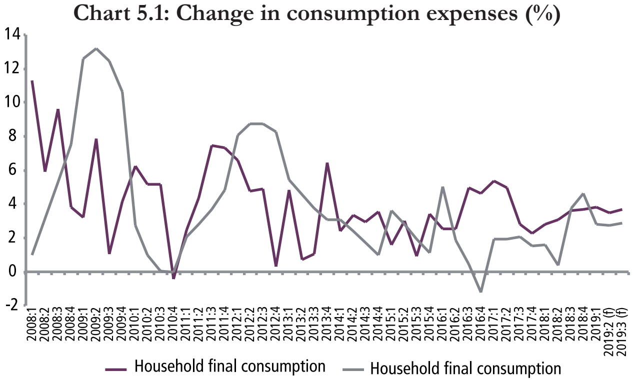
5.1 Domestic demand

5.1.1 Consumption

In the first quarter of 2019, national accounts data show an acceleration in household consumption from 2.8 percent to 3.8 percent, compared to the same period in 2018. Its contribution to growth increased from 1.6 percentage points to 2.2 percentage points.

In the second and third quarters, taking into account wage increases in both public and private sectors, the growth rate of household consumption is expected to reach 3.6 percent on average, contributing 2.1 percentage points to growth.

Chart 5.1: Change in consumption expenses (%)



Sources: HCP, and BAM forecasts.

General government's final consumption increased by 2.8 percent in the first quarter instead of 1.6 percent, bringing its contribution to growth to 0.6 percentage points compared to 0.3 points in the same period a year earlier.

During the second and third quarters, this component would maintain almost the same rate observed in the first quarter, as evidenced by data on operating expenses at end- July.

5.1.2 Investment

In the first quarter, revised HCP data show a slowdown in investment to 2.6 percent from 9 percent a year earlier. As a result, its contribution to growth fell from 2.8 percentage points to 0.8 percentage points.

Recent changes in sub-annual indicators suggest that investment will increase in the second and third quarters by 3.5 percent against 6.8 percent a year earlier. Real estate loans slowed down from 4 percent to 3 percent at end-July and the number of transactions fell by 8 percent overall, by 4.4 percent for residential properties and by 10.5 percent for commercial properties. On the other hand, imports of capital goods accelerated to 8.8 percent at end-July. In addition, the results of Bank Al-Maghrib's quarterly survey for the second quarter indicate that the business climate was described as "normal" by the majority of the industrialists surveyed.

5.2 Foreign demand

In the first quarter of 2019, net exports of goods and services continued to contribute negatively to growth, with around 0.8 percentage points, compared with 1.2 points in the same period of the previous year. Exports of goods and services decelerated sharply from 7.4 percent to 1.7 percent and imports slowed down from 8.4 percent to 3 percent.

In the second and third quarters of 2019, the weakening of global demand and activity in partner countries point to a deceleration in the rate of exports, mainly due to slowing sales of phosphates and derivatives as well as those of the automotive sector. Similarly, imports are expected to continue to decelerate, mainly as a result of the decline in the energy bill. Against this background, the contribution of external demand to growth is projected to remain negative.

5.3 Overall supply

In the first quarter of 2019, economic growth decelerated to 2.8 percent from 3.5 percent a year earlier. This slowdown is attributable to the 3.2 percent drop in agricultural value added after a 4 percent rise, while nonagricultural activities gained 3.8 percent after 3.3 percent, mainly due to the good performance of the "Electricity and Water" branch, the processing industry and trade.

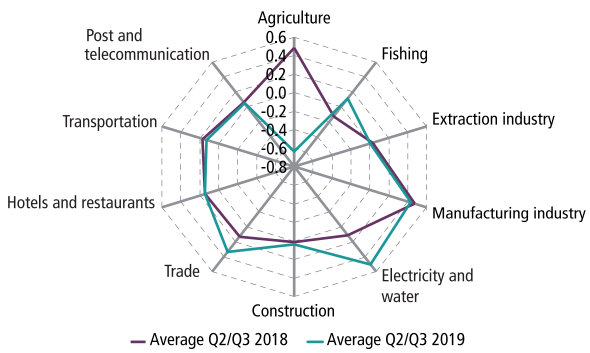
In the second and third quarters of 2019, the pace of national activity is expected to continue to decelerate, with an average growth of 2.6 percent after 2.8 percent a year earlier. Agricultural value added is expected to decline by 5.1 percent after an increase of 4.2 percent, while nonagricultural activities are projected to rise by 3.6 percent instead of 2.4 percent.

Chart 5.2: GDP per component
at prices of the previous year, yoy change in %

Sources: HCP data, and BAM forecasts.

By sector, value added growth in the secondary sector should accelerate from 2.4 percent to 3.6 percent. This situation would notably reflect a rebound of 18.8 percent after 4.3 percent in the "Electricity and Water" branch following the commissioning of the thermal power plant of Safi. Similarly, although its pace is still slow, construction activity would have increased slightly by 0.7 percent instead of 0.2 percent. On the other hand, the growth of processing and extractive industries would have slowed down from 3.1 percent to 2.6 percent and from 1.6 percent to 0.3 percent, respectively.

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



Sources: HCP data, and BAM forecasts.

As regards tertiary activities, their value added would have increased by 3.4 percent after 2.6 percent. This dynamism would be attributable in particular to the good performance of the general government, education and the trade sector, with growth rates of 2.5 percent and 4 percent, respectively, instead of 1.2 percent and 1.7 percent. On the other hand, the "hotels and restaurants" branch would have slowed from 5.9 percent to 5.2 percent, transport services from 4.5 percent to 3.1 percent and postal and telecommunications services from 2.9 percent to 2.3 percent.

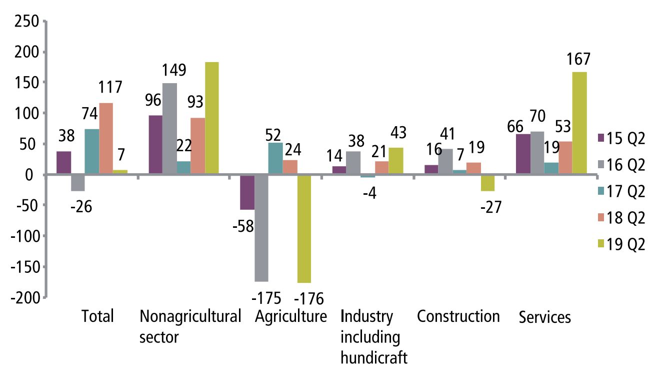
5.4 Labor market and output capacity

5.4.1 Activity and employment

In the second quarter of 2019, the labor market was characterized by a 0.6 percent decline in the number of people aged 15 and over to 12.1 million compared to the same quarter of 2018. This trend covers an increase of 0.7 percent in urban areas and a decline of 2.2 percent in rural ones. Taking into account a 1.6 percent rise in the working-age population, the participation rate maintained its downward trend, falling from 47 percent to 46 percent at national level, from 41.6 percent to 40.9 percent in cities and from 56.7 percent to 55.3 percent in rural areas.

At the same time, job creation was limited to 7 thousand jobs, compared with 117 thousand in the same period last year. The employed labor force increased by 0.1 percent to 11.08 million people. This low creation is the result of a significant loss of 176 thousand jobs in agriculture which almost offset the increase of 183 thousand in nonagricultural activities. By sector of activity, services generated 167 thousand jobs, including 33 thousand in "nonstore retail trade", 31 thousand in "personal and domestic services", 26 in "transport, warehouses and communication" and 22 thousand in "restaurants and hotels". As to industry, including the handicraft sector, it created 43 thousand jobs, while the construction industry lost 27 thousand jobs.

Chart 5.4: Job creation by sector (in thousands)



Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force decreased by 7 percent to nearly 1.03 million people and the unemployment rate dropped from 9.1 percent to 8.5 percent nationally and from 13.7 percent to 12.4 percent in cities. For young people aged 15 to 24 in particular, this rate fell by 0.8 points to 22.3 percent nationally and by 2.4 points to 38.1 percent in cities.

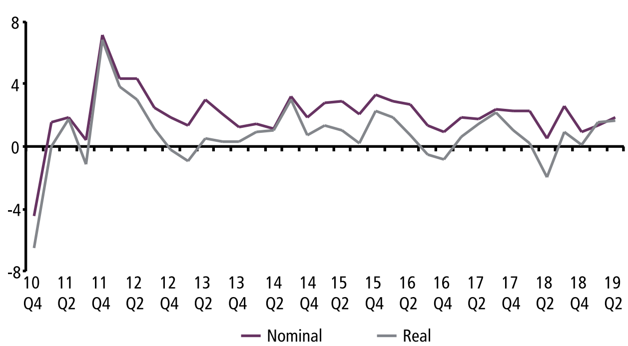
In parallel with the decrease in unemployment, underemployment[1] fell from 9.6 percent to 9 percent at the national level, from 8.7 percent to 7.8 percent in urban areas and from 10.6 percent to 10.5 percent in rural ones.

5.4.3 Productivity and wages

In nonagricultural activities, the apparent labor productivity would have improved by 0.9 percent in the second quarter of 2019, after 0.7 percent a year earlier, reflecting an increase of 3.5 percent, instead of 2.1 percent, in the value added and 2.6 percent, against 1.4 percent, in the number of employees.

The average wage, calculated based on CNSS data, increased by 1.8 percent year-on-year in the second quarter of 2019, after 0.6 percent in the same period of the previous year in nominal terms and by 1.6 percent against a decline of 2 percent in real terms.

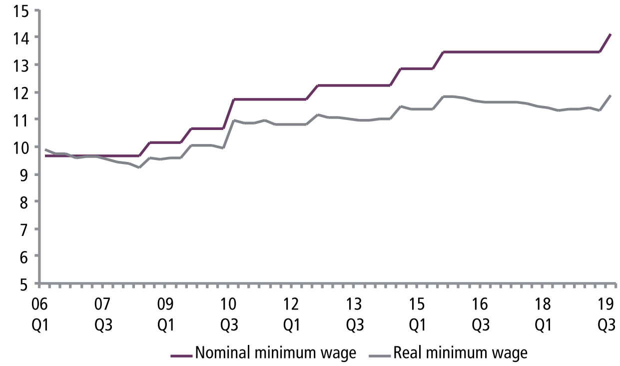
Chart 5.5: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The hourly guaranteed minimum industrial wage was still DH13.46 in nominal terms in the second quarter of 2019. Taking into account a 0.2 percent increase in the consumer price index, it decreased in real terms by 0.2 percent but is expected to go up by 4.4 percent in the third quarter as a result of its rise to DH14.13/h in July 2019.

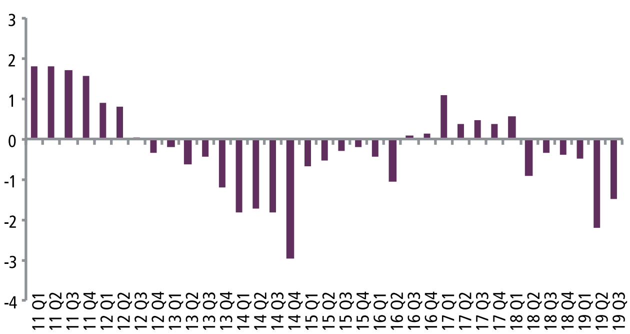
Chart 5.6: Hourly minimum wages in nominal and real terms (in DH)



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

Under these conditions, the output-gap would remain negative during the second and third quarters of 2019.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates.

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

Table 5.1 : Labor market main indicators

		Q2 2018	Q2 2019
Participation rate (%)		**47.0**	**46.0**
Urban		41.6	40.9
Rural		56.7	55.3
Unemployment rate (%)		**9.1**	**8.5**
Youth aged between 15 and 24 years old		23.1	22.3
Urban		13.7	12.4
Youth aged between 15 and 24 years old		40.5	38.1
Rural		3.0	3.3
Job creation (in thousands)		117	7
Urban		75	132
Rural		42	-125
Sectors			
- Agriculture		24	-176
- Industry including handicraft		21	43
- Construction		19	-27
- Services		53	167
Nonagricultural apparent productivity (change in %)		**0.7**	**0.9**
Average wage index (change in %)	**Nominal**	**0.6**	**1.8**
	Real	**-2.0**	**1.6**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

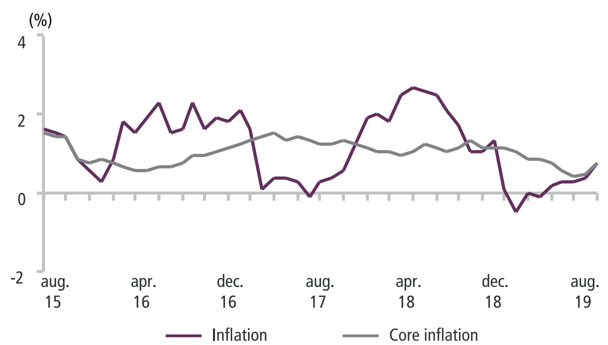
In the second quarter of 2019, inflation accelerated slightly, thus starting its uptrend as forecast in the last Monetary Policy Report. After a fall of 0.2 percent year-on-year in the first quarter, the consumer price index gained 0.2 percent in the second quarter and 0.5 percent on average in July and August, driven by the rise in volatile food prices. The latter increased by 0.5 percent over the last two months after a decline of 2.2 percent on average a quarter earlier. Prices of regulated products rose by 1.6 percent, a rate almost similar to that observed in the previous quarter. Core inflation declined from 0.9 percent in the first quarter to 0.6 percent in the second, a pace that remained unchanged on average over the past two months, in line with the moderate increase in international prices and the weak demand-driven pressures. On the other hand, fuel and lubricant prices fell by 2.7 percent instead of 0.8 percent in the second quarter, under the impact of the decline in international prices of oil products.

In the short term, inflation is expected to rise again but would remain low, at around 0.6 percent in the third quarter, while its underlying component is projected to stabilize compared to the previous quarter.

6.1 Inflation trends

Having remained low in the first half of the year, inflation reached 0.3 percent in July and accelerated to 0.8 percent in August, bringing its average to 0.2 percent over the first eight months of 2019. This acceleration is mainly due to its volatile food component, the prices of which rose by 0.5 percent on average in July and August instead of a decline of 2.2 percent in the second quarter. Core inflation reached 0.6 percent, unchanged from the second quarter, and the growth of regulated product prices was virtually unchanged over the same period, at 1.6 percent. In contrast, fuel and lubricant prices fell by 2.7 percent compared to 0.8 percent in the second quarter.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

6.1.1. Prices of excluded products from core inflation

The easing of the decline in volatile food prices that began in April continued until July before a first increase in August. These prices rose by 0.5 percent on average in July and August, after falling by 2.2 percent in the second quarter.

This trend is mainly due to the increase of 12.6 percent in fresh vegetable prices, after 7.1 percent, and of 2.9 percent in fresh fish prices, instead of a 2 percent decline, as well as to the decrease in fresh fruit prices from 10.8 percent to 3.4 percent.

In short, the contribution of volatile food prices to inflation averaged zero in July and August, compared with -0.6 points in the first six months of 2019.

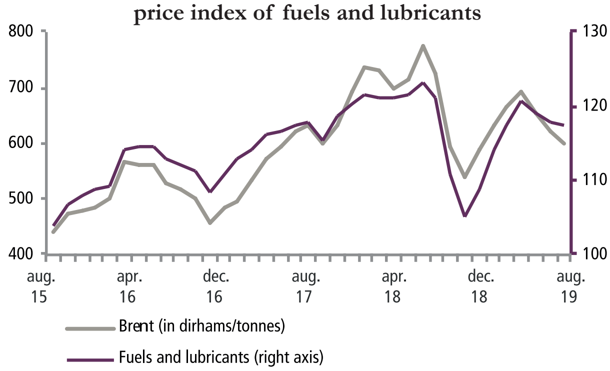
Table 6.1: Change in inflation and its components

(In %)	MoM			YoY		
	june 19	july 19	aug. 19	june 19	july 19	aug. 19
Headline inflation	**0.2**	**-0.8**	**0.3**	**0.2**	**0.3**	**0.8**
- Volatile food prices	1.3	-5.9	1.3	-1.1	-0.7	1.7
- Fuels and lubricants	-1.2	-1.0	-0.3	-1.8	-2.6	-2.9
- Administered prices	0.1	0.0	0.1	1.5	1.5	1.6
Core inflation	**0.2**	**0.1**	**0.3**	**0.4**	**0.5**	**0.8**
- Food products	-0.2	-0.2	0.6	-1.2	-1.0	-0.6
- Clothing and footwear	-0.1	0.0	0.2	0.7	0.9	1.0
- Housing, water, gas, electricity and other fuels[1]	0.1	0.3	0.3	1.8	1.8	1.8
- Furnishings, household equipment and routine house maintenance	0.1	-0.2	0.3	1.4	0.8	1.2
- Health[1]	0.9	0.1	0.4	3.7	3.8	4.2
- Transportation[2]	0.3	0.2	0.6	0.4	0.6	1.1
- Communication	0.0	0.2	0.0	0.3	0.8	0.8
- Entertainment and culture[1]	0.2	0.2	0.1	1.8	2.0	1.9
- Education	0.0	0.0	0.0	3.4	3.4	3.4
- Restaurants and hotels	0.3	0.1	0.3	0.8	0.7	1.2
- Miscellaneous goods and services [1]	0.1	0.1	0.1	0.7	0.7	0.7

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

Prices of fuel and lubricants fell by 2.7 percent on average in July and August after a 0.8 percent drop in the second quarter, in line with the decline in international oil prices. The price of Brent dropped to 59.3$/bl in August after the peak of 71$/bl observed last April.

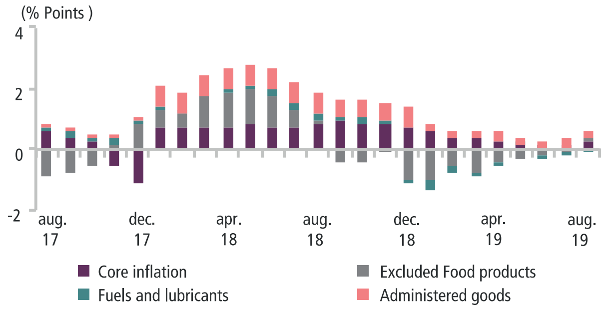
Chart 6.2: Change in international prices of Brent and the price index of fuels and lubricants



Sources: World Bank, HCP, and BAM calculations.

Prices of regulated products increased at a virtually unchanged rate of 1.6 percent during the same period, thus maintaining their contribution to inflation at 0.3 percentage points since the beginning of the year instead of 0.7 points on average a year earlier.

Chart 6.3: Contribution of the prices of major CPI items to inflation, YoY



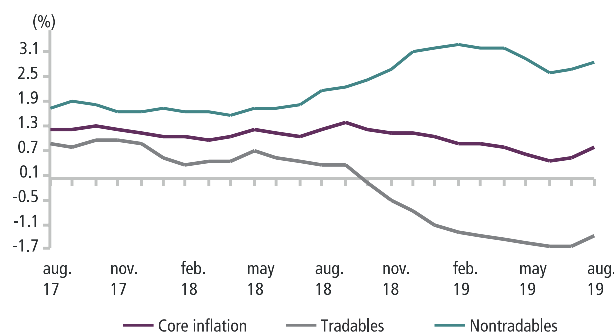
Sources: HCP, and BAM calculations.

6.1.2. Core inflation

After an average rate of 0.9 percent in the first quarter, core inflation fell to 0.6 percent between April and August.

Moreover, the breakdown of the basket of core inflation indicator into tradable and non-tradable goods indicates that its slowdown, since the beginning of the second quarter, reflects the combined effect of a deceleration in non-tradable products' inflation and a bigger decline in tradable products' inflation.

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



Sources: HCP, and BAM calculations.

Prices of tradable goods fell by 1.6 percent on average between April and August, compared with 1.3 percent in the first quarter, keeping their contribution to core inflation at -0.8 percentage points.

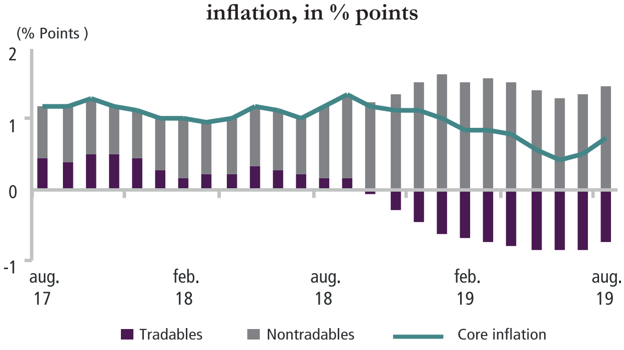
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	june 19	july 19	aug. 19	june 19	july 19	aug. 19
Tradables	-0.1	-0.1	0.1	-1.7	-1.7	-1.4
Nontradables	0.1	0.0	0.6	2.6	2.7	2.8
Core inflation	0.2	0.1	0.3	0.4	0.5	0.8

Sources: HCP, and BAM calculations.

As to non-tradable goods, their prices increased by 2.7 percent on average since April, compared with 3.3 percent in the first quarter. Their contribution to core inflation reached 1.4 percentage points between April and August, compared to 1.6 percentage points in the first quarter.

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



Sources: HCP, and BAM calculations.

6.2 Short-term outlook for inflation

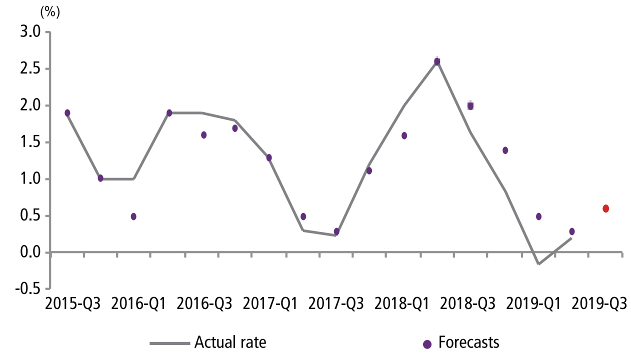
Inflation is expected to increase slightly to around 0.6 percent in the third quarter of 2019 compared to 0.2 percent a quarter earlier. This acceleration would reflect the expected 0.3 percent increase in the prices of volatile food products after three successive quarters of decline. Over the next three months, the prices of some of them are expected to rise significantly, namely fresh vegetables and poultry and rabbit, thus contributing, combined with the expected drop in the prices of other commodities particularly citrus fruits, to the rise in inflation. Inflation is expected to increase slightly to around 0.6 percent in the third quarter of 2019 compared to 0.2 percent a quarter earlier. This acceleration would reflect the expected 0.3 percent increase in the prices of volatile food products after three successive quarters of decline. Over the next three months, the prices of some of them are expected to rise significantly, namely fresh vegetables and poultry and rabbit, thus contributing, combined with the expected drop in the prices of other commodities particularly citrus fruits, to the rise in inflation.

On the other hand, fuel and lubricant prices are expected to decline further by 2.7 percent in the third quarter after 0.8 percent in the second quarter, impacted by the projected decline in international oil product prices.

In the absence of related government decisions, prices of regulated products would change at the same rate observed since the beginning of the year, at 1.5 percent.

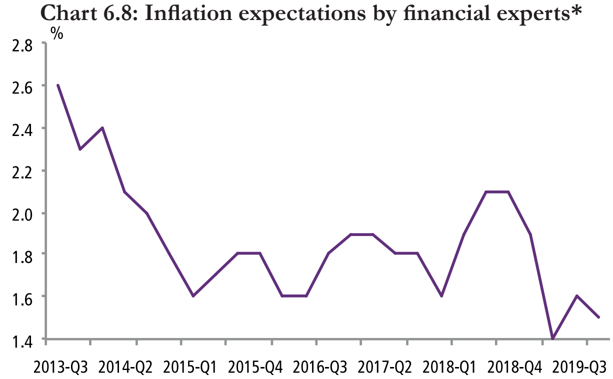
Core inflation, which reflects the underlying price trend, is expected to gradually accelerate and would reach 0.6 percent in the third quarter of 2019, reflecting the projected absorption of the base effect observed for the food commodity prices included in it.

Chart 6.6: Inflation short-term forecasts and actual rates



Source: BAM.

Chart 6.8: Inflation expectations by financial experts*

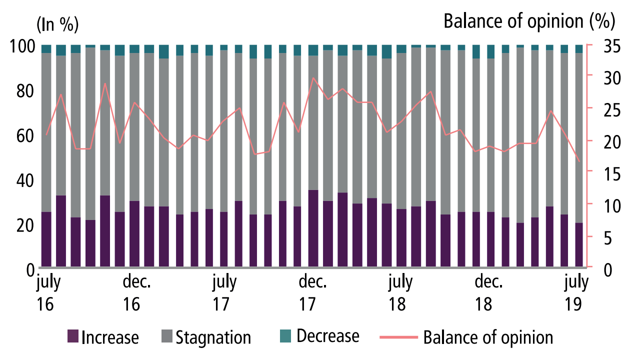


Source: BAM's quarterly survey on inflation expectations by financial experts.
* From the second quarter of 2016, the expectation horizon increased from 6 to 8 quarters.

6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey in the industrial sectory, for July 2019, indicate a stagnation in the proportion of manufacturers expecting inflation to rise over the next three months to 20 percent. The percentage of manufacturers expecting inflation to stagnate remains high, at 77 percent, while only 3 percent anticipate a decline.

Chart 6.7: Three-month inflation expectations by corporate managers

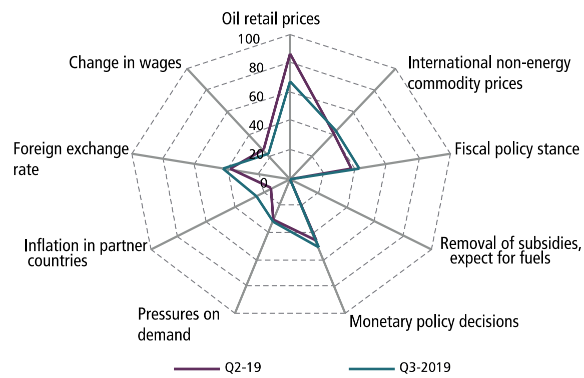


Source: BAM's monthly business survey.

On the other hand, the results of Bank Al-Maghrib's survey of inflation expectations for the third quarter of 2019 indicate that financial experts expect inflation to stand at 1.5 percent over the next eight quarters as against 1.6 percent in the previous quarter.

They consider that pump price trends, monetary policy decisions and the exchange rate are the main determining factors of future inflation trends.

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



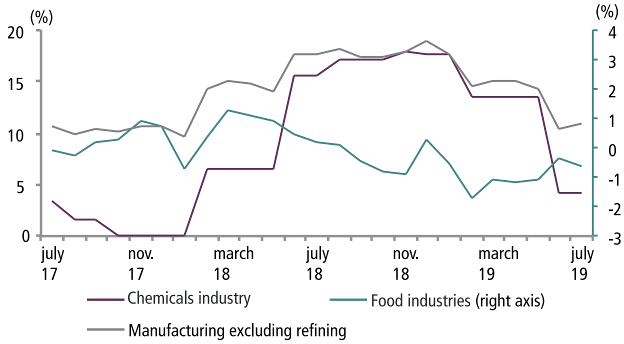
Source: BAM's Quarterly Survey on Inflation Expectations.

6.4 Producer prices

The rise of producer prices in non-refining manufacturing industries fell from an average 1.6 percent in the second quarter to 0.8 percent in July, bringing their average increase in the first seven months of 2019 to 1.9 percent, from 2.6 percent in 2018. Their trend is attributable to the sharp deceleration in the increase of producer prices in the chemical industry to 4.3 percent in July from

10.2 percent a quarter earlier. On the other hand, producer prices in the food industries dropped to 0.6 percent compared to 0.9 percent on average between April and June and those of the clothing industry rose by 1.8 percent as against 1.4 percent a quarter earlier.

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



Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Trade conflicts, geopolitical tensions and uncertainties surrounding Brexit terms lead to increased market volatility and continue to weigh heavily on trade exchanges and corporate investment. Under these conditions, the world economic outlook has deteriorated, with a widespread slowdown projected this year.

In the United States, growth is expected to decelerate, reflecting the fading impact of fiscal stimulus measures and trade tensions. In the euro area, economic fundamentals weakened and growth outlook deteriorated as domestic downside risks increased, notably in relation to fiscal difficulties in Italy and challenges facing the German manufacturing sector. Growth is expected to slow in 2019 before recovering slightly in 2020, driven by favorable monetary conditions. In the main emerging countries, economic activity is still vulnerable to external shocks and is expected to remain supported by the expansionary stance of monetary and/or fiscal policies in some of them. In China, growth is expected to continue to decelerate, at a slightly faster pace than June forecasts due to the weakening of both domestic and external demand. Similarly, in India, it is expected to slow in 2019, due to low investment and foreign demand, before accelerating in 2020.

In the commodity market, oil prices over the forecast horizon would remain lower than in 2018, with trade tensions and concerns about weakening global demand forecast to continue to weigh on their outlook. Phosphate fertilizer prices are expected to be lower than in 2018, while raw phosphate prices are set to increase significantly. On the other hand, after falling in 2018, food prices are projected to rise slightly.

Against this background, inflationary pressures have generally weakened. In the euro area in particular, inflation is expected to remain well below the ECB's target over the forecast horizon, while in the United States, it is expected to gradually return to rates close to the Fed's target.

At the domestic level, after widening to 5.5 percent of GDP in 2018, the current account deficit would end the year at 5.1 percent before declining to 3.6 percent in 2020, largely reflecting a decline in the energy bill and an acceleration in automobile sales in 2020, taking into account the announced increase in the production capacity of the PSA plant. These forecasts also take into account an assumption of GCC countries' grant inflows of 2 billion dirhams in 2019 and 1.8 billion dirhams in 2020. As to direct investment revenues, after reaching an exceptional level in 2018 following a sale transaction in the insurance sector, it is expected to be almost equal to 3.5 percent of GDP over the forecast horizon.

Concerning net international reserves, and assuming two Treasury borrowing transactions on the international market, one this year and the second in 2020, they would strengthen to 239 billion at end-2019 before falling back to 234.3 billion at end-2020. Their coverage would thus slightly exceed 5 months of goods and services imports.

On the monetary side, the average lending rate showed a further quarterly decrease of 4 basis points to 4.98 percent in the second quarter of 2019, driven by the decline in rates on loans to both individuals and private companies. Credit growth to the nonfinancial sector is expected to be around 3.7 percent in 2019, before accelerating to 4.7 percent in 2020. For its part, the real effective exchange rate is forecast to go up in 2019 but its growth would decline in 2020. Overall, monetary conditions are expected to remain appropriate.

As concerns public finances, having reached 3.7 percent of GDP in 2018, fiscal deficit excluding privatization is expected to be around 4 percent of GDP in 2019 before declining to 3.8 percent of GDP in 2020, unchanged from the June forecast. These projections take into account the assumption of sustained revenue mobilization, a reduction in the subsidization burden and an increase in operating expenses in line with the impact of the social dialogue

agreement.

After reaching 3 percent in 2018, national growth is expected to decelerate again to 2.7 percent in 2019, due to a 4.7 percent decline in agricultural value added. The latter has been revised downwards compared to the projections of June in view of the review by the Ministry of Agriculture of the estimated cereal harvest for the 2018-2019 crop year. Nonagricultural activities, on the other hand, are expected to continue their relative strengthening, with an increase in value added from 2.6 percent in 2018 to 3.6 percent in 2019, a level at which it is expected to stabilize in 2020. With an expected increase in agricultural value added to 6.3 percent, assuming an average cereal harvest, national growth is projected to accelerate to 3.8 percent in 2020. On the demand side, growth would continue to be driven by domestic demand, which would gradually gain momentum over the forecast horizon, in particular in relation to contained inflation, wage increases and the rise of family allowances decided as part of the social dialogue. Net exports would maintain a negative contribution to growth, influenced in particular by the less favorable outlook of economic activity in the main partner countries.

Against this background, core inflation is expected to slow down from 1.1 percent to 0.7 percent in 2019, before gradually strengthening over the rest of the forecast horizon, reflecting the expected gradual reversal of the negative domestic demand cycle and the expected easing in the appreciation of the REER. However, and taking into account in particular the expected decline in volatile food prices in 2019 and their virtual stability in 2020, assuming that the effects of supply shocks would dissipate, inflation is expected to slow significantly from 1.9 percent in 2018 to 0.4 percent in 2019 before accelerating moderately to 1.2 percent in 2020.

7.1 Underlying assumptions

Deteriorating global growth prospects

Trade conflicts, geopolitical tensions and uncertainties surrounding Brexit terms lead to increased market volatility and continue to weigh on trade and corporate investment. Under these conditions, the world economy outlook has deteriorated, with a widespread slowdown expected this year.

In the United States, exports and corporate investment weakened in the second quarter of 2019, due in particular to Sino-American tensions. In addition, high-frequency indicators suggest a further weakening of industrial activity in the short term. Against this background, and taking into account the fading effects of the fiscal stimulus measures implemented in 2018, growth would slow to 2.2 percent in 2019, as against 2.9 percent in 2018, and would then decline to 1.8 percent in 2020, a rate that is, yet, easing compared to June given the more accommodative stance of the Fed monetary policy. The economic fundamentals of the euro area weakened with the rise in domestic downside risks, notably related to fiscal difficulties in Italy and the challenges facing the manufacturing sector in Germany. Its economic outlook thus deteriorated, with the expectation of a sharp slowdown in growth from 1.9 percent in 2018 to 1.2 percent in 2019 before recovering slightly to 1.4 percent in 2020, supported by the accommodative stance of monetary policy. Conversely, labor market conditions would remain favorable, with a low unemployment rate in the United States and a falling one in the euro area.

In the main emerging countries, growth would continue to decelerate in China, from 6.6 percent in 2018 to 6.3 percent in 2019 and 6.1 percent in 2020, a slightly stronger pace than what was expected in June due to the weakening of both domestic and external demand. In Brazil, growth would slow down from 1.1 percent in 2018 to 0.8 percent in 2019, instead of the recovery expected in June, given the weak performance observed in the first half of the year. It is expected to accelerate to 2.2 percent in 2020, with the planned implementation of fiscal reforms, especially pension reforms. In India, growth is expected to slow in 2019, under the effect of low investment and foreign demand. The expansionary stance of monetary and fiscal policies is projected to continue to support growth, which would accelerate in 2020.

Chart 7.1: Growth in the euro area

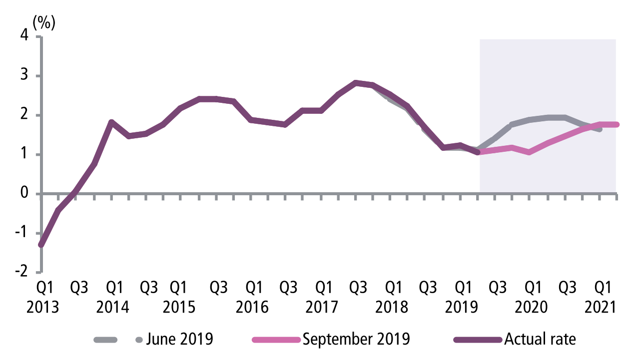
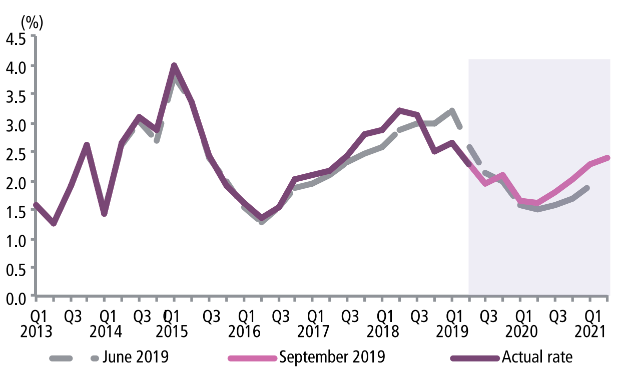


Chart 7.2: Growth in the USA



Source: GPMN[1] of august 2019.

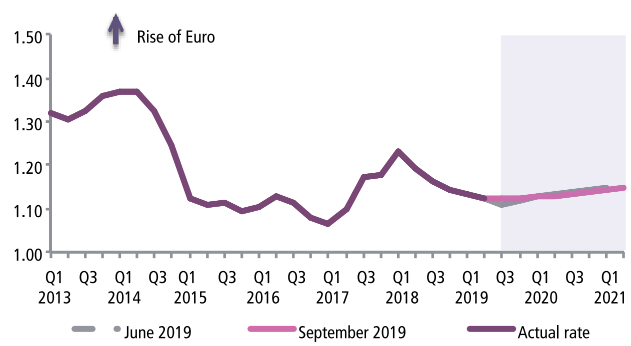
1 Global Projection Model Network.

Reintroduction of monetary easing and weakening of the euro against the dollar over the forecast horizon

Weakened by deteriorating growth prospects in the euro area and the increased uncertainty surrounding them, the euro is expected to depreciate from an average of 1.18 dollar in 2018 to 1.13 dollar in 2019 and would stabilize at this level in 2020. Against a background of escalating trade war between China and the United States, the Chinese yuan depreciated sharply to an average of 7.1 per dollar in August, its lowest level against the dollar since March 2008. Given the uncertainties surrounding the future of trade negotiations, the parity is expected to remain at around 7 yuan per dollar on average over the forecast horizon.

At the same time, in response to signs of weakening activity and increasing downside risks to this outlook, the main central banks interrupted the normalization process of their monetary policies, initiating a new cycle of easing. After the reduction implemented in July, which was the first since 2008, the Fed decided at its meeting on 17 and 18 September to further reduce the target range for the federal funds rate by 25 basis points to [1.75 percent-2 percent]. In the same vein, the ECB stressed the need for a very accommodative stance for its monetary policy during an extended period of time and stands ready to adjust all its instruments to ensure that inflation will converge to its target in a sustainable manner. At its meeting of 12 September, it announced further easing measures, including a 10 basis point reduction in the interest rate on the deposit facility to -0.50 percent and a re-launch of net purchases as part of its 20 billion monthly asset purchase programme starting from 1 November. It also plans to keep its key rates at current or lower levels until the inflation outlook converges on a sustainable basis to levels sufficiently close to its target.

Chart 7.3: USD/ EUR exchange rate



Source: GPMN of august 2019.

Downward pressure on energy prices

Concerns about weakening global demand continue to weigh on oil prices. The latter have been declining since April, despite geopolitical tensions in the Middle East and the agreement reached between OPEC member countries to extend their ouput cut until March 2020. In this context, the Brent price, in particular, would end the year at an average of 63.7$/bl, before falling again to 60.9$/bl in 2020, levels which are respectively 4.1 dollars and 2.9 dollars down, compared to those expected in June.

As regards phosphates and derivatives, DAP and TSP prices have generally trended downward, due in particular to weaker demand, and are expected to be lower in 2019 and 2020 than in 2018. On the other hand, raw phosphate price would end 2019 up by 19.5 percent to $105/t and would increase slightly to $107/t in 2020. As to food prices, after falling by 3.5 percent in 2018, they are expected to rise slightly over the forecast horizon.

Under these conditions, inflationary pressures have generally weakened, with particularly a decline in inflation expectations. In the United States, inflation is expected to decelerate from 2.4 percent to 1.9 percent in 2019 before rising to 2.4 percent in 2020, backed by the accommodative stance of the Fed monetary policy. In parallel, in the euro area, after reaching 1.8 percent in 2018, it is expected to decline to 1.3 percent in 2019 and then to 1.2 percent in 2020, which is below the target set by the ECB.

Chart 7.4: Brent price

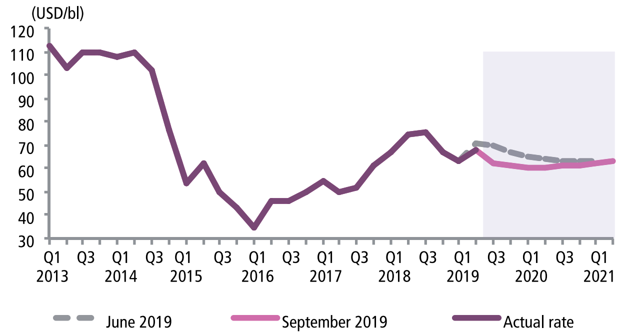


Chart 7.5: FAO food product price index

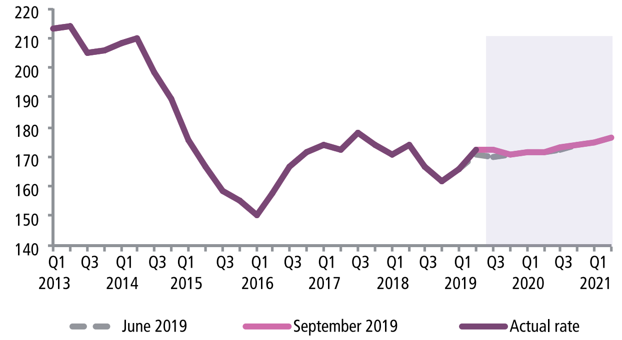


Chart 7.6: Inflation in the euro area

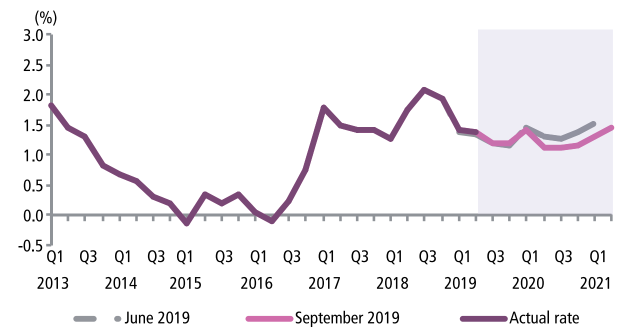
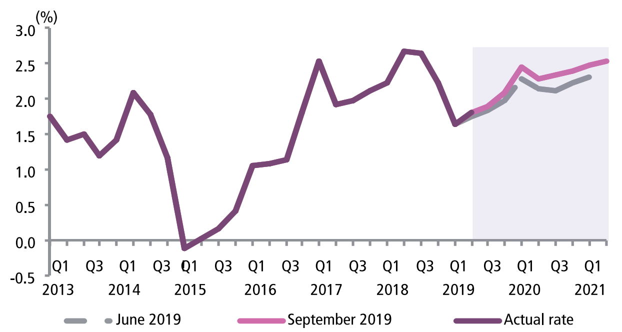


Chart 7.7: Inflation in the United states



Source: GPMN of august 2019.

A cereal production of 52 million quintals in 2018-2019 and an average harvest forecast in 2019-2020

After announcing a cereal harvest of 61 million quintals in April for the 2018-2019 crop year, the Ministry of Agriculture revised it downward to 52 million quintals in August, i.e. a decrease of 49 percent compared to the previous crop year and 37 percent compared to the average of the last five years. Concerning the other crops, production would perform well, with a 17 percent increase for citrus fruits and a 22.3 percent increase for olives. On the other hand, the production of dates would slide by 9 percent.

For the 2019-2020 crop year, the assumptions of an average cereal production of 80 million quintals and the continuation of the trend performance of other crops are maintained.

7.2 Macroeconomic projections

Lower current account deficit over the forecast horizon

After widening to 5.5 percent of GDP in 2018, the current account deficit would end the year at 5.1 percent and would decline to 3.6 percent in 2020, largely reflecting a drop in the energy bill and an acceleration in car manufacturing sales in 2020. These forecasts take into account the assumption of inflows of GCC grants for 2 billion dirhams in 2019 and 1.8 billion in 2020.

Exports' pace for 2019 was revised downwards to 3.9 percent, mainly in relation to the achievements of the first half of the year that fell short of expectations for automotive manufacturing as well as phosphates and derivatives sales. In 2020, this rate is expected to accelerate to 8.4 percent, mainly as a result of the expected significant increase in automotive sales, taking into account the announced increase in the PSA plant's production capacity. As for imports, their growth would decelerate to 3.4 percent in 2019 and then to 2.6 percent in 2020, mainly due to the decrease of the energy bill and the slowdown in the growth of capital goods acquisitions.

At the same time, after 1.3 percent in 2018, travel receipts would increase by 4.5 percent in 2019 and 3.2 percent in 2020 and Moroccan expatriates' remittances would rise by 1.5 percent and 3.6 percent respectively.

As for FDI, after exceptional revenues in 2018, largely related to a sale transaction in the insurance sector, their level would stabilize at the equivalent of nearly 3.5 percent of GDP over the forecast horizon.

Under the assumptions, unchanged from the June issue, of GCC grant inflows and two Treasury borrowings on the international market, one in 2019 and the other in 2020, INRs would reach 239 billion at the end of 2019 and 234.3 billion in 2020, the equivalent of just over 5 months of goods and services' imports.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (sept./ june)	
	2015	2016	2017	2018	2019	2020	2019	2020
Exports of goods (FOB)	8.6	3.5	10.3	10.6	3.9	8.4	-2.1	1.1
Imports of goods (CAF)	-4.9	10.3	6.7	9.8	3.4	2.6	0.2	-0.2
Travel receipts	-1.4	5.0	12.3	1.3	4.5	3.2	1.2	-0.8
Expatriate remittances	4.8	4.0	5.3	-1.5	1.5	3.6	-2.1	-0.9
Current account balance (% of GDP)	**-2.1**	**-4.1**	**-3.4**	**-5.5**	**-5.1**	**-3.6**	**-0.6**	**-0.5**
Net international reserves in months of goods and services' imports	**6.0**	**6.3**	**5.6**	**5.2**	**5.1**	**5.0**	**0.0**	**0.0**

Sources: Foreign Exchange Office and BAM forecasts.

Overall favorable monetary conditions and continued gradual improvement in the growth rate of bank lending to the nonfinancial sector

The real effective exchange rate (REER) would appreciate in 2019, with the inflation gap in favor of Morocco only partially offsetting the expected strengthening of the dirham against the euro and the Chinese yuan. In 2020, this appreciation is projected to moderate as a result of the expected moderation in the increase of the nominal effective exchange rate.

Based on the forecasts for net international reserves and the expected underlying increase of currency in circulation, the liquidity deficit would widen to 77.6 billion at the end of 2019 and 96 billion at the end of 2020. Bank lending to the nonfinancial sector is expected to improve and would grow at around 3.7 percent in 2019 and 4.7 percent in 2020. Under these circumstances, and taking into consideration the trend of the other counterparts of the money supply, the growth of M3 aggregate would reach 4.5 percent in 2019 and 4 percent in 2020.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (sept./ june)	
	2015	2016	2017	2018	2019	2020	2019	2020
Bank lending to the nonfinancial sector	0.3	3.9	3.8	3.1	3.7	4.7	0.2	0.4
M3	5.7	4.7	5.5	4.1	4.5	4.0	0.2	0.2
Liquidity surplus or deficit, in billion dirhams	-16.5	-14.7	-40.9	-69.0	-77.6	-96.0	-6.6	-10.0

Slowdown in the fiscal consolidation process

Fiscal deficit excluding privatization is expected to be around 4 percent of GDP in 2019 before declining to 3.8 percent of GDP in 2020, unchanged from the forecast of June. These projections include the estimates announced by the Ministry of Economy and Finance (MEF) concerning the budgetary impact of social dialogue commitments, including salary adjustments, and the increases for military personnel and the General Directorate of National Security.

For the present year, in addition to upward adjustments to the wage bill and expenditure on other goods and services in connection with the social dialogue, the subsidization cost was revised downwards, including its execution at end-July and the new assumptions relating to butane gas and exchange rates. On the revenue side, projections take into consideration in particular a decrease in the corporate tax forecasts, reflecting the low level of implementation at end-July.

For the year 2020, the update of projections based on the latest estimates of the MEF shows an increase of the wage bill. For the subsidization costs, projections of the MEF indicate as well decrease in 2020. Tax revenues, on the other hand, have been slightly adjusted downwards as a result of the revision of economic growth.

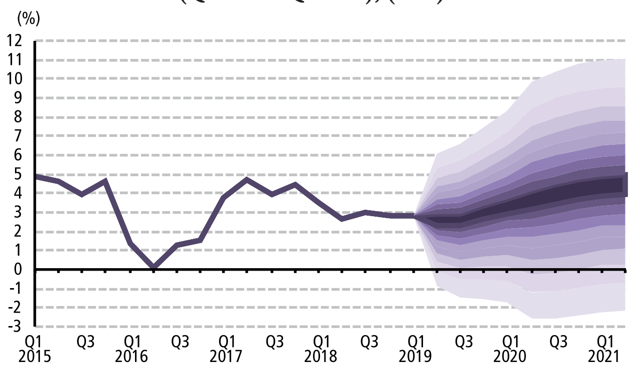
Relative improvement of nonagricultural activities

After reaching 3 percent in 2018, national growth is expected to decelerate again to 2.7 percent in 2019, as a result of a 4.7 percent decline in agricultural value added. These forecasts were slightly revised downwards, due to the updating by the Ministry of Agriculture of the cereal production estimate for the 2018-2019 crop year. On the other hand, recent developments continue to support the expected strengthening of nonagricultural activities, whose value added is projected to increase by 3.6 percent over the whole of 2019 compared to 2.6 percent in 2018.

In 2020, growth is expected to accelerate to 3.8 percent, a still slower pace compared to the June forecast, mainly due to the less promising outlook for foreign demand. This trend would reflect a 6.3 percent improvement in agricultural value added, assuming an average cereal harvest. Nonagricultural value added would remain strong, although slightly revised downwards to 3.6 percent, compared to the 3.9 percent expected in June.

On the demand side, national growth would continue to be driven by domestic demand over the forecast horizon, which would gradually gain momentum, in particular in the wake of subdued inflation, wage increases and the rise in family allowances decided as part of the social dialogue. Although easing year-on-year, the contribution to growth of foreign trade would continue to be negative, due in particular to the less favorable outlook for economic activity in the main partner countries.

Chart 7.8: Growth outlook over the forecast horizon (Q2 2019 - Q2 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 (sept./june)	
	2015	2016	2017	2018	2019	2020	2019	2020
National GROWTH	**4.5**	**1.1**	**4.2**	**3.0**	**2.7**	**3.8**	**-0.1**	**-0.2**
Agricultural VA	11.9	-13.7	15.2	4.0	-4.7	6.3	-0.9	0.3
Nonagricultural VA	1.8	2.1	2.9	2.6	3.6	3.6	0.0	-0.3
Net tax on subsidies	18.1	8.8	3.1	4.6	2.7	3.0	-0.2	0.0

Sources: HCP data, and BAM forecasts.

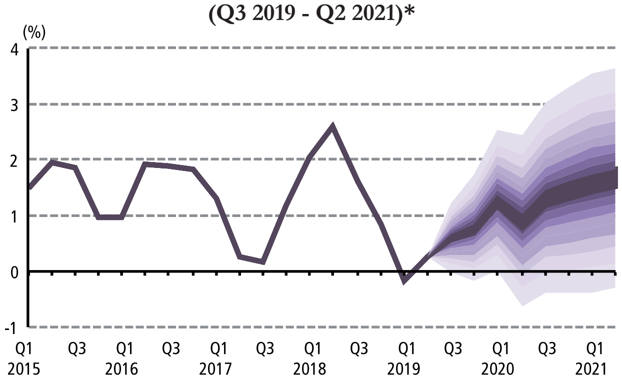
Low inflation in 2019, after the acceleration observed in 2018

In a context of low inflationary pressures from both internal and external sources, underlying inflation is expected to decline from 1.1 percent in 2018 to 0.7 percent in 2019. Over the remainder of the forecast horizon, it is expected to increase gradually, reflecting the expected gradual reversal of the negative domestic demand cycle and the projected easing in the appreciation of the REER. It is projected to reach 1.6 percent on average in 2020, a rate slightly higher than that projected in June, particularly in view of the upward adjustment of domestic demand, in line with the update of the budget allocated to wage increases and family allowances.

With regard to the other components, the growth of regulated products price is expected to decelerate in 2019, including in particular the increase in domestic consumption tax (DCT) on tobacco, before anresuming its underlying pace in 2020. The growth rate of fuels and lubricants price, on the other hand, is expected to decline in 2019, before increasing slightly in 2020, in line with the projections of Brent oil prices. As for volatile food prices, they would end the year with a larger decline than the June forecasts, reflecting lower-than-expected levels between May and July, before stabilizing in 2020, assuming a gradual dissipation of the effects of supply shocks.

In sum, inflation is expected to slow significantly from 1.9 percent in 2018 to 0.4 percent in 2019, before moderately picking up to 1.2 percent in 2020.

Chart 7.9: Inflation forecast over the horizon (Q3 2019 - Q2 2021)*



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

Table 7.4: Inflation

	Actual rates				Forecasts			Gap (sept./june)	
	2015	2016	2017	2018	2019	2020	8 quarters Horizon (Q3 2019-Q2 2021)	2019	2020
Inflation	**1.6**	**1.6**	**0.7**	**1.9**	**0.4**	**1.2**	**1.2**	**-0.2**	**0.0**
Core inflation	1.4	0.8	1.3	1.1	0.7	1.6	1.5	-0.1	0.1

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

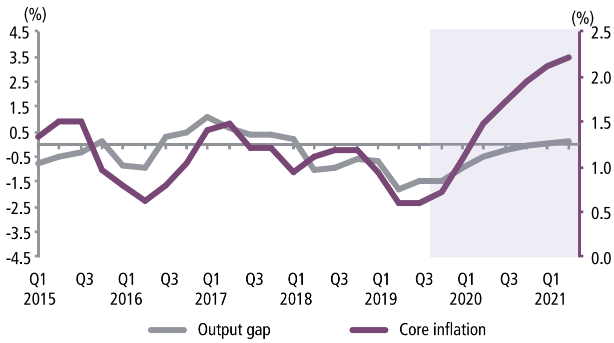
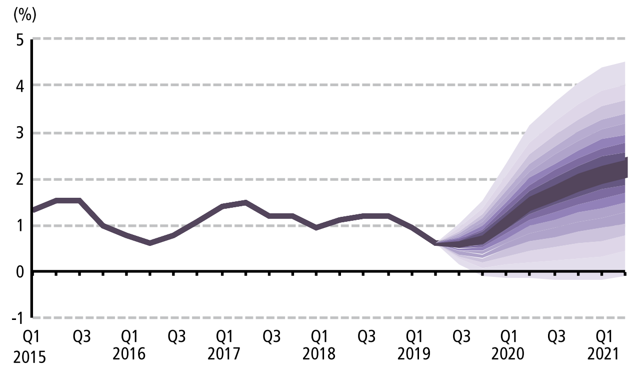


Chart 7.11: Projections of core inflation over the forecast horizon (Q3 2019 - Q2 2021)*



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

Sources: HCP, and BAM forecasts and calculations.

7.3 Risk balance

This forecasting exercise takes place amid a turbulent global macroeconomic context. International trade disputes and the ensuing persistent uncertainties affect trade exchanges and lead to increased market volatility. In case it materializes, this risk continuum can impact the central forecast trajectory. The risk balance is pointing downward for both growth and inflation.

The uncertainties surrounding the central trajectory of national growth forecasts are mainly related to exogenous factors, including in particular a more pronounced deterioration in foreign demand. The latter remains subject to significant downside risks, particularly relating to the trade war and concerns about Brexit terms. With regard to inflation forecasts, and taking into account the high uncertainties on the oil market, prices above/below those assumed in the central scenario could result in higher/lower inflation rates, through their direct effects on domestic fuel prices and indirect effects on production costs. External downward inflationary pressures may also stem from a possible increase in the rise of the real effective exchange rate, particularly in view of downward pressures on the currencies of some emerging countries.

As for the projections of the other variables, those of the NIRs in particular remain dependent especially on the realization of the Treasury's planned borrowing peration from the international market in 2020 and, to a lesser extent, on the GCC grant inflows.

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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