BANK AL-MAGHRIB

MONETARY POLICY REPORT

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THE BANK BOARD
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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."

This stability helps preserving citizens' purchasing power, encourages investment and boosts growth. Price stability does not mean zero inflation; rather, it refers to keeping inflation moderate and stable over the medium term. To achieve such objectives, the Bank intervenes in the money market using the appropriate instruments, mainly the key policy rate and the reserve requirement.

Monetary policy decisions are transmitted to the economy, particularly through their impact on interest rates across the different markets, the expectations of economic units and the asset prices, whose variation affects overall demand for goods and services and, eventually, inflation. Since these impacts do not materialize until after a certain period of time, forecasts play an important role in monetary policy formulating and decision-making. They are thus produced by the Bank for an eight-quarter horizon on the basis of an integrated analysis and forecasting framework articulated around a central monetary policy model, itself supplied and supplemented by many satellite models. The central forecasting model used is the semi-structural New-Keynesian one, which relies both on the theoretical underpinnings underlying the general-equilibrium models and on adjustment to the data characterizing the empirical models.

With a view to ensuring transparency of monetary policy decisions, the Bank, after each Board meeting, issues a press release, and the Governor holds a press conference where he reviews the decision and explains its foundations. In addition, the Bank prepares and publishes on its website the quarterly Monetary Policy Report, which outlines all the analyses underlying its decisions. This report , which starts with an overview summing up recent economic, monetary and financial developments as well as the macroeconomic projections, includes two parts. The first part, consisting of six chapters, describes the recent economic developments, namely with regard to: (i) international developments; (ii) external accounts; (iii) money, credit and asset markets; (iv) the stance of fiscal policy; (v) demand, supply and the labor market; and (vi) inflation. The second part is devoted to presenting the medium-term outlook for the national economy, the risks surrounding it and the main underlying hypotheses.

Bank Al-Maghrib Board members (Article 26 of the Statutes of Bank Al-Maghrib)

The Governor, Chairman

The Director General

The Director of Treasury and External Finance, Representative of the Ministry in charge of Finance

Mrs. Mouna CHERKAOUI

Mr. Mohammed DAIRI

Mrs. Najat EL MEKKAOUI DE FREITAS

Mr. Larabi JAÏDI

Mr. Mustapha MOUSSAOUI

Mr. Fathallah OUALALOU

The Government Representative shall also attend the meetings of the Board, by virtue of Article 41.

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 17, 2020

1. The Board of Bank Al-Maghrib held its first quarterly meeting of the year on Tuesday, March 17.

2. During this meeting, the Board first inquired about the progress made in implementing the integrated program to support and finance enterprises, set up further to the speech given by His Majesty the King on October 11, 2019.

3. It also reviewed developments on the foreign exchange market following the decision to widen the fluctuation band of the dirham against the reference rate from ±2.5% to ±5%, as of March 9, 2020. In this respect, the Board noted that this new phase was launched in a timely manner and that the market continues to operate in good conditions.

4. The Board then analysed recent economic developments as well as the macroeconomic forecasts prepared by the Bank for the next eight quarters. It particularly dwelled on the repercussions of the unfavourable climatic conditions prevailing in our country and of the global spread of the Covid-19 disease. It noted that the rapid evolution of this pandemic requires a frequent update of the situation assessment and of the economic forecasts.

5. Taking into account these assessments, as well as the inflation evolution over the medium term, the Board decided, with a view to supporting economic activity, to reduce the key policy rate by 25 basis points to 2 percent and to continue to monitor all these developments very closely.

6. The Board noted that after standing at a low level of 0.2% in 2019, inflation rose to 1.3% in January 2020, mainly driven by higher volatile food prices, after their decrease one year before. It is expected to average 0.7% over the year as a whole and to accelerate to 1.2% in 2021, with a gradual increase of its underlying component from 0.6% in 2019 to 1% then to 1.3% in 2021.

7. At the international level, hopes for an economic recovery in 2020 have faded with the spread of the Covid-19 disease, whose impact is proving to be increasingly significant. In the main advanced countries, growth would weaken significantly, before rebounding in 2021. In the United States, it is expected to fall from 2.3% in 2019 to 1.4% in 2020 before strengthening to 2.7% in 2021, owing in particular to favourable monetary conditions. In the euro area, the pace of activity is expected to decline significantly from 1.2% to 0.4%, particularly affected by economic difficulties in Germany and Italy, and to accelerate to 1.8% in 2021. In the labour markets of advanced economies, unemployment is expected to rise moderately in the United States and stagnate in the euro area. In

the major emerging countries, China is expected to experience a sharp deceleration in its growth rate, from 6.1% in 2019 to 4.1% in 2020, its lowest level in nearly 30 years, before rebounding to 7.3% in 2021. In India, growth is expected to improve from 5.3% to 6.3% then to 6.7% respectively. However, these rates remain significantly lower compared to the projections of last December.

8. Commodity markets are still influenced by raising concerns over global demand evolution due to the spread of the Covid-19 disease and to the divergence of the OPEC+ alliance on production cuts. Oil prices are thus expected to drop again this year, to reach $48.5/bl for Brent prices, then rise to $59.5/bl in 2021. On the other hand, in its latest forecasts of October 2019, the World Bank expects prices of phosphate and derivatives to rise. Prices per ton would hence rise from $306 to $324 in 2020 and to $335 in 2021 for DAP and from $295 to $304 then to $311 for TSP. As for crude phosphate, its price per ton is expected to reach $92 in 2020 and $95 in 2021, after $88 in 2019.

9. Regarding inflation, after a deceleration in 2019, it would continue to evolve in the euro zone at rates below the ECB's objective, with an average of 0.6%in 2020 and 1.3%in 2021. In the United States, it would slow from 1.8%in 2019 to 1.7%in 2020, before running closer to the FED's objective in 2021.

10. Concerning monetary policy decisions, and in view of strong concerns about the spread of the Covid-19 disease, the Fed announced, on March 15, a further decline by 100 basis points, after the 50 basis points decline announced on March 3, of the target range for the federal funds' rate to 0-0.25 percent. It plans to maintain this range until it is confident that the economy is on track to achieve the goals of maximum employment and price stability. The Bank has also decided to resume its securities purchases of at least $700 billion in Treasury bills and mortgage-backed securities. On the other hand, the ECB adopted, on March 12, a series of additional quantitative easing measures while keeping its key rates unchanged and reiterating that it expects them to remain at their levels or lower until it notices that the inflation forecasts converge sustainably towards its objective. At the same time, the FED, the ECB, the Bank of Japan, the Bank of England, the Bank of Canada and the Swiss National Bank announced on March 15 a coordinated action to enhance liquidity provision via the standing U.S. dollar liquidity swap line arrangements and agreed to reduce rates on these swaps by 25 basis points.

11. At the national level, the latest available national accounts data for Q3-2019 indicate a year-on-year slower growth from 3 percent to 2.1 percent, impacted in particular by the underperformance of agricultural activities. For 2019 as a whole, growth is estimated to have slowed to 2.3 percent, as a result of the 5.3 percent decline expected in agricultural value added, while non-agricultural activities would have speeded up to 3.3 percent. In 2020, suffering from the combined effect of unfavourable climate conditions and the global spread of the Covid-19 disease, BAM expects growth to stagnate at 2.3 percent. Agricultural value added would decline by 2.7 percent, with a cereal harvest estimated on the basis of data on climatic conditions and the state of vegetation available on 10 March at 40 million quintals, and the pace of non-agricultural activities would slow to 2.9 percent. In 2021, growth would rebound to 3.8 percent with an increase in agricultural

value added of 8.1 percent, assuming an average cereal production of 75 million quintals, and an improvement in non-agricultural growth to 3.3 percent. These forecasts remain surrounded by significant uncertainties and are subject to downward revision if the global spread of the Covid-19 disease is not contained in the short term.

12. In the labour market, the national economy posted a net gain of 165 thousand jobs in 2019. This performance is to be attributed, in particular, to an increase in employment by 267 thousand new jobs created in the tertiary sector and a loss of 146 thousand jobs in agriculture. Taking into account a net entry into the market of 135 thousand job seekers, the participation rate fell from 46 percent in 2018 to 45.8 percent in 2019 and the unemployment rate from 9.5 percent to 9.2 percent.

13. In terms of external accounts, provisional data for 2019 indicate a marked slowdown of goods imports to 2%, mainly as a result of lower energy bills. At the same time, exports increased by 2.4% after 10.7% in 2018, largely impacted by lower sales of phosphates and derivatives. On the other hand, travel receipts rebounded by 7.7% to 78.7 billion dirhams, while transfers from Moroccan expatriates stabilised at their 2018 level, equal to 64.9 billion dirhams. Under these conditions, the current account deficit would have narrowed to 4.4% of GDP. The latter is expected to narrow further over the forecast horizon to 3.5% in 2020 and 2.5% of GDP in 2021. Imports would continue to grow at a moderate pace in 2020 before accelerating in 2021, mainly due to the change in the energy bill. Conversely, exports would accelerate sharply, particularly reflecting the higher production expected in the car manufacturing industry according to the figures announced by the PSA plant. As for travel revenues, they are projected to decrease in 2020 due to the spread of the Covid-19 disease and increase again in 2021. As regards financial transactions, after the decline observed in 2019, FDI receipts would stabilise at a level around 3% of GDP in 2020 before rising to the equivalent of 3.2% of GDP in 2021. Considering the planned Treasury borrowing from the international market in 2020, NIRs would increase from 245.6 billion dirhams in 2019 to 246 billion dirhams at the end of 2020 and to 251.9 billion dirhams at end -2021. They should thus ensure coverage of more than 5 months of imports of goods and services.

14. With regard to monetary conditions, the real effective exchange rate appreciated by 1.1% in 2019, mainly as a result of a significant increase in the nominal value of the national currency. This increase is expected to ease significantly in 2020 and dissipate in 2021. Also taking into account lower domestic inflation compared to the main partners and competitors, the real effective exchange rate is expected to remain virtually stable over the forecast horizon. Lending rates fell by 15 basis points in 2019, benefiting mainly individuals and SMEs, and averaged 4.91% in the fourth quarter of the year. As for bank lending to the non-financial sector, its pace accelerated markedly in 2019 to 5.3%, with a significant improvement in lending to private enterprises. The latest data for January point to a continuation of this trend. In terms of prospects, based on the growth forecasts and on the expected effects of the integrated program to support and finance enterprises, credit to the nonfinancial sector should end the year up by 4.5% before strengthening by 5.3% in 2021.

15. Regarding public finances, the 2019 budget execution resulted in a widening of the deficit, excluding privatization, to 47 billion dirhams, i.e. the equivalent of 4.1% of GDP, against the 3.7% projected in the Finance Act. Current revenues, excluding privatization, increased by 4.6%, driven in particular by the inflow of 9.4 billion under specific financing mechanisms. At the same time, current expenditure increased by 4.6%, mainly as a result of higher expenses on goods and services, while subsidies fell by 9.3% to 16.1 billion dirhams. Capital expenditure rose by 7.3% to 70.4 billion dirhams. In the medium term, the fiscal consolidation process is expected to continue, albeit at a slower pace than projected in December. Budget deficit, excluding privatization, should, according to Bank Al-Maghrib's forecasts, disregarding the exceptional efforts that the Government is called to make in the current difficult economic situation, decline slightly to 4% of GDP in 2020, then to 3.9% of GDP in 2021.

OVERVIEW

Against a backdrop of serious concerns about the spread of corona virus disease (Covid-19), the latest data related to the world economic situation point broadly to a weakening in global economic activity. In the euro area, growth slowed from 1.3 percent in the third quarter of 2019 to 1 percent in the fourth quarter, reflecting decelerations from 1.5 percent to 0.9 percent in France, from 0.6 percent to 0.5 percent in Germany, from 1.9 percent to 1.8 percent in Spain and from 0.5 percent to 0.1 percent in Italy. In the United Kingdom, growth slowed further, from 1.2 percent to 1.1 percent, and in Japan, growth was negative at -0.7 percent compared to1.8 percent in the previous quarter, due to falling private consumption and investment. In the United States, on the other hand, growth accelerated from 2.1 percent to 2.3 percent, mainly as a result of strong net exports.

In the main emerging countries, growth remained stable at 6 percent in the fourth quarter in China, decelerated from 4.9 percent to 4.5 percent in India and increased from 1.2 percent to 1.7 percent in Brazil, backed by the increase of output in industry and services. In Russia, third-quarter data showed a rise from 0.9 percent to 1.7 percent, reflecting the good performance of the agricultural, industrial and wholesale trade sectors.

In labor markets, overall strong performance was maintained in February in the United States, with a slight drop in the unemployment rate to 3.5 percent and stable job creations at 273 thousand jobs. In the euro area, this rate remained unchanged at 7.4 percent in January, its lowest level since May 2008.

In the financial markets, investors have been particularly sensitive to the potential impacts of Covid-19, which resulted in high volatility in the main stock market indices in recent weeks. The Dow Jones Industrials, in particular, recorded its worst daily performance on 27 February, and was down with an average of 0.5 percent between January and February. The Eurostoxx 50 almost stagnated, while the FTSE 100 fell by 2.7 percent, the Nikkei by 1.4 percent and the MSCI EM by 3.2 percent.

As regards sovereign yields, rate on 10-year bills posted significant declines in February in the main advanced economies, ranging from 15 basis points in Spain to 25 basis points in Italy and the United States. It fell to -0.5 percent for Germany, -0.2 percent for France, 0.3 percent for Spain, 1 percent for Italy and 1.5 percent for the United States. In emerging economies, this rate decreased for China and India, stagnated for Brazil and went up for Turkey.

In the currency markets, the euro depreciated by 1.8 percent against the dollar and by 1 percent against the pound sterling and the Japanese yen. The currencies of the main emerging countries generally appreciated against the dollar, with gains of 1.1 percent for the renminbi, 4.7 percent for the Brazilian real, 0.3 percent for the Indian rupee and 2.3 percent for the Turkish lira. As regards bank credit, its annual growth rate slowed down from one month to the next to 5.2 percent in January in the United States, while it accelerated to 3.8 percent in the euro area.

In commodity markets, oil prices were also impacted by concerns about the spread of Covid-19. In particular, the Brent price crude oil continued to fall in February, averaging $56 per barrel, down 12.4 percent month-on-month and 13.1 percent year-on-year. Similarly, non-energy commodity prices fell year-on-year between

January and February, dragged by an 8.9 percent drop in metals and ores, while agricultural products rose 2.8 percent. The prices ofphosphates and derivatives in 2019 were slightly up by 0.1 percent for crude phosphate to $88/t, and down by 22.1 percent for di-ammonium phosphate (DAP)to $306.4/t and by 15 percent for triple superphosphate (TSP) to $294.6/t. In February, prices depreciated again year-on-year, with rates of 29.3 percent to $72.5 for raw phosphate, 21.8 percent to $279.4 for DAP and 28.8 percent to $245 for TSP.

As regards price developments, a first estimate by Eurostat puts inflation in the euro area at 1.2 percent in February, down from 1.4 percent in January. In the USA, it decelerated to 2.3 percent after 2.5 percent.

With regard to the monetary policy decisions of the central banks of the main advanced countries, the FED announced, at the end of its extraordinary meeting on 15 March, a further reduction of 100 basis points, following the 50-basis point cut on 3 March, in the target range of federal funds rate to 0 percent -0.25 percent. It plans to maintain this range until it becomes confident that the economy is on a path which would allow the objectives of maximum employment and price stability to be achieved. It also decided to restart its purchases of at least $700 billion in treasury bills and mortgage-backed securities (MBS). As to the ECB, it decided on 12 March to leave its key interest rates unchanged and expects them to remain at their current levels or lower until it considers that the inflation outlook converges on a persistent basis towards a level sufficiently close to, but below, 2 percent over its projection horizon, and that this convergence is consistently reflected in the dynamics of core inflation. At the same time, it announced a package of measures including (i) additional temporary targeted longer-term refinancing operation(TLTRO) to provide immediate liquidity support to the euro area's financial system; (ii) significantly more favourable conditions for all TLTRO III operations over the period from June 2020 to June 2021; (iii) a temporary package of additional net asset purchases amounting to €120 billion until the end of the year; and (iv) continued reinvestment of the principal of maturing securities purchased under the APP for a long period after the date on which the ECB will startraising its key interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and a high degree of monetary accommodation. In parallel, the FED, the ECB, the Bank of Japan, the Bank of England, the Bank of Canada and the Swiss National Bank announced on 15 March a coordinated action to enhance the provision of liquidity through standing US dollar liquidity swap line arrangements by reducing the rates applied to these swaps by 25 basis points.

At the national level, the trade deficit widened by 3 billion in 2019 to reach 209 billion dirhams. Imports increased by 2 percent, mainly reflecting rises of 5.5 percent in capital goods purchases, 4.5 percent in semi-finished products and 4.3 percent in purchases of finished consumer goods, while the energy bill continued to decline, falling by 7.2 percent to 76.4 billion dirhams. Exports posted a 2.4 percent increase, mainly covering a 6.6 percent rise in automobile sector sales to 77.1 billion dirhams and a 4.1 percent rise in sales of agricultural products to 60.8 billion dirhams, as well as a 5.9 percent decrease in shipments of phosphates and derivatives to 48.9 billion dirhams. At the same time, travel revenues improved by 7.7 percent to 78.7 billion dirhams in 2018, and remittances of Moroccan expatriates almost stagnated at 64.9 billion dirhams. In addition, net FDI inflows declined by 46,8 percent to 18.2 billion, while the net flow of direct investments by Moroccans abroadgained 49.4 percent to 9.3 billion. Outstanding net international reserves stood at the end of 2019 at 245.6 billion dirhams, i.e. the equivalent of 5 months and 12 days of imports of goods and services.

At the monetary level, the need for bank liquidity decreased during the fourth quarter of 2019, from a quarter to another, from 86.7 billion dirhams to 71.6 billion dirhams on average per week, due to the improvement of foreign exchange reserves and the decline of money in circulation. As a result, Bank Al-Maghrib reduced the amount of its injections to 73 billion dirhams. Monetary conditions were also marked by a fall in lending rates by 18 basis points to 4.91 percent on average, as well as a slight depreciation of the effective exchange rate. As to the growth rate of credit to the non-financial sector, it accelerated to 5 percent in the fourth quarter after 3.7 percent one quarter earlier. This trend includes a 6.5 percent increase in loans to private companies after 3.6 percent, a slowdown in the decline in lending to public companies from 5.4 percent to 5 percent and a near-stagnation in the growth rate of loans to households at 4.5 percent.

At the level of public finance, the 2019 fiscal year ended with a widening of the deficit, excluding privatization, by 5.4 billion dirhams to 47 billion dirhams, or 4.1 percent of the GDP,representing an overrun of 3.6 billion dirhams compared to the 2019 Finance Act. Current revenues, excluding privatization, improved by 4.6 percent, following the increase in both tax and non-tax revenues, driven in particular by the receipt of 9.4 billion dirhams in revenues from specific financing mechanisms. At the same time, ordinary expenditure increased by 4.6 percent, driven by a 7.3 percent rise in expenditure on goods and services, while subsidy costs fell by 9.3 percent to 16.1 billion. Capital expenditure increased by 7.3 percent to 70.4 billion. Under these conditions, direct public debt would have increased from 65.3 percent of GDP at the end of 2018 to 66.1 percent at the end of 2019. Data for January 2020 show a deficit of 1.9 billion dirhams, instead of a surplus of 674 million dirhams a year earlier, as a result of a 24.7 percent increase in current expenditure and a 1 percent rise incurrent revenues

National accounts data for the third quarter of 2019 show a deceleration in growth to 2.1 percent, compared to 3 percent in the same quarter a year earlier. Agricultural value added declined by 5.3 percent after an increase of 3.8 percent, while the growth rate of non-agricultural activities accelerated from 2.6 percent to 3 percent. The analysis of demand shows a contribution to growth of its domestic component of 1.8 points instead of 6.4 points in the same period in 2018, while net exports contributed 0.3 points, after a negative contribution of 3.5 points.

The labor market recorded a net creation of 165 thousand jobs in 2019 after 111 thousand in 2018. The sectorial breakdown shows significant creations in non-agricultural activities, particularly in services, which more than offset the loss registered in agriculture. Taking into account a net inflow of 135 thousand job seekers, the participation rate fell from 46 percent in 2018 to 45.8 percent in 2019 and the unemployment rate from 9.5 percent to 9.2 percent at the national level.

In the asset market, real-estate prices fell by 0.4 percent quarter-on-quarter in the fourth quarter, recovering declines of 0.8 percent for urban land and 0.4 percent for residential property, as well as a 2.3 percent rise in the prices of property for professional use. Similarly, the number of transactions fell by 0.7 percent, in line with the 2.7 percent decline in sales of residential property. Over 2019 as a whole, prices of real estate assets were virtually stagnant compared with 2018, and the volume of transactions fell by 3.8 percent after a 4.8 percent increase. On the stock market, February data indicate a 0.7 percent increase in the MASI since the beginning of the year, following a 7.1 percent performance in 2019. The volume of transactions amounted to 4.2 billion after 4.9 billion in January and 6.3 billion on average in 2019. Market capitalisation stood at 630.2 billion, up 0.6 percent compared with December 2019.

As for inflation, it accelerated in the fourth quarter to 0.7 percent after 0.5 percent a quarter earlier, thus closing the year with an average of 0.2 percent against 1.9 percent in 2018. Recent data point to an acceleration in January to 1.3 percent, driven by a stronger rise than in the fourth quarter in volatile food prices, an increase, after a fall, in the prices of fuels and lubricants and an acceleration in core inflation to 0.5 percent. Conversely, the increase in prices of regulated products slowed down, reflecting the dissipation of the increase in tobacco prices in January 2019.

In terms of outlook, the world economy is still surrounded by strong uncertainties linked in particular to the spread of Covid-19, the extent of the economic impact of which remains uncertain. Growth is expected to slow from 3 percent to 2.2 percent in 2020 before accelerating to 3.8 percent in 2021. In the United States, growth is projected to continue to decelerate to 1.4 percent in 2020, partly as a result of the return to a neutral fiscal policy stance, before accelerating to 2.7 percent in 2021, thanks in particular to accommodative monetary conditions. In the euro area, it is expected to weaken to 0.4 percent in 2020, impacted by economic difficulties in Germany and Italy in particular. However, a recovery is forecast for 2021 at 1.8 percent and would be supported mainly by the highly accommodative stance of the ECB's monetary policy. As regards labor market conditions, unemployment is expected to rise moderately in the United States and to stagnate in the euro area.

In the main emerging countries, China would be particularly affected by Covid-19, with growth falling from 6.1 percent in 2019 to 4.1 percent in 2020, its lowest level in nearly 30 years, before rebounding to 7.3 percent in 2021. India's growth would accelerate from 5.3 percent in 2019 to 6.3 percent in 2020 and then to 6.7 percent in 2021, supported by fiscal and monetary stimulus measures.

On the commodity markets, oil prices continue to be marked by concerns about global demand, particularly in relation to the spread of Covid-19 and the divergence of the OPEC+ alliance about production cuts. The price of Brent in particular is expected to fall from an average of $64 per barrel in 2019 to $48.5 in 2020, before rising to $59.5 in 2021. Food prices are expected to continue to rise overall in 2020 and to stabilize in 2021. As for phosphates and derivatives, the DAP price is forecast to increase slightly in the medium term, from $306/t in 2019 to $324 in 2020 and to $335 in 2021.

Against this background, inflation is expected to remain broadly low to moderate. In the United States, after a projected slight deceleration to 1.7 percent in 2020, it would converge towards the FED target in 2021, with a forecast rate of 2.8 percent. In the euro area, it would stand at 0.6 percent in 2020 after 1.2 percent in 2019, before rising to 1.3 percent in 2021.

At the national level, export growth rate would accelerate to 9.1 percent in 2020, driven mainly by the expected increase in sales in the automotive industry, taking into account an announced production of 100 thousand cars by the PSA plant, and shipments of phosphates and derivatives. It would decelerate to 8.5 percent in 2021, despite the expected increase in automotive construction, under the hypothesis of arise in the capacity of the PSA plant to 200 thousand units. At the same time, imports are expected to increase by 1.1 percent in 2020, due in particular to the rise in capital goods purchases, and by 7 percent in 2021, with aforecast increase in the energy bill. Travel receipts are projected to decline by 8.7 percent in 2020, impacted by the expected short-term decline in tourist arrivals, linked to the spread of Covid-19, before gaining 16 percent in 2021. Remittances ofMoroccan expatriates would remain almost stable in 2020 and would then increase by 2.4 percent in 2021. The current account deficit would thus further fall to 3.5 percent of GDP in 2020 and 2.5 percent in 2021. As regards FDI inflows, they would stabilise at a level equivalent to 3 percent of GDP on the forecast horizon.

As regards net international reserves, and under the assumptions of the reception of GCC grants of 2.2 billion dirhams and an international borrowing transaction by the Treasury for an amount of 10.7 billion dirhams in 2020, they would strengthen to 246 billion in 2020 and 251.9 billion in 2021, continuing to ensure a coverage of more than 5 months of goods and services imports. Under these conditions, and also taking into account the expected developments of notes and coins, bank liquidity shortage would increase to 79.4 billion dirhams at the end of 2020 and to 92.4 billion dirhams at the end of 2021. Concerning monetary conditions, the real effective exchange rate would stabilize over the forecast horizon, after appreciating in 2019. With regard toBank credit to the nonfinancial sector, its progression would decelerate to 4.5 percent in 2020 before accelerating to 5.3 percent in 2021, on the basis of growth forecasts and taking into account the expected effect of the new non-conventional measures put in place following the Royal speech of 11 October 2019.

Concerning public finances, the fiscal consolidation processis expected to continue over the medium term, albeit at a slower pace than forecast in December. Thus, budget deficit excluding privatization, would, according to Bank Al-Maghrib's forecasts and not taking into account the exceptional efforts that the Government has to make in the current difficult economic situation, experience a slight drop to 4 percent of GDP in 2020 and then to 3.9 percent of GDP in 2021.

Growth would have decelerated again in 2019 to 2.3 percent after 3 percent in 2018, as a result of a projected decline in agricultural value added to 5.3 percent, while the increase in the value added of non-agricultural activities would have accelerated from 2.6 percent to 3.3 percent. Due to the combined effect of unfavorable climatic conditions and the global spread of Covid-19, it is expected to stagnate at 2.3 percent in 2020. The agricultural value added is forecast to decline by 2.7 percent, with a cereal harvest estimated by Bank Al-Maghrib, based on data on climatic conditions and the condition of vegetation available as at 10 March, at around 40 million quintals, and the pace of non-agricultural activity would slow to 2.9 percent. In 2021, growth would rebound to 3.8 percent, with an increase in agricultural value added of 8.1 percent, assuming an average cereal harvest of 75 million quintals, and an improvement in the growth of non-agricultural activities to 3.3 percent.

Against this background, inflation is expected to accelerate moderately to 0.7 percent in 2020, after 0.2 percent in 2019, and then to 1.2 percent in 2021, driven by its underlying component. The latter is expected to recover gradually from 0.6 percent in 2019 to 1 percent in 2020 and to 1.3 percent in 2021, mainly reflecting the improvement in domestic demand, albeit at a slower pace than expected in December.

As regards the balance of risks, it appears to be on the downside for growth and balanced for inflation. On the growth side, the risks relate, on the external side, to a deterioration in foreign demand. Despite the positive developments recorded at the beginning of the year for trade, the uncertainties surrounding the negotiations on the second phase of the Sino-American agreement and future relations between the United Kingdom and the European Union, as well as geopolitical risks, are weakening the world economy. In addition, the spread of Covid-19 is weighing heavily on economic activity and financial markets. At the national level, the fact that agricultural production would be lower than in the baseline scenario would have a downward impact on growth forecasts. On the inflation side and considering the high concerns about global demand, lower oil prices than assumed in the central scenario could translate into 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 lower short-term levels of food commodity prices and a possible appreciation of the real effective exchange rate, linked to downward pressures on the currencies of trading partners and amid continued uncertainty. On the other hand, more pronounced disruptions in global production and supply chains, in relation to Covid-19, could lead to a surge in the prices of some imported products.

1.INTERNATIONAL DEVELOPMENTS

Against a backdrop of growing concerns about the spread of Covid-19, the latest international economic data point to an overall weakening of economic activity in the major advanced countries. The Sino-American trade conflict, uncertainties mainly about future relations between the United Kingdom and the European Union and geopolitical tensions continued to weigh on the world economy in the fourth quarter of 2019. Except for the United States, growth slowed in the euro area and the United Kingdom and GDP contracted in Japan. In the main emerging countries, growth stagnated in the fourth quarter in China, slowed in India and recovered in Brazil, and according to third-quarter data, it increased significantly in Russia. On the labor market, the unemployment rate fell slightly to 3.5 percent in February in the United States, with job creations stagnating, and remained stable at 7.4 percent in January in the euro area. The financial markets were marked by a decline in the main stock market indices and an almost general easing of sovereign rates. On the commodity markets, energy prices and, to a lesser extent, non-energy prices fell year-on-year. Inflation decelerated in February in both the United States and the euro area. All in all, the analysis of all these developments indicates the absence of external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, growth accelerated from 2.1 percent to 2.3 percent in the last quarter of last year, thanks mainly to strong net exports. Conversely, in the euro area, it declined to 1 percent, reflecting a deceleration of growth in France to 0.9 percent after 1.5 percent following the strikes related to pension reforms, and to 0.5 percent in Germany after 0.6 percent, due in particular to the slowdown in household and government consumption. Similarly, the growth rate of activity slowed in Spain to 1.8 percent after 1.9 percent, and to 0.1 percent after 0.5 percent in the previous quarter due in particular to unfavorable weather conditions.

In the United Kingdom, growth continued to slow down for the third quarter in a row, falling from 1.2 percent to 1.1 percent, mainly due to the contraction in investment and the weak growth in household consumption. In the same vein, Japanese GDP fell by 0.7 percent in the fourth quarter, mainly due to the decline in private consumption and investment.

Table 1.1: YoY change in quarterly growth

	2017		2018				2019			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Advanced economies										
United States	**2.4**	**2.8**	**2.9**	**3.2**	**3.1**	**2.5**	**2.7**	**2.3**	**2.1**	**2.3**
Euro area	**2.9**	**3.0**	**2.6**	**2.2**	**1.6**	**1.2**	**1.4**	**1.2**	**1.3**	**1.0**
France	2.8	3.0	2.4	1.9	1.5	1.2	1.3	1.5	1.5	0.9
Germany	3.0	3.4	2.3	2.1	1.1	0.6	1.0	0.3	0.6	0.5
Italy	1.6	1.9	1.3	0.9	0.4	0.1	0.2	0.4	0.5	0.1
Spain	2.8	3.0	2.8	2.3	2.2	2.1	2.2	2.0	1.9	1.8
United Kingdom	**1.8**	**1.6**	**1.1**	**1.3**	**1.6**	**1.4**	**2.0**	**1.3**	**1.2**	**1.1**
Japan	**2.4**	**2.6**	**0.9**	**1.0**	**-0.4**	**-0.2**	**0.8**	**0.9**	**1.8**	**-0.7**
Emerging economies										
China	**6.9**	**6.8**	**6.9**	**6.9**	**6.7**	**6.5**	**6.4**	**6.2**	**6.0**	**6.0**
India	**6.1**	**7.1**	**7.6**	**7.0**	**6.1**	**5.6**	**5.6**	**5.4**	**4.9**	**4.5**
Brazil	**1.6**	**2.4**	**1.5**	**1.1**	**1.5**	**1.2**	**0.6**	**1.1**	**1.2**	**1.7**
Turkey	**11.6**	**7.3**	**7.4**	**5.6**	**2.3**	**-2.8**	**-2.3**	**-1.6**	**1.0**	**6.0**
Russia	**2.3**	**0.3**	**1.9**	**2.2**	**2.2**	**2.7**	**0.5**	**0.9**	**1.7**	**n.a**

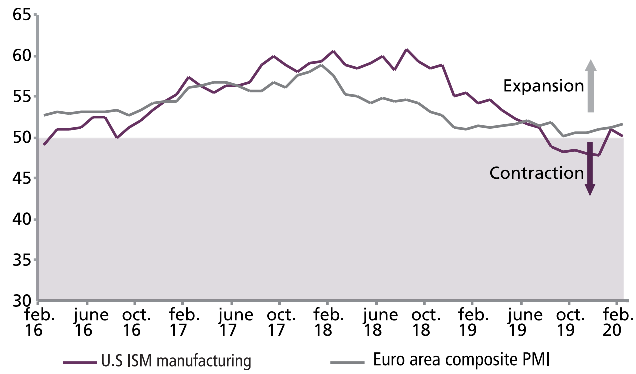
Source : Thomson Reuters.

In the main emerging countries, growth stagnated in China at 6 percent in the fourth quarter, under the impact of weakening domestic and external demand.

As for the other main emerging countries, activity rate weakened in India from 5.1 percent to 4.7 percent, against a backdrop of a sharper decline in investment and exports. In contrast, growth in Brazil rose from 1.2 percent to 1.7 percent, reflecting higher output in the industrial and services sectors. Similarly, growth in Russia strengthened from 0.9 percent to 1.7 percent, boosted by the strong performance of the agricultural, industrial and wholesale trade sectors.

As regards advanced activity indicators, the euro area composite PMI index rose to 51.6 points in February after 51.3 points a month earlier. Conversely, the ISM manufacturing index of the United States dropped from 50.9 points in January to 50.1 points in February.

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 labor market remained vigorous in February with the unemployment rate falling slightly to 3.5 percent from 3.6 percent the previous month, while job creations stabilised at 273,000 jobs from one month to the next. In the euro area, the unemployment rate remained stable at 7.4 percent in January, its lowest level since May 2008.

In the main countries of the area, the unemployment rate remained unchanged at 3.2 percent in Germany, 8.2 percent in France, 9.8 percent in Italy and 13.7 percent in Spain. In the United Kingdom, the most recent data, that of November, show a slight decrease in this rate to 3.7 percent, compared to 3.8 percent the previous month.

Table 1.2: Change in unemployment rate (%)

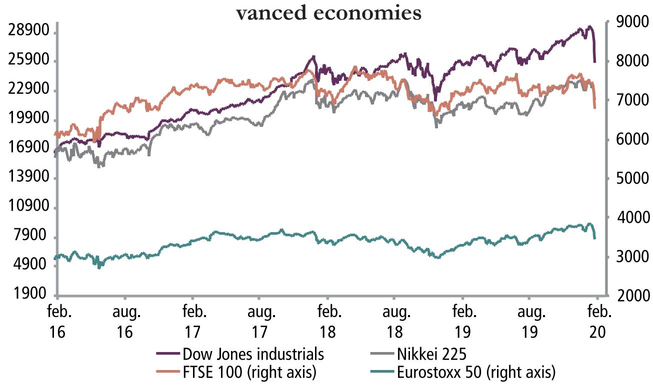
	2017	2018	2019	2020	
			dec.	jan.	feb.
United States	**3.9**	**3.7**	**3.5**	**3.6**	**3.5**
Euro area	**8.2**	**7.6**	**7.4**	**7.4**	**N.A**
France	9.1	8.5	8.2	8.2	N.A
Germany	3.4	3.2	3.2	3.2	N.A
Italy	10.6	N.A	9.8	9.8	N.A
Spain	15.3	14.1	13.7	13.7	N.A
United Kingdom	**4.0**	**N.A**	**N.A**	**N.A**	**N.A**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

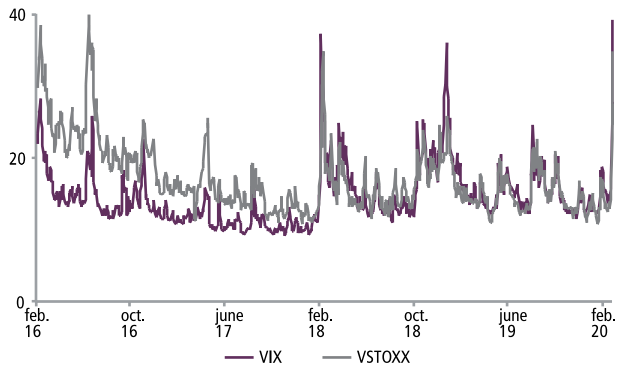
In the financial markets, investors were particularly sensitive to the potential impacts of Covid-19, which resulted in high volatility in the main stock-market indices, with increases in the VIX and Vstoxx of nearly 439 and 311 basis points, respectively. In particular, the Dow Jones Industrials recorded its worst daily performance on February 27 and was down with an average of 0.5 percent between January and February. The Eurostoxx 50 virtually stagnated, while the FTSE 100 fell by 2.7 percent and the Nikkei by 1.4 percent. In emerging economies, the MSCI EM was down 3.2 percent, with declines of 1.7 percent for China, 2.7 percent for Brazil, 1.1 percent for India and 4 percent for Turkey.

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



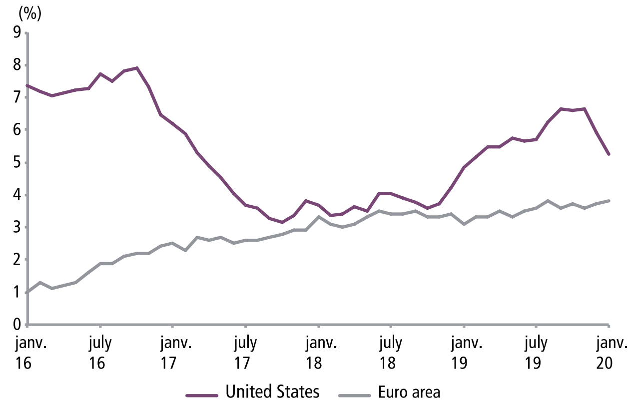
Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters.

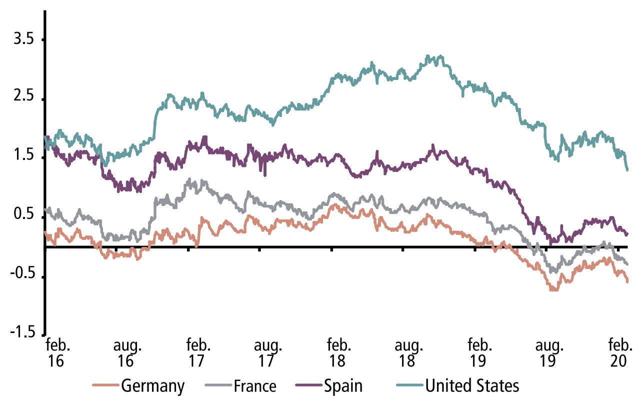
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

Ten-year sovereign bond yields showed significant declines in February in the major advanced economies, ranging from 15 basis points in Spain to 25 basis points in Italy and the United States. They fell to 1.5 percent in the United States, -0.5 percent in Germany, -0.2 percent in France, 0.3 percent in Spain and 1 percent in Italy. In emerging economies, the rate decreased to 2.9 percent for China and 6.4 percent for India, stagnated at 6.7 percent for Brazil and rose to 11.2 percent for Turkey.

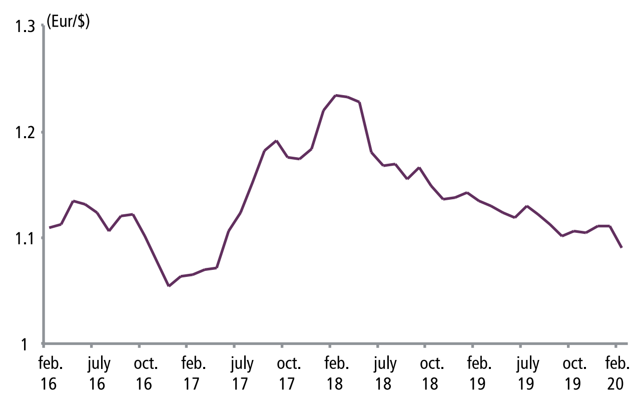
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters Eikon.

In the foreign exchange markets, the euro depreciated by 1.8 percent against the dollar and by 1 percent against the pound sterling and the Japanese yen. The currencies of the main emerging countries generally appreciated against the dollar, with gains of 1.1 percent for the renminbi, 4.7 percent for the Brazilian real, 0.3 percent for the Indian rupee and 2.3 percent for the Turkish lira.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

On the money markets, the 3-month Euriboralmost stabilised at -0.4 percent in February, while the Libor of the same maturity declined to 1.7 percent from 1.8 percent. As to the growth rate of bank credit, it slowed from 5.9 percent in December to 5.2 percent in January in the United States, while it accelerated in the euro area from 3.7 percent to 3.8 percent.

With regard to monetary policy decisions, and in response to strong concerns about the spread of Covid-19, the FED announced on March 15 a further 100 basis point cut, following the 50-basis point cut operated on March 3, in the target range for the federal funds' rateto 0 percent-0.25 percent. It plans to maintain this range until it is confident that the economy is on a path that would allow achieving the goals of maximum employment and price stability. It also decided to restart its purchases of at least $700 billion in Treasury bills and mortgage-backed securities (MBS).

As to the ECB, it decided on 12 March to leave its key interest rates unchanged and expects them to remain at current or lower levels until it has noted that the inflation outlook converges on a persistent basis towards a level sufficiently close to, but below, 2 percent over its projection horizon, and that this convergence is consistently reflected in underlying inflation dynamics. At the same time, it announced a package of measures including (i) additional targeted longer-term refinancing operations (TLTRO) immediate liquidity support to the euro area financial system; (ii) considerably more favourable conditions for all TLTRO III over the period from June 2020 to June 2021; (iii) a temporary envelope of additional net asset purchases of€120 billion until the end of the year; and (iv) continuing the reinvestment of the principal of maturing securities purchased under the APA for an extended period of time past the date when the ECB starts raising its key interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and a high degree of monetary accommodation.

As for the Bank of England's Monetary Policy Committee, it decided at the end of its extraordinary meeting of 10 March to reduce its key rate by 50 basis points to 0.25 percent. At the same time, it decided to launch a new term funding scheme with additional incentives for SMEs and to maintain the stock of non-financial 'investment-grade'British corporate bond purchasesat £10 billion, and the stock of UK government bond purchasesat £435 billion.

In parallel the FED, ECB, Bank of Japan, Bank of England, Bank of Canada and the Swiss National Bank announced on March 15 a coordinated action to enhance the provision of liquidity via standingU.S. dollar liquidity swap line arrangements, by reducing their rates on these swaps by 25 basis points.

As regards the main emerging countries, on 5 February the Brazilian Central Bank lowered its key rate by 25 basis points to 4.25 percent. Similarly, the Central Bank of Russia cut its key rate by 25 basis points to 6.0 percent on 7 February. The Reserve Bank of India kept its key rate unchanged at 5.15 percent on 6 February, while stressing that the outlook for inflation is very uncertain and that economic activity remains sluggish.

1.3 Commodity prices and inflation

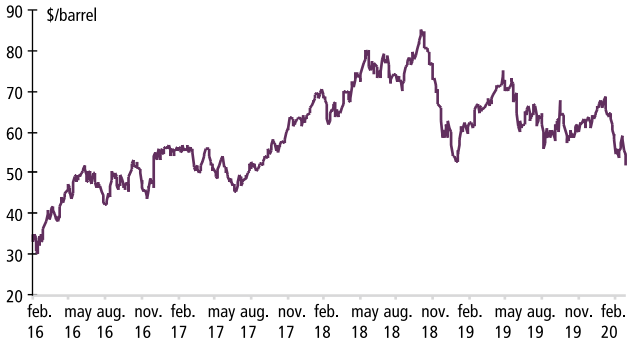
1.3.1 Energy commodity prices

On the oil market, prices fellwith in particular a monthly decrease in February of 12.4 percent in the average price of Brent crude oil to $56 per barrel, which on 27 February even reached its lowest level in three years at $51.9 per barrel. This change is explained in particular by concerns about the impact of the rapid spread of Covid-19 in several countries. Year-on-year, its price also dropped by 13.1 percent.

The price of natural gas on the European market stood at $2.91 per mBTU[1] in February, down 20 percent month-on-month and 51.6 percent year-on-year. This trend is explained by abundant supply and low demand due to mild winter temperatures.

1 mBTU: Million of British Thermal Unit

Chart 1.7 : Brent prices in dollars

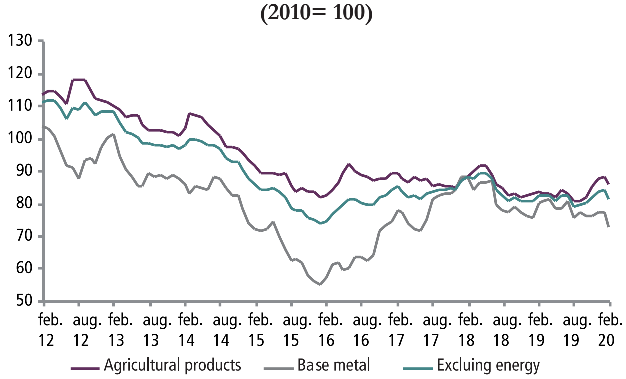


Source : World Bank.

1.3.2 Non-energy commodity prices

Prices for non-energy products fell in February by 1.5 percent year-on-year, led by prices for metals and ores. The latter declined by 8.9 percent, while prices of agricultural products rose by 2.8 percent. As to the price of durum wheat, it fell 4.1 percent on a monthly basis and 1.7 percent year-on-year.

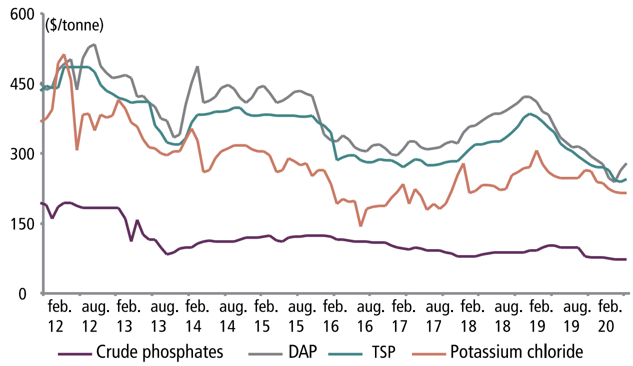
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

On the phosphate and fertilizers market, the price of raw phosphate stagnated between January and February at $72.5/t. For the other products, DAP increased by 5.5 percent to $279.4/t and TSP by 2.5 percent to $245/t, while the price of Urea decreased by 0.5 percent to $214.4/t and that of potassium chloride stagnated at $245/t. Year-on-year, prices fell by 29.3 percent for raw phosphate, 21.8 percent for DAP, 28.8 percent for TSP, and 14.5 percent for Urea, while potassium chloride prices rose by 13.7 percent.

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



Source: World Bank.

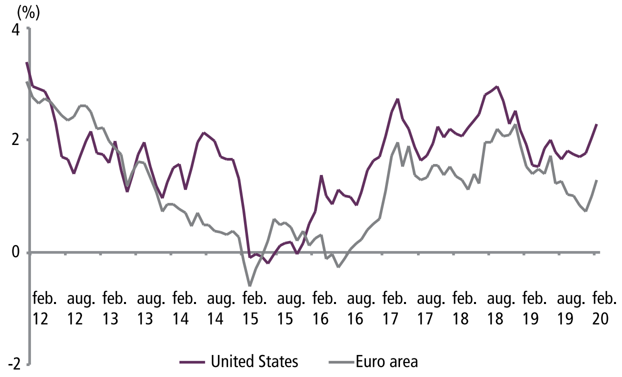
1.3.3 Inflation

In the euro area, according to a first estimate of Eurostat,inflation rate stood at 1.2 percent in February, down from 1.4 percent in January, including mainly falls from 1.7 percent to 1.6 percent in France, from 1.1 percent to 0.9 percent in Spain and from 0.4 percent to 0.3 percent in Italy, and a slight rise from 1.6 percent to 1.7 percent in Germany.

In the other advanced economies, inflation decelerated from 2.5 percent in January to 2.3 percent in February in the United States, from 1.3 percent in December to 1.8 percent in January in the United Kingdom and from 0.8 percent to 0.7 percent in Japan.

Among the main emerging countries, inflation fell from 5.4 percent in January to 5.2 percent in Februaryin China, from 4.2 percent to 4.0 percentin Brazil and from 2.4 percent to 2.3 percentin Russia. In contrast, it rose in India from 7.4 percent in December to 7.6 percent in January.

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



Sources : Eurostat and BLS.

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

	2017	2018	2019	2020	
			dec.	jan.	feb.
United States	**2.4**	**1.8**	**2.3**	**2.5**	**2.3**
Euro area	**1.8**	**1.2**	**1.3**	**1.4**	**1.2**
Germany	1.9	1.5	1.5	1.6	1.7
France	2.1	1.2	1.6	1.7	1.6
Spain	1.7	0.7	0.8	1.1	0.9
Italy	1.2	0.7	0.5	0.4	0.3
United Kingdom	**2.5**	**1.8**	**1.3**	**1.8**	**n.a**
Japan	**1.0**	**1.0**	**0.8**	**0.7**	**n.a**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

In 2019, the trade deficit widened by 3 billion dirhams to 209 billion dirhams. This change is due to a 9.6 billion increase in imports, which is higher than the 6.6 billion rise in exports. The coverage rate improved from 57.2 percent to 57.4 percent.

Travel receipts improved by 7.7 percent against 1.3 percent in 2018 and remittances from Moroccan expatriates almost stagnated after falling by 1.5 percent. As for the main financial transactions, net FDI inflowsdropped by 46.8 percent to 18.2 billion, while Moroccan investments abroad increased by 49.4 percent to 9.3 billion. Bank Al-Maghrib's net international reserves stood at 245.6 billion dirhams at the end of 2019, or the equivalent of 5 months and 12 days of goods and services imports.

2.1 Trade balance

2.1. 1 Exports

The 2.4 percent increase in exports mainly reflects the 6.6 percent rise in sales in the automotive sector to 77.1 billion, driven by rises of 8.9 percent for the «cabling" segment and 14.2 percent for the «Car seats and interiors « segment, while «car manufacturing» exports fell by 1.3 percent. Sales of agricultural and agri-food products improved by 4.1 percent to 60.8 billion and those of aeronautics rose by 7.3 percent to 15.8 billion. The year was also marked by an increase in electricity exports to 570 million dirhams against 75 million dirhams last year, mainly as a result of the improvement of local production capacities. As to shipments of phosphates and derivatives, they decreased by 5.9 percent to 48.9 billion dirhams. This underperformance, which concerned all products, is mainly linked to the drop in export prices of derivatives, with rates of 3.3 percent for phosphoric acid and 12.9 percent for natural and chemical fertilizers, as well as the 15.6 percent drop in raw phosphate export volumes. Similarly, sales in the textile and leather sector fell by 2.3 percent to 37 billion dirhams.

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

In million dirhams Sectors/segments	2019*	2018	Change	
			value	In %
Exports	**282 020**	**275 441**	**6 579**	**2.4**
Agriculture and Agri-Food	**60 849**	**58 447**	**2 402**	**4.1**
Agriculture, forestry, hunting	26 049	23 869	2 180	9.1
Food industry	32 390	32 361	29	0.1
Automotive	**77 132**	**72 367**	**4 765**	**6.6**
Construction	33 829	34 272	-443	-1.3
Wiring	31 982	29 366	2 616	8.9
Vehicle interiors and seats	4 831	4 230	601	14.2
Aeronautics	**15 821**	**14 744**	**1 077**	**7.3**
Assembly	8 614	8 314	300	3.6
EWIS	7 129	6 363	766	12.0
Phosphates and derivatives	**48 945**	**51 989**	**-3 044**	**-5.9**
Crude phosphates	7 311	8 298	-987	-11.9
Natural and chemical fertilizers	28 050	29 828	-1 778	-6.0
Phosphoric acid	13 584	13 863	-279	-2.0
Electronics	**8 659**	**8 940**	**-281**	**-3.1**
Electronic components	4 591	4 624	-33	-0.7
Specialty Electronics	4 068	4 316	-248	-5.7
Textile and Leather	**37 036**	**37 915**	**-879**	**-2.3**
Ready-made garments	23 273	23 773	-500	-2.1
Hosiery articles	7 612	7 801	-189	-2.4
Shoes	2 861	3 081	-220	-7.1
Pharmaceutical industry	**1 276**	**1 257**	**19**	**1.5**
Other mining extractions	**4 199**	**4 532**	**-333**	**-7.3**
Others	**28 103**	**25 250**	**2 853**	**11.3**

* Preliminary data

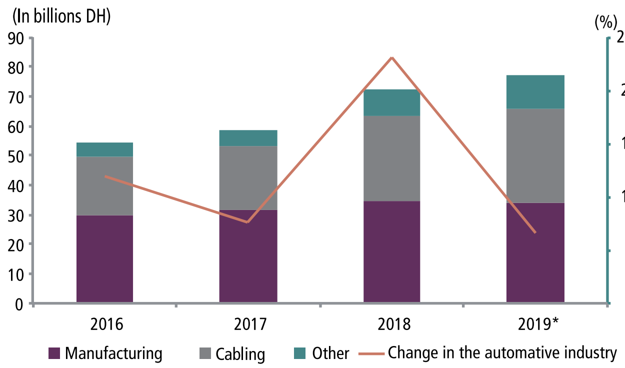
Source: Foreign Exchange Office.

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

	2019/2018		
	Value	Quantity	Price
Crude phosphates	-11,9	-15,6	4,4
Natural and chemical fertilizers	-6,0	8,0	-12,9
Phosphoric acid	-2,0	1,3	-3,3

*Provisional data.
Source : Office des Changes.

Chart 2.1: Change in automotive industry's exports



*Provisional data
Source: Foreign Exchange Office.

2.1.2 Imports

The 2 percent increase in imports mainly reflects the 5.5 percent rise in capital goods purchases to 126.9 billion dirhams. Similarly, purchases of finished consumer products increased by 4.3 percent to 113.1 billion dirhams and those of semi-finished products rose by 4.5 percent to 104.4 billion dirhams, particularly in connection with the increase by 63 percent to 4.1 billion dirhams of imports of «semi-finished products of iron or non-alloy steel» and by 22.4 percent to 4.3 billion dirhams for purchases of «wires, bars and profiles of iron or non-alloy steels». Imports of food products rose by 4.4 percent to 47.8 billion, following the increase in maize supplies by 12.7 percent to 5.2 billion dirhams. On the other hand, the energy bill continued its downtrend with a 7.2 percent drop to 76.4 billion dirhams, including a net decrease in electricity imports to 149 million dirhams instead of 2.3 billion dirhams a year earlier, and a 6.7 percent drop in imports of gas oil and fuel oil to 38.8 billion dirhams. In the same vein, purchases of raw materials fell by 10 percent to 22.1 billion dirhams.

Overall, the trade deficit widened by 3 billion dirhams to 209 billion dirhams and the coverage rate improved from 57.2 percent to 57.4 percent.

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

In millions of Dirhams (user groups)	2019*	2018	Change	
			value	In %
CIF imports	**491 015**	**481 442**	**9 573**	**2.0**
Capital Goods	**126 880**	**120 233**	**6 647**	**5.5**
Aeroplanes and other air or space vehicles	7 996	4 804	3 192	66.4
Miscellaneous machines and appliances	12 076	10 233	1 843	18.0
Utility vehicles	6 736	5 309	1 427	26.9
Finished consumer products	**113 106**	**108 491**	**4 615**	**4.3**
Parts and components for cars and passenger vehicles	19 004	17 593	1 411	8.0
Miscellaneous articles of plastics	5 967	5 215	752	14.4
Woven fabrics and threads of synthetic and artificial fibres	8 151	7 551	600	7.9
Semi finished products	**104 355**	**99 859**	**4 496**	**4.5**
Semi-finished products of iron or non-alloy steel	4 079	2 503	1 576	63.0
Non-alloy iron wires, bars and sections	4 343	3 549	794	22.4
Food products	**47 802**	**45 776**	**2 026**	**4.4**
Corn	5 235	4 647	588	12.7
Raw or refined sugar	3 957	3 505	452	12.9
Energy products	**76 407**	**82 301**	**-5 894**	**-7.2**
Gas oils and fuel oils	38 770	41 537	-2 767	-6.7
Electrical Energy	149	2 302	-2 153	-93.5
Raw products	**22 148**	**24 605**	**-2 457**	**-10.0**
Raw and unrefined sulphur	6 963	7 967	-1 004	-12.6
Cobalt Ore	288	689	-401	-58.2

* Provisional data.
Source: Foreign Exchange Office.

Table 2.4 : Change in major import products (YoY, in %)*

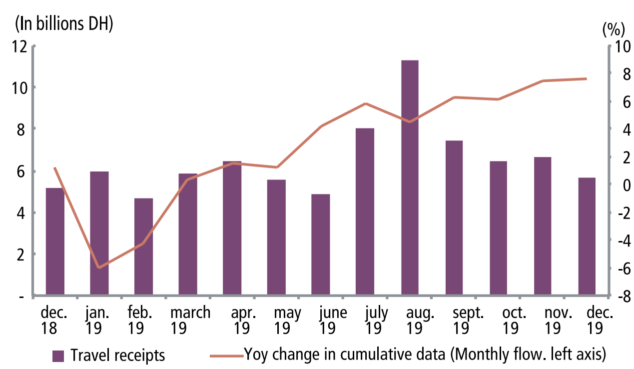
	2019/2018		
	Value	Quantity	Price
Gas oils and fuel oils	-6.7	-3.3	-3.5
Petroleum gaz and other fuel	-9.9	1.9	-11.6
Coal, coke, and similar solid fuels	5.0	14.6	-8.4

* Provisional data.
Source: Foreign Exchange Office.

2.2 Other components of the current account

The surplus on the services balance strengthened by 18.4 percent, year-on-year, to 88.8 billion dirhams, thanks to a 6.6 percent increase in exports to 185.6 billion dirhams and a 2.3 percent decrease in imports to 96.8 billion dirhams. In particular, travel receipt reached 78.7 billion dirhams, up 7.7 percent, and travel expenditure rose by 11 percent to 20.9 billion dirhams.

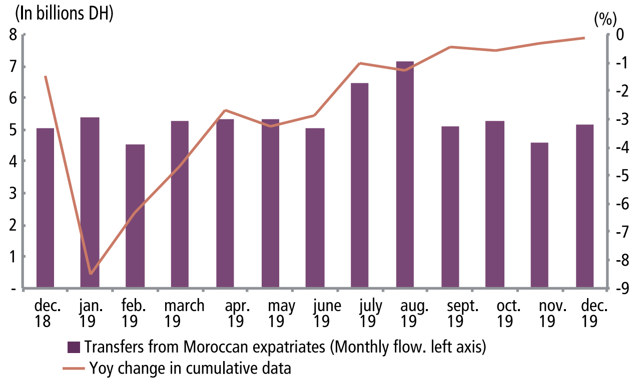
Chart 2.2: Change in travel receipts*



* Provisional data.
Source: Foreign Exchange Office.

As for transfers by Moroccan expatriates, they almost stabilized at 64.9 billion dirhams from one year to the next.

Chart 2.3: Change in transfers from Moroccan expatriates



* Preliminary data
Source: Foreign Exchange Office.

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

	2019*	2018	Change	
			Value	in %
Imports	96 765	99 062	-2 297	-2.3
Exports	185 558	174 044	11 514	6.6
Balance	88 793	74 982	13 811	18.4

* Provisional data.
Source: Foreign Exchange Office.

2.3 Financial account

As to the main financial transactions, FDI inflows fell by 16 billion dirhams to 18.2 billion dirhams, as a result of a 13.9 billion dirhams decrease in revenuesand a 2.1 billion dirhams increase in sales. At the same time, the flow ofMoroccan direct investment abroad improved by 3.1 billion dirhams to 9.3 billion dirhams, mainly as a result of a 2.9 billion dirhams increase in investments.

At end-December 2019, the outstanding amount of net international reserves reached 245.6 billion, or the equivalent of 5 months and 12 days of goods and services' imports.

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

	2019*	2018	Change	
			Value	in %
Foreign direct investments	**18 184**	**34 169**	**-15 985**	**-46.8**
Revenues	33 529	47 426	-13 897	-29.3
Expenses	15 345	13 257	2 088	15.8
Investments of Moroccans abroad	**9 337**	**6 250**	**3 087**	**49.4**
Expenses	10 915	8 057	2 858	35.5
Revenues	1 578	1 807	-229	-12.7

* Provisional data.
Source: Foreign Exchange Office.

Provisional data for January 2020 indicate a widening of the trade deficit by 271 million dirhams as a result of increases of 559 million dirhams in imports and 288 million dirhams in exports.

The 1.2 percent improvement in exports mainly reflects a 2 percent increase in sales of the «agricultural and agri-food» sector, including rises of 0.7 percent for agriculture and 2.9 percent for the food industry, and a 3.6 percent rise in exports of the textile and leather sector. Sales in the automotive sector were almost stagnant, including a drop of 11.1 percent for construction and increases of 2.1 percent and 7 percent for the"cabling"and «Car seats and interiors» branches. Exports of phosphates and derivatives fell by 10.7 percent.

The 1.4 percent increase in imports, on the other hand, mainly reflects the 14.7 percent rise in the energy bill and the 12.3 percent rise in food purchases. On the other hand, purchases of semi-finished and raw materials fell by 10.6 percent and 20.9 percent, respectively.

At the same time, travel receipts rose by 11.3 percent and remittances by expatriate fell by 2.7 percent.

The net flow of foreign direct investments fell by 32.2 percent to 1.4 billion, and that of investments by Moroccans abroad plummeted by 82.3 percent to 393 million.

Under these conditions, net international reserves stood at 243.7 billion at the end of January, representing the equivalent of 5 months and 11 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

During the fourth quarter of 2019, monetary conditions were marked by a decrease in lending rates and a slight depreciation of the effective exchange rate. The growth rate of credit to the non-financial sector accelerated from 3.7 percent in the third quarter to 5 percent, reflecting an improvement in the growth rate of loans to private companies, a moderation in the decline ofloans to public companies and virtually stagnant growth in loans to households. As for the other counterparts of the money supply, the growth rate of net claims on the central government fell from 13.2 percent to 4.6 percent, while net international reserves gained 5.7 percent after 3 percent. Overall, money supply growth fell from 4.4 percent to 3.5 percent.

In the real-estate market, asset prices fell by 0.4 percent in the fourth quarter of 2019. This trend includes price decreases of 0.8 percent for urban land and 0.4 percent for residential property, as well as a 2.3 percent increase in prices of property for professional use. The number of transactions fell by 0.7 percent, in line with the 2.7 percent decline in sales of residential assets. Transactions in property for professional use increased by 17 percent, while those in urban land stagnated quarter-on-quarter. At the level of the Casablanca Stock Exchange, the MASI gained 5.3 percent and the volume of exchanges reached 25.9 billion after 13.5 billion a quarter earlier.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

In the fourth quarter of 2019, banks' liquidity needs decreased from 86.7 billion dirhams to 71.6 billion dirhams on average per week, due to the improvement of foreign exchange reserves and the decline of the currency in circulation. Thus, Bank Al-Maghrib reduced the amount of its injections to 73 billion dirhams, including 66.4 billion dirhams in the form of 7-day advances, 4.3 billion dirhams in the form of foreign exchange swaps and 2.3 billion dirhams in the form of guaranteed loans under the VSMEs financing program.

The latest available data indicate that a continued decline in the liquidity deficit, averaging $66.9 billion in January and February 2020. Against this background, the interbank rate remained unchanged from the previous quarter at 2.26.

On the primary market for Treasury bills, after the decreases observed during the fourth quarter, rates rose slightly in January for short and medium-term maturities, while long-term rates continued to fall. A similar trend was observed in the Treasury bill secondary market.

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

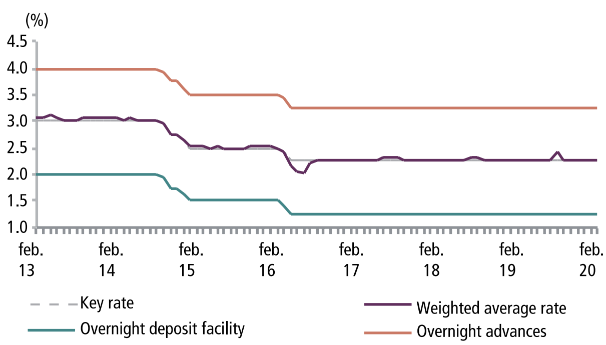
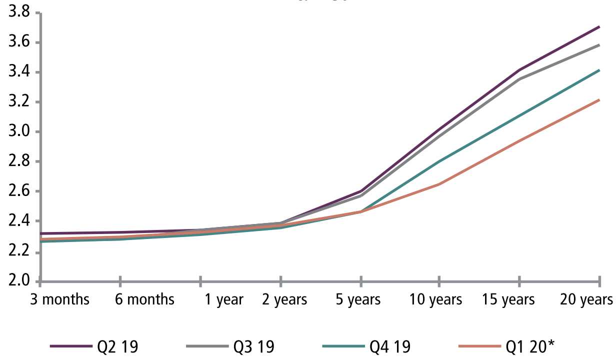


Table 3.1: Change in Treasury bond yields in the primary market

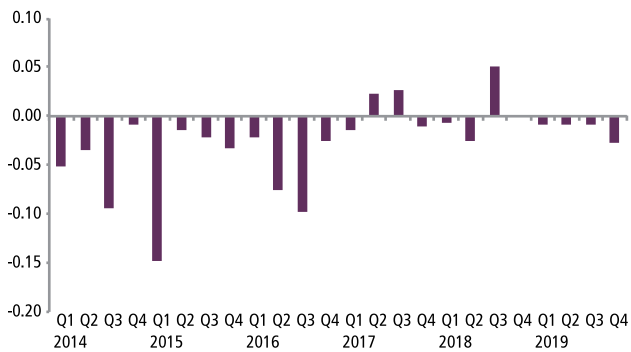
	2018				2019				2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	jan.
52 weeks	2.35	2.31	2.42	2.45	2.37	2.31	2.31	2.27	3.32
2 years	2.53	2.50	2.58	2.60	2.51	2.39	2.38	2.32	3.36
5 years	2.81	2.76	2.82	2.86	2.77	2.60	2.58	2.46	-
10 years	3.28	3.24	3.28	3.34	3.19	3.02	2.97	2.81	2.65
15 years	3.68	3.68	3.70	-	3.64	3.42	3.38	3.10	2.94

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



On the other markets, the issuance rates of certificates of deposit did not change significantly in the fourth quarter of 2019. At the same time, deposit rates decreased by 7 basis points to 2.68 percent for 6-month deposits and by 3 basis points to 2.98 percent for one-year deposits. Against this background, Banks' financing cost[1] decreased slightly in the fourth quarter of 2019.

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



With regard to lending rates, the results of Bank Al-Maghrib' survey with banks for the fourth quarter of 2019 show a decrease in the overall average rate by 18 basis points to 4.91 percent. By institutional sector, interest rates on loans to private companies fell by 15 points overall, by 3 points for large companies and by 19 points for VSMEs. Rates on loans to individuals declined by 14 basis points, with decreases of 3 points for housing loans and 6 points for consumer loans.

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

Table 3.2 : Change in lending rates

	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Global	**5.10**	**5.09**	**5.02**	**4.98**	**5.09**	**4.91**
Personal loans	**5.90**	**5.83**	**5.78**	**5.34**	**5.69**	**5.55**
Real estate loans	4.88	4.89	4.70	4.18	4.51	4.48
Consumer loans	6.61	6.84	6.74	6.71	6.72	6.66
Loans to businesses	**4.85**	**4.90**	**4.78**	**4.85**	**4.92**	**4.77**
Creditor accounts and cash advances	4.70	4.81	4.72	4.70	4.74	4.65
Equipment loans	4.86	4.86	4.48	5.07	5.20	4.58
Real estate loans	5.71	5.91	5.59	5.46	6.07	6.12

Source : BAM.

Table 3.3: Deposit rates

	2017	2018				2019		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	2.80	2.79	2.78	2.80	2.71	2.78	2.68	2.75	2.68
12 months	3.10	3.15	3.10	3.07	3.04	3.06	3.00	3.01	2.98

3.1.2 Exchange rate

In the fourth quarter of 2019, the euro depreciated by 0.39 percent against the US dollar. The dirham appreciated by 0.22 percent against the euro and remained stable against the US dollar. Compared to the currencies of the main emerging countries, the national currency appreciated by 2 percent against the Turkish pound, by 0.2 percent against the Chinese Yuan and depreciated by 4.4 percent against the pound sterling. As a result, the effective exchange rate declined slightly by 0.1 percent in nominal terms and 0.04 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

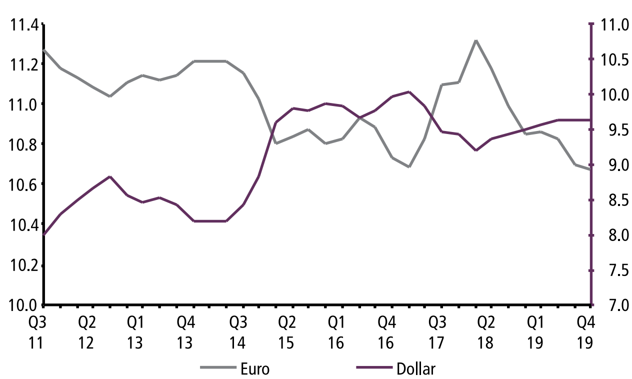
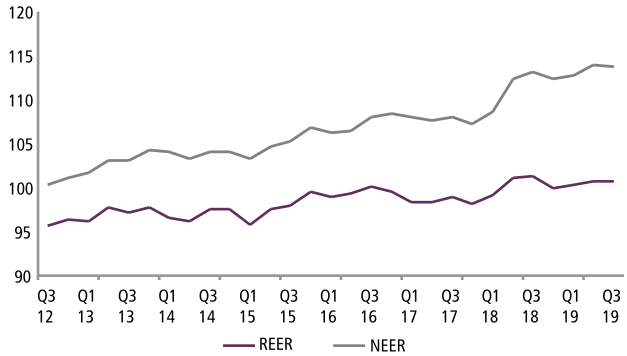


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

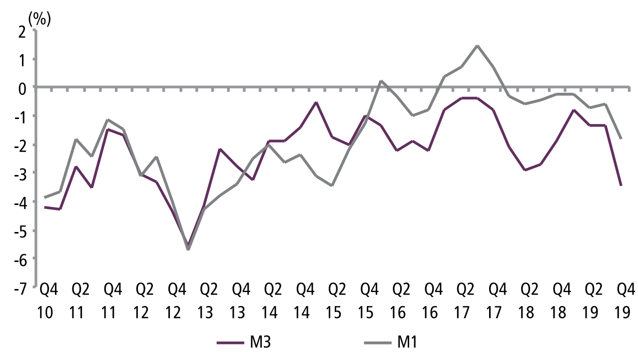
As to foreign currency transactions, the average volume of banks' spot transactions with customers increased in the fourth quarter by 8 percent to 24.9 billion dirhams for sales, and by 8.6 percent to 24.1 billion dirhams for purchases. At the same time, forward purchases increased by 29.7 percent to 12.6 billion dirhams and forward sales went up from 1.7 billion dirhams to 2.9 billion. During this period, Bank Al-Maghrib did not carry out any foreign exchange purchase or sale operation with banks. Under these conditions, banks' net foreign exchange position was negative at 2.1 billion dirhams at the end of December 2019, against a positive balance of 5 billion dirhams at the end of September 2019.

3.1.3 Monetary situation

The growth rate of the M3 aggregate fell from 4.4 percent in the third quarter to 3.5 percent in the fourth quarter of 2019. The analysis of the change in its components reveals a sharper decline from 0.4 percent to 6.5 percent in time deposits, mainly as a result of the drop in those held by the public sector. At the same time, money market fund securities fell by 8.3 percent, after 2.6 percent one quarter earlier. On the other hand, demand deposits growth increased from 3.8 percent to 5.2 percent, mainly with rises from 2 percent to 6.6 percent for deposits by private nonfinancial companies and from 3.9 percent to 4.4 percent for deposits of households. As to currency in circulation, it rose by 7.5 percent compared to 7.2 percent a quarter earlier.

By main counterpart, the change in the money supply covers a deceleration from 13.2 percent to 4.6 percent in the increase of net claims on the central government and an acceleration from 3 percent to 5.7 percent in the growth of net international reserves and from 5.1 percent to 5.5 percent in bank credit.

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



1:The money gap, calculated in real terms, is the difference between the actual level of the money stock and the equilibrium level. The latter, defined based on the quantity equation of money, corresponds to the growth of the potential economic activity in real terms, minus the average pace of decrease in the velocity of currency in circulation.

Source : BAM.

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

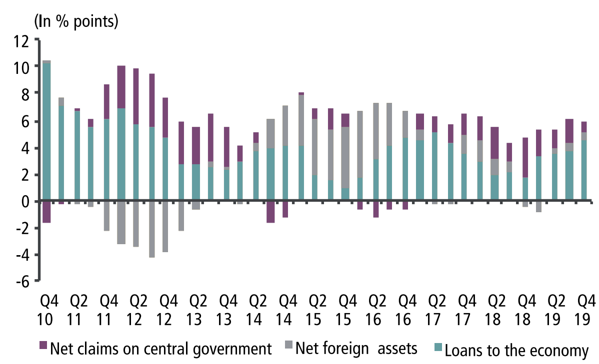
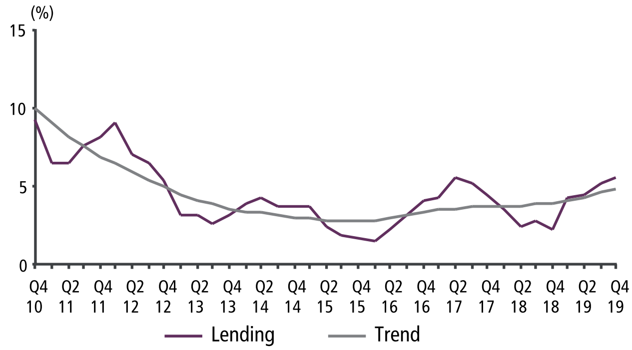


Chart 3.8: YoY change in credit



Concerning bank loans to the nonfinancial sector, it increased by 5 percent after 3.7 percent. This development covers a rise in the growth rate of loans to private companies, a slowdown in the decline in lending to public companies and a virtual stagnation of lending to households.

Thus, loans to private companies increased by 6.5 percent after 3.6 percent in the previous quarter, reflecting rises of 10 percent after 6.8 percent for cash facilities, 5.8 percent after 2.5 percent for equipment loans, and 4.3 percent after 2.1 percent for property development loans.

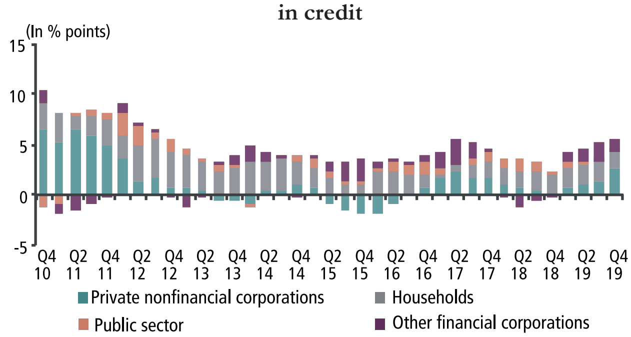
Lending to public companies fell by 5 percent after a 5.4 percent decline in relation to the 1.8 percent increase in cash facilities after a 7.7 percent decrease.

As for loans to individual entrepreneurs, their growth fell from 3 percent to 1.2 percent. This trend reflects decelerations in the growth rate of equipment loans from 8.4 percent to 7.6 percent and in the growth rate of cash facilities from 10.4 percent to 5.9 percent, as well as a sharper decline in home loans from 14 percent to 18.4 percent.

By activity branch, quarterly data for December 2019 show an acceleration in growth rates from 3.1 percent at end-September to 12.1 percent for loans to the «transport and communications» branch and from 7.4 percent to 9.6 percent for loans to the «food and tobacco industries». Similarly, loans to «extractive industries» and «cconstruction» companies increased by 23.7 percent and 1.5 percent, respectively, after declines of 11 percent and 1.4 percent. On the other hand, loans to «trade, car repairs and household goods» and «metallurgical, mechanical, electrical and electronic industries» increased by 5.1 percent and 4.4 percent respectively, after 11 percent and 5 percent in the previous quarter.

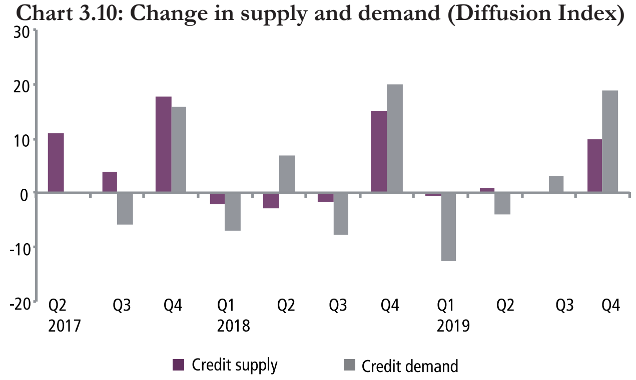
With regard to loans to private individuals, their growth rate stabilised at 5.1 percent, covering slowdown from 4.4 percent to 4.1 percent in the growth rate of housing loans and an acceleration from 4.6 percent to 4.9 percent for consumer loans.

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



Nonperforming loans increased by 5.5 percent and their ratio to bank credit remained virtually unchanged at 7.7 percent. This trend reflects a 14 percent increase in household claims and 0.6 percent in private nonfinancial corporations' claims.

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



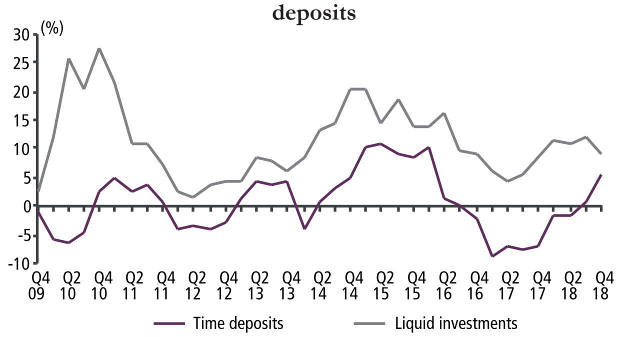
Loans granted by nonbank financial companies to the nonfinancial sector increased by4 percent after 5.9 percent in the previous quarter. This change covers a deceleration from 6.1 percent to 5.3 percent in the growth of loans granted by finance companies, a slowdown from 13.7 percent to 13.4 percent in the decline in loans distributed by offshore banks and an acceleration from 6.7 percent to 9.1 percent in the growth of loans granted by microcredit associations.

The latest available data relate to January 2020 and indicate a deceleration in bank credit growth to 5.1 percent. As for loans to the non-financial sector, their growth rate accelerated to 5.3 percent, covering a slowdown from 7.1 percent to 6.3 percent in the growth of loans to private companies, an acceleration from 4 percent to 4.5 percent in the growth of loans to households and a slight increase of 0.4 percent after a 2.1 percent decline in lending to public companies.

Growth in liquid investment aggregates slowed from 7.3 percent to 6.7 percent in the fourth quarter of 2019. This trend reflects a deceleration in growth rates from 6 percent to 4.6 percent for Treasury bills and from 8.3 percent to 6.3 percent for bond mutual fund securities. Conversely, securities of equity and diversified mutual funds rose by 13.4 percent after 1.8 percent in the previous quarter.

Over the year2019 as a whole, the money supply grew by 3.7 percent instead of 4.1 percent in 2018. This trend includes a slowdown in the growth of claims on the central government from 21 percent to 5.6 percent, an acceleration in bank credit from 3.2 percent to 5.3 percent and a 6.5 percent expansion in net international reserves, after a 4.3 percent decline a year earlier.

Chart 3.11: YoY change in liquid investments and time deposits



Box 3.1: New nonconventional monetary policy measures

In his speech of 11 October 2019 on the occasion of the opening of the first session of the fourth legislative year of the 10th legislature at the Parliament's headquarters, His Majesty the King called on the banking system to «simplify and facilitate access to loans, be more open to self-employment projects andfinance the creation of small and medium sized enterprises». He thus expressed his wish that the Government and Bank Al-Maghrib, in coordination with the GPBM,»would develop a special program to provide financial support to young graduates and fund small self-employment projects".

In response to the Royal orientations, Bank Al-Maghrib has expanded its set of nonconventional measures in favour of VSMEs by adding the following actions:

- **Setting up an unlimited refinancing mechanism** for all bank loans granted to the groups targeted by the speech of His Majesty the King. This mechanism will also benefit the agricultural sector as well as projects implemented in rural areas. This adds to the programme put in place since 2012 in order to directly refinance bank loans granted to VSMEs.
- **The application of a preferential interest rate of 1.25 percent** within the framework of the bank refinancing mechanism for the target groups, i.e. 100 basis points below the key rate.

- **The reduction of capital requirements** as part of the prudential rules applied to banks for lending to this category of businesses.

These measures are a component of the «Integrated Business Support and Financing Programme» designed to improve access to finance for young project developers and VSEs. The latter also includes the creation of a special purpose account entitled «Support Fund for Entrepreneurship Financing» within the framework of the 2020 Finance Act. This fund, which is financed equally by the State and the banking sector, is endowed with a budget of 6 billion dirhams over three years. The Hassan II Fund has been called upon by His Majesty the King to contribute to this initiative by injecting into the fund anadditional budget of 2 billion dirhams dedicated to the rural world.

The program includes three new products available from February 4, 2020 at the level of the banking network, in addition to the products already offered by the Central Guarantee Fund(CCG).They target self-entrepreneurs, young graduates, micro and VSEs[1], the informal sector and small businesses exporting to Africa.

It consists of two guarantee products and a business start-up assistance loan:

- **Damane Intelak:** It aims at providing a guarantee of 80 percent of the credit capped at 1.2 million dirhams for project developers or companies with less than 5 years of activity and whose turnover does not exceed 10 million dirhams. Financing is granted at a fixed rate of 2 percent. The financing can be in the form of an investment or an operating credit.

- **Damane Intelak Al Moustatmir Al Qaraoui:** This product is addressed to the same target population but in the rural world, in addition to small farms, projects built on the Melkisation operation. Like the one addressed to the urban world, it aims at providing a guarantee of 80 percent of the credit, capped at 1.2 million dirhams, and the loan is granted at a fixed rate of 1.75 percent.

For these two products, the credit applicant will not have to provide personal guarantees. The only guarantees required will be those inherent to the project as well as those provided by the CCG.

The third product which has been designed to help companies in their start-up is:

- **Start-TPE:** It targets companies benefiting from an investment loan of up to 300 thousand dirhams, guaranteed by the Intelaka program and which need a start-up working capital. This start-up assistance takes the form of an honorary loan of a maximum of 50 thousand dirhams granted at 0 percent interest rate and without any security requirement. It must be repaid in full at the end of the fifth year.

Concerning the existing products, they will be improved by extending their coverage to all the populations concerned and promoting access to financing.

1 1 Within the framework of this program, the definition of VSEs has been extended to enterprises with a turnover not exceeding 10 million dirhams, and that of SMEs to enterprises with a turnover of less than 175 million dirhams.

3.2 Asset prices

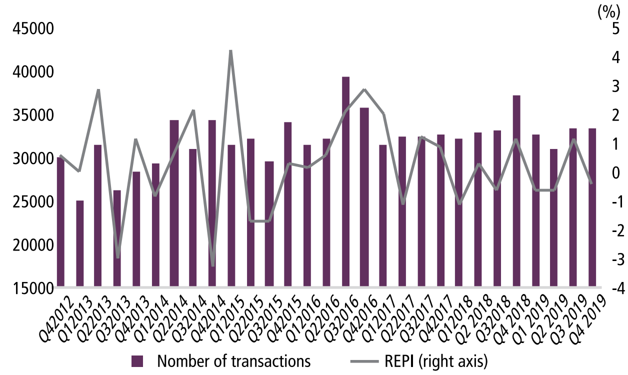
3.2.1 Real estate assets

In the fourth quarter of 2019, the Real-estate prices index posted a quarterly decline of 0.4 percent. This development includes price decreases of 0.8 percent for urban land and 0.4 percent for residential property, as well as a 2.3 percent increase in the prices ofproperty for professional use. As for the number of transactions, it fell by 0.7 percent, in line with the 2.7 percent decline in sales of residential property. Transactions in property for professional use increased by 17 percent, while those in urban land stagnated quarter-over-quarter.At the level of the main cities, quarterly price decreases ranged from 0.3 percent in Casablanca to 3.1 percent in Rabat, while increases were recorded in Agadir with 1.8 percent, El Jadida with 0.9 percent and Marrakech with 0.6 percent.

As for the number of transactions, it increased in the majority of large cities, excluding Oujda and Casablanca where it decreased by 9.5 percent and 5.1 percent, respectively.

For the whole year 2019, real-estate asset prices remained virtually stagnant compared to 2018 for all categories of property. At the same time, the volume of transactions fell by 3.8 percent after an increase of 4.8 percent in 2018. The contraction in sales also affected all categories of goods, with decreases of 10.2 percent for urban land, 4.7 percent for property for professional useand 1.9 percent for residential property.

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



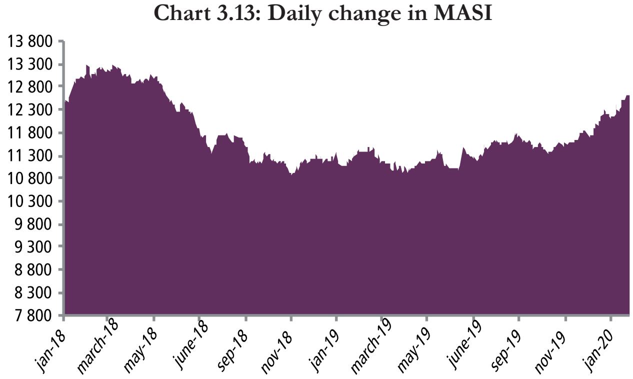
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

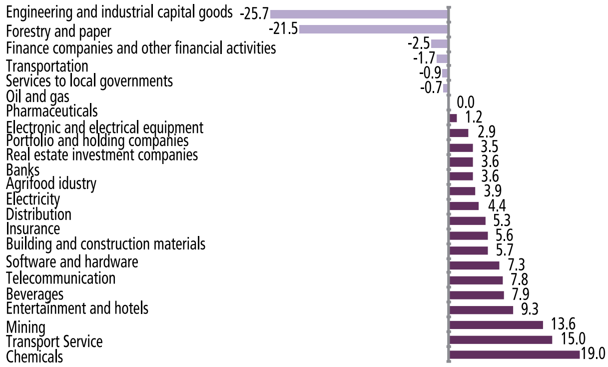
In the fourth quarter of 2019, the MASI rose by 5.3 percent, bringing its annual performance to 7.1 percent. This quarterly change mainly reflects increases in the sectoral indices of «banking» by 3.6 percent, «agri-food « by 3.9 percent, «buildings and construction materials» by 5.7 percent and «beverages» by 7.9 percent.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

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



Source : Casablanca Stock Exchange.

As regards the volume of transactions, it amounted to 25.9 billion in the fourth quarter, compared with 13.5 billion dirhams one quarter earlier. By compartment, tradewent from 5.5 billion to 11 billion on the central market and from 1.5 billion to 12.7 billion on the block market. Capital increases amounted to 1.9 billion, compared with 2.2 billion in the previous quarter.

Under these conditions, market capitalization posted a quarterly increase of 5.5 percent to reach 626.7 billion dirhams.

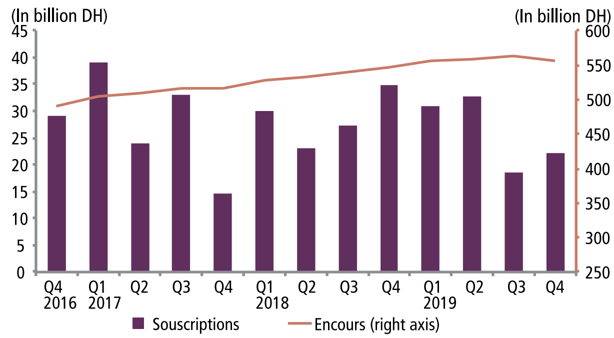
The data of February show a performance of the MASI by 0.7 percent since the beginning of the year. The volume of trade reached 4.2 billion after 4.9 billion in January and 6.3 billion on average in 2019. Market capitalization stood at 630.2 billion, up 0.6 percent compared to December 2019.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic marketreached 22.3 billion dirhams in the fourth quarter, which represents a quarterly increase of 20 percent. They concernedlong maturities for 59 percent and medium maturities for 31 percent.

In February, Treasury borrowings amounted to 9.7 billion dirhams, 69 percent of which concerned long maturities and 21 percent of which concerned medium maturities. Taking into account repayments of 2.5 billion dirhams, outstanding Treasury bills amounted to 579.3 billion dirhams, up 4 percent compared to end-December.

Chart 3.15: Change in outstanding Treasury bonds



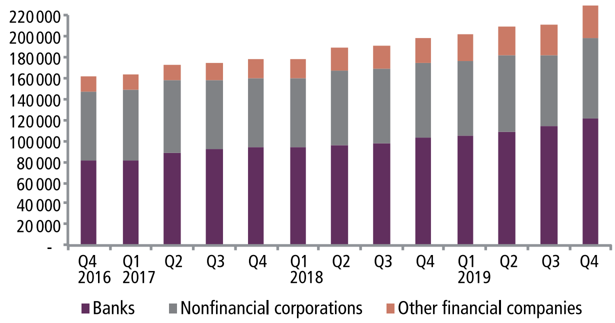
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issuances increased by 110 percent to 33.9 billion dirhams in the fourth quarter of 2019. Bank issues reached19.5 billion dirhams after 11.9 billion dirhams and nonfinancial companies issues reached 9.8 billion dirhams against 1.9 billion dirhams.

In January, 4.6 billion was raised, after 19.9 billion in December and an average of 7.2 billion in 2019. Taking into account repayments, outstanding private debt increased by 0.2 percent since the beginning of the year to 229.6 billion dirhams.

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

At the end of the fourth quarter of the year, subscriptions to to mutual fund securities decreased by 14.2 percent to 187 billion dirhams and redemptions fell by 19 percent to 177.7 billion dirhams, i.e. a net inflow of 9.3 billion dirhams which concerned «medium and long-term bond», «money market», «equity», and «diversified» funds. Performance was up for all funds, ranging from 0.7 percent for "short-term bond" funds to 5.1 percent for "equity" funds.

Against this background, net assets of mutual funds increased by 3.7 percent to 470.6 billion. This change mainly reflects increases of 6.9 percent for "equity" funds, 3.4 percent and 3.2 percent for "bond" and "money market" funds, respectively.

Data as at February 14 indicate an increase in mutual funds' net assets by 0.9 percent since the beginning of the year to 475 billion dirhams. This trend covers rises of 7.6 percent for «diversified» funds, 6.1 percent for «money market» funds, 3.2 percent for «equity» funds and 0.7 percent for «medium and long-term bond»funds. By contrast, net assets of «short-term bond» funds and «contractual» funds decreased by 6.8 percent and 4.2 percent, respectively. This change is the result of a net inflow of 6.5 billion, mainly in money market funds.

4. FISCAL POLICY STANCE

Budget execution for the year 2019 resulted in a deficit, excluding privatization, of 5.4 billion to 47 billion, which represents 4.1 percent of GDP and 3.6 billion more than in the 2019 Finance Act. Currentrevenues, excluding privatisation, increased by 4.6 percent, following an improvement in tax and nontax revenues, boosted in particular by the receipt of 9.4 billion in revenue from special financing mechanisms. At the same time, current expenses increased by 4.6 percent, mainly as a result of a 7.3 percent rise in spending on goods and services, while the subsidy expenseswere 9.3 percent lower. Capital expenditure increased by 7.3 percent to 70.4 billion. Direct public debt would thus have reached 66.1 percent of GDP against 65.3 percent at the end of 2018.

In 2020, January's budget execution showed a deficit of 1.9 billion, instead of a surplus of674 million a year earlier. This change was due to a significant increase in current expenditure compared to the rise in revenues. Current expenditure went up 24.7 percent to 27 billion, mainly due to a 39.7 percent hike in the wage bill, partly due to the cumulative effect of the two planned wage increases, and a 19.2 percent rise in expenditure on other goods and services. At the same time, currentrevenues increased by 1 percent to 23.2 billion, covering a 1.3 percent rise in tax revenues and a 43.9 percent decline in nontax revenues. The current balance thus showed a deficit of 3.7 billion, instead of a surplus of 1.4 billion at the end of January 2019. The balance of the Treasury's special accounts improved by 19.6 percent to 13.9 billion.

The Treasury reduced its stock of pending transactions by 5.9 billion at end-January 2020, bringing the cash deficit to 7.8 billion, compared with 6.1 billion for the same period of 2019. It used domestic resources worth 8.3 billion to finance this requirement as well as the negative net external flow of 477 million. As a result, the outstanding direct public debt would have increased by 2 percent compared with its level at end-December 2019. The Treasury's financing conditions were favourable, as indicated by the fall in the weighted average rate of securities issued on auction market.

4.1 Current receipts

Budgetary execution in the first month of 2020 shows an increase of 1 percent to 23.2 billion in current revenues, covering a 1.3 percent rise to 22.7 billion in tax revenues and a 43.9 percent decrease to 337 million in non-tax revenues. The favourable change in tax revenues is mainly attributable to VAT and corporate tax (CT) receipts, and to a lesser extent to domestic consumer tax (DCT) revenues on energy products, income tax (IT) and customs duties and registration and stamp duties.

Direct tax revenues increased by 4.3 percent to 6.5 billion, reflecting an 11 percent increase in CT revenues to 1.8 billion and a 2.2 percent rise in income tax (IT) revenues to 4.6 billion. The change of the latter includes in particular a 2.7 percent decrease in income tax on real-estate profits to 250 million and a 4.8 percent increase in IT on salaries paid by the Personnel Expenditure Department to 718 million.

Indirect taxes, on the other hand, fell by 1.2 percent to 11.9 billion, as a result of a 3.9 percent increase in VAT receipts to 9.2 billion and a 15.5 percent decline in DCT receipts to 2.7 billion. The trend in VAT receipts reflects a 3.6 percent increase in import VAT receipts to 4.7 billion and a 4.2 percent rise in domestic VAT receipts to 4.6 billion. The latter takes into account refunds amounting to 629 million instead of 229 million at end-January 2019.

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

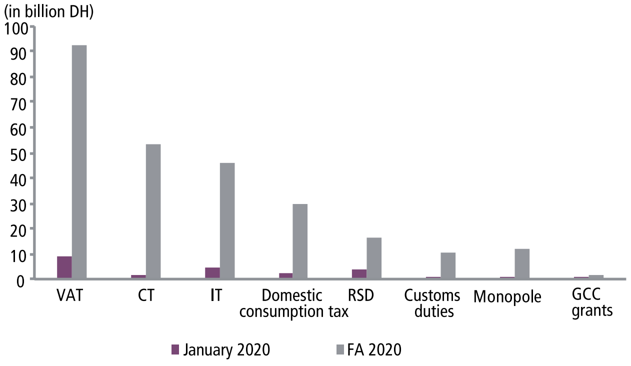
	Jan. 2019	Jan. 2020	Change in %	FA 2020	Achievements against the FA (%)
Current revenues	**23.0**	**23.2**	**1.0**	**288.3**	**8.1**
Tax revenues	**22.4**	**22.7**	**1.3**	**255.0**	**8.9**
- Direct taxes	6.2	6.5	4.3	105.4	6.2
Including CT	1.6	1.8	11.0	53.0	3.3
I.T	4.5	4.6	2.2	46.2	10.0
- Indirect taxes	12.0	11.9	-1.2	122.8	9.7
VAT*	8.9	9.2	3.9	92.7	10.0
DCT	3.1	2.7	-15.5	30.0	8.8
- Customs duties	0.7	0.8	10.3	10.2	8.0
- Registration and stamp duties	3.4	3.5	2.6	16.6	20.9
Nontax revenues	**0.6**	**0.3**	**-43.9**	**30.0**	**1.1**
- Monopoles	0.1	0.05	-50.0	12.2	0.4
- Other receipts	0.5	0.3	-42.6	17.8	1.6
Including GCC grants	0.01	0.02	100.0	1.8	1.2
Recettes des CST	**0.0**	**0.2**	**-**	**3.3**	**6.3**

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

As far as DCT revenues are concerned, their trend includes in particular a 40.3 percent drop to 907 million for DCT on tobacco and a 6.6 percent increase to 1.6 billion for DCT on energy products.

For their part, receipts from customs duties and registration and stamp duties improved by 10.3 percent to 818 million and by 2.6 percent to 3.5 billion, respectively.

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
- IT : Income tax
- RSD : Registration and stamp duties
- CT : Corporate tax
- DCT : Domestic consumption tax
- CD : Customs duties

For their part, nontax receipts fell by 43.9 percent, with in particular the collection of 22 million dirhams in donations from the GCC, compared to 11 million a year earlier, and of 53 million of revenues of monopolies from Bank Al-Maghrib, compared to a total of 106 million in January 2019.

4.2 Expenditure

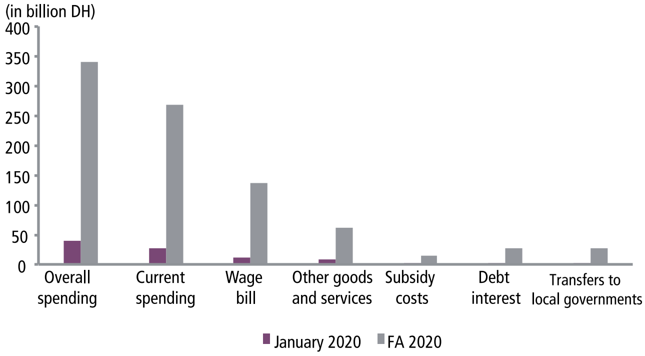
Overall spending at end-January 2020 amounted to 39.1 billion, an increase of 15 percent, as a result of a 24.7 percent rise in current expenses to 27 billion and a 2.1 percent decrease in current expenses to 12.1 billion of investments. Expenditure on goods and services rose by 30.4 percent to 21.5 billion, in line with the 39.7 percent increase in the wage bill to 12.6 billion and the 19.2 percent hike in expenditure on other goods and services to 8.9 billion, including expansions of 56.3 percent to 5 billion in payments to public institutions and companies and of 79.4 percent to 445 million in the Treasury's special accounts. The change in the wage bill is partly linked to the cumulative effect of the two planned wage increases, with an 18.1 percent rise in its structural component and a 91.4 percent decline in the back-pays on payrolls provided by the Personnel Expenditure Department. It should be noted in this respect that the wage bill includes social security charges for the employer's share previously classified under other goods and services.

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

	Jan. 2019	Jan. 2020	Change in %	FA 2020	Achievements against the FA (%)
Overall spending	**34.0**	**39.1**	**15.0**	**339.6**	**11.5**
Current spending	**21.6**	**27.0**	**24.7**	**269.3**	**10.0**
Goods and services	16.5	21.5	30.4	198.8	10.8
Personal**	9.0	12.6	39.7	138.1	9.1
Other goods and services	7.5	8.9	19.2	60.7	14.7
Debt interests	1.3	1.3	-0.6	28.0	4.7
Clearing	1.1	1.4	20.8	14.6	9.3
Transfer to local governments	2.7	2.8	3.9	27.8	10.0
Investment	**12.3**	**12.1**	**-2.1**	**70.4**	**17.2**

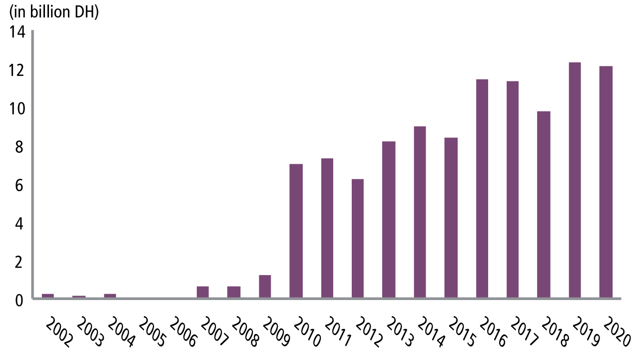
*Taking into account 30 percent of the VAT transferred to local governments.
** Social security charges relating to the employer's share, previously classified under other goods and services, have been included under staff expenditure.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Chart 4.2: spending execution compared to the FA



Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

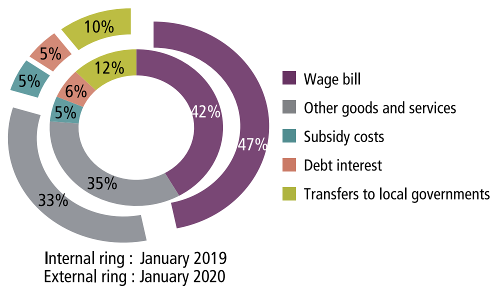
Chart 4.4: Investment spending, at end of January



Source : Ministry of Economy and Finance and Administration Reform.

Debt interest charges fell by 0.6 percent to 1.3 billion, reflecting similar decreases in interest on domestic debt to 1.1 billion and external debt to 249 million.

Chart 4.3: Structure of current spending



Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

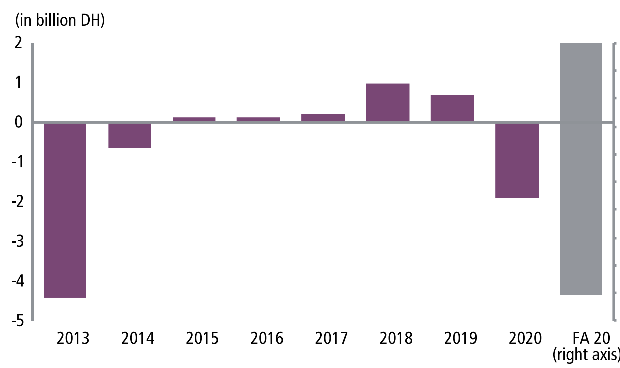
As regards subsidization, costs increased by 20.8 percent to 1.4 billion, while in terms of issuances, according to the data of the General Treasury of the Kingdom (TGR), payments worth 400 million were made in January 2020, while no payments were made in January 2019.

As for capital expenditure, it fell by 2.1 percent to 12.1 billion, following the 1.1 percent drop in common expenses to 10.6 billion and the 8.1 percent decline in expenditure of ministries to 1.5 billion.

4.3 Deficit and Treasury Financing

Taking into account the changes in revenue and expenditure and an improvement of 19.6 percent to 13.9 billion in the balance of the Treasury's special accounts, the fiscal balance posted a deficit of 1.9 billion, compared to a surplus of 674 million at the end of January 2019. The Treasury reduced its stock of pending transactions by 5.9 billion, bringing the cash deficit to 7.8 billion from 6.1 billion a year earlier.

Chart 4.5: Fiscal balance, at end of January



Source : Ministry of Economy and Finance and Administration Reform.

Net external financing flows were negative at 477 million, compared with 641 million a year earlier. This flow, as well as the cash deficit, was financed by net domestic resources worth 8.3 billion, compared to 6.1 billion at end-January 2019.

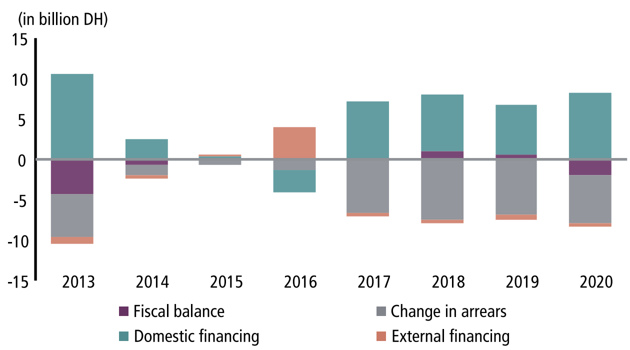
Table 4.3: Deficit financing (in billions of dirhams)

	Jan. 2019	Jan. 2020	FA 2020
Current balance	**1.4**	**-3.7**	**19.1**
Balance of TSA	11.6	13.9	6.0
Primary balance	2.0	-0.6	-17.3
Fiscal balance	**0.7**	**-1.9**	**-45.3**
Change in arrears	-6.8	-5.9	
Financing requirements	**-6.1**	**-7.8**	**-45.3**
Domestic financing	6.1	8.3	27.7
External financing	-0.6	-0.5	14.6
Privatization	0.0	0.0	3.0

Source : Ministry of Economy and Finance and Administration Reform.

In terms of domestic financing, recourse to the treasury bill market reached a net amount of 14.9 billion, compared with 3.1 billion a year earlier. Net subscriptions concerned mainly 15-year bills for 8 billion, 2-year bills for 3.6 billion, 20-year and 30-year bonds for 1.7 billion each, and 10-year bonds for 1.1 billion. Net repayments concerned 52-week and 13-week bills for 945 million and 400 million, respectively.

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



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

The Treasury financing conditions on the auction market remained favourable. Weighted average rates (WAR) were lower than in January 2019. WARs for 52 week- and 2-year maturities decreased by 12 basis points (bps)to 2.32 percent and by 21 bps to 2.36 percent, respectively. For long-term maturities, rates continued their downward trend, with a 78-bp decline for 15-year maturities to 2.94 percent.

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

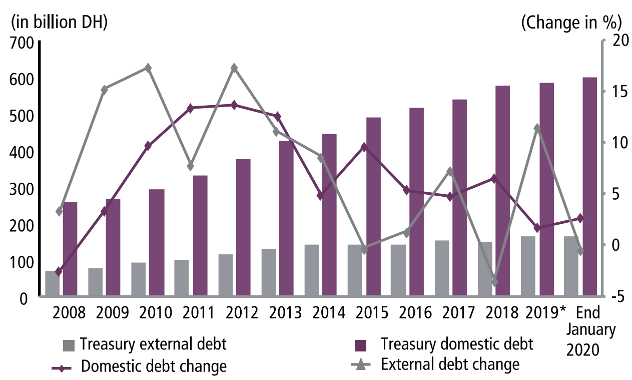
	2015	2016	2017	2018	2019*	At end Jan. 2020*
Treasury external debt	**140.8**	**142.8**	**153.2**	**148.1**	**165.1**	**164.6**
Change in %	-0.2	1.4	7.3	-3.4	11.5	-0.3
Treasury domestic debt	**488.4**	**514.7**	**539.1**	**574.6**	**584.6**	**599.9**
Change in %	9.6	5.4	4.8	6.6	1.7	2.6
Outstanding direct debt	**629.2**	**657.5**	**692.3**	**722.7**	**749.7**	**764.5**
Change in %	7.3	4.5	5.3	4.4	3.7	2.0

Source : Ministry of Economy and Finance and Administration Reform.

Concerning debt at end 2019 and at ende january 2020, estimates are based on the flows of domestic and external financing.

Under these conditions, estimates of direct public debt based on financing flows show a 2 percent increase in its outstanding amount compared with its level at end-December 2019. This change is the result of a 2.6 percent increase in the domestic component and a 0.3 percent decline in the external component.

Chart 4.7: Treasury debt



Sources : Ministry of Economy and Finance and Administration Reform, and BAM estimates.

Box 4.1 : Budget execution for the year 2019

At the end of the 2019 fiscal year, the deficit, excluding privatisation, reached 47 billion, or 4.1 percent of GDP, up 5.4 billion compared to 2018, with an increase of 3.6 billion compared to the 2019 Financial Act. Current revenues strengthened by 4.6 percent to 270.9 billion, mainly reflecting the performance of non-tax revenues. At the same time, current expenditure increased by 4.6 percent to 249.8 billion, mainly as a result of a 7.3 percent rise in expenditure on goods and services, while subsidy costs eased. The current balance, thus, posted a surplus of 21.1 billion, up 3.7 percent, which made it possible to finance 30 percent of the capital expenditure, up 7.3 percent to 70.4 billion.

Executed at 96.9 percent, tax revenues amounted to 238.2 billion, up 1.3 percent, reflecting increases in indirect taxes and, to a lesser extent, in direct taxes, which were affected by the decline in CT and IT receipts. Indirect tax receipts increased by 2.4 percent to 117.6 billion, reflecting a 5.6 percent increase in DCT receipts to 29.9 billion and a 1.3 percent rise in VAT revenues to 87.7 billion. VAT on imports generated 56.1 billion, up 2.6 percent and domestic VAT 31.6 billion, down 0.9 percent, which takes into account refunds of 9.8 billion instead of 7.3 billion a year earlier. Concerning DCT, it mainly covers increases of 5.6 percent to 16.6 billion in DCT on energy products and 4.8 percent to 11.3 billion in DCT on tobacco.

Direct taxes, for their part, generated revenues of 95.8 billion, a slight increase of 0.3 percent, mainly covering a 2.1 billion income from the social solidarity contribution on profits, as well as decreases of 1.6 percent to 48.9 billion in CT revenues and of 0.5 percent to 42.1 billion in IT revenues. On the other hand, customs duties and registration and stamp duties revenues increased by 0.8 percent to 9.8 billion and 0.5 percent to 15.1 billion, respectively.

Table B 4.1.1: Budget execution for 2018 and 2019, in billions

	2018	2019	Ecarts		Achievements /FA 2019
			in %	value	
Ordinary receipts	**259.1**	**270.9**	**4.6**	**11.8**	**101.5**
Tax receipts*	**235.1**	**238.2**	**1.3**	**3.1**	**96.9**
- Direct taxes	95.5	95.8	0.3	0.2	93.3
Of which corporate tax I.S	49.7	48.9	-1.6	-0.8	94.0
Income tax revenues	42.3	42.1	-0.5	-0.2	94.4
- Indirect taxes	114.9	117.6	2.4	2.7	101.5
VAT	86.6	87.7	1.3	1.1	101.1
DCT	28.3	29.9	5.6	1.6	102.7
- Customs duties	9.7	9.8	0.8	0.1	103.6
- Registration and stamp	15.0	15.1	0.5	0.1	83.8
Non tax receipts	**20.2**	**28.9**	**43.1**	**8.7**	**163.1**
- Monopoles	9.3	10.5	12.9	1.2	91.7
- Other receipts	10.9	18.4	68.8	7.5	293.8
Donations from GCC countries	2.8	1.6	-41.4	-1.2	81.9
Revenues from innovative mechanisms	0.0	9.4	-	9.4	-
Receipts of some TSA	**3.8**	**3.8**	**0.8**	**0.0**	**115.4**
Overall expenses	**304.3**	**320.2**	**5.2**	**15.9**	**101.2**
Ordinary expenses	**238.7**	**249.8**	**4.6**	**11.1**	**96.5**
Goods and services	**168.7**	**181.1**	**7.3**	**12.4**	**97.0**
Personnel	106.2	111.5	5.0	5.3	99.4
Other goods and services	62.5	69.6	11.3	7.1	93.3
Public debts interests	**26.3**	**26.3**	**0.0**	**0.0**	**95.1**
Subsidy	**17.7**	**16.1**	**-9.3**	**-1.6**	**87.5**
Transfers to TA	**26.0**	**26.3**	**1.3**	**0.3**	**101.1**
Ordinary balance	**20.4**	**21.1**			
Investment	65.6	70.4	7.3	4.8	122.2
Balance of TSA	3.6	2.3			
Fiscal balance	**-41.7**	**-47.0**			
In points of GDP	**-3.8**	**-4.1**			
Primary balance	**-15.3**	**-20.7**			
Variation of arrears	0.4	-4.5			
Financing balance	**-41.3**	**-51.5**			
Domestic financing	43.1	29.2			
Exterior financing	-1.8	17.0			
Privatization	0.0	5.3			

Sources : - MEFAR (DTFE)
- Local government VAT reprocessing by BAM.

Nontax receipts increased by 43.1 percent to 28.9 billion. This was mainly due to the collection of revenues worth 9.4 billion from the special financing mechanisms and 1.6 billion in GCC grants, compared to 2.8 billion a year earlier. Revenues of monopolies amounted to 10.5 billion, instead of 9.3 billion at the end of 2018, of which 3 billion came from the ANCFCC (National Land Registry and Mapping Agency), 2.7 billion from the OCP)Moroccan Phosphates Office) and 1.5 billion from Maroc Telecom.

In comparison, overall spending rose by 5.2 percent to 320.2 billion, representing an execution rate of 101.2 percent of the Finance Act, reflecting increases of 4.6 percent to 249.8 billion in current expenses and 7.3 percent to 70.4 billion in investment. Operating expenditure reached 181.1 billion, up 7.3 percent, as a result of increases in the wage bill by 5 percent to 111.5 billion and in expenditure on other goods and services by 11.3 percent to 69.6 billion. As for debt interest charges, they stabilised at 26.3 billion, with a slight decrease of 0.1 percent to 22.6 billion in interest on domestic debt. As to subsidy expenses, they fell by 9.3 percent to 16.1 billion, corresponding to an execution rate of 87.5 percent of the Finance Act.

Taking into account the decrease of the stock of pending transactions worth 4.5 billion, the cash deficit, excluding privatisation, stood at 51.5 billion, which represents an increase of 10.2 million. In addition to privatization receipts worth 5.3 billion, this requirement was covered by net domestic resources worth 29.2 billion and net external loans for 17 billion, of which 10.6 billion were raised on the international financial market.

5. DEMAND, SUPPLY AND LABOR MARKET

In the third quarter of 2019, growth slowed to 2.1 percent, compared with 3 percent a year earlier. This trend reflects a 5.3 percent decline, after a 3.8 percent rise, in the agricultural value added, while the pace of non-agricultural activities accelerated from 2.6 percent to 3 percent. On the demand side, its domestic component contributed1.8 points to growth instead of 6.4 points in the same period of 2018, while net exports contributed 0.3 points, after a negative contribution of 3.5 points one year earlier.

Over the whole year 2019, national growth would have stood at 2.3 percent, after 3 percent in 2018, under the effect of a 5.3 percent decline, compared to a 4 percent increase, in the agricultural value added, while that of non-agricultural activities improved by 3.3 percent after 2.6 percent. In the first quarter of 2020, it would stand at 1.8 percent, with a 3.4 percent decline in the agricultural value added and a 2.2 percent increase in non-agricultural value added.

Concerning the labor market, the national economy generated 165 thousand net jobs in 2019 after 111 thousand a year earlier. At the sectorial level, with the exception of agriculture which experienced a significant loss, the other sectors recorded increases, particularly services. Taking into account a net inflow of 135 thousand job seekers, the unemployment rate decreased from 9.5 percent to 9.2 percent at the national level, from 13.8 percent to 12.9 percent in the cities but moved up from 3.6 percent to 3.7 percent in rural areas. Concerning labor costs, the latest available data for the fourth quarter of 2019 show an annual increase in the private sector's wage index by 2.1 percent in nominal terms compared to 0.9 percent a year earlier and 1.4 percent in real terms instead of 0.1 percent.

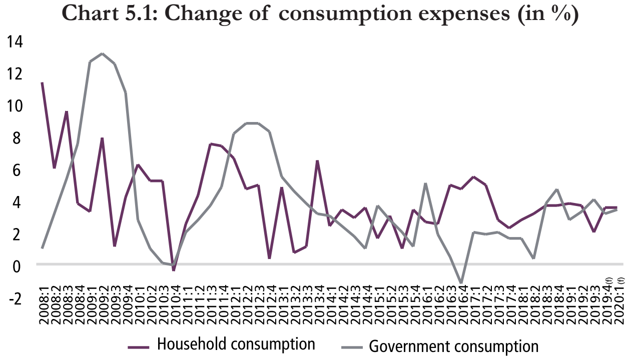
5.1 Domestic demand

5.1.1 Consumption

The national accounts for the third quarter of 2019 show a slowdown in the growth rate of final household consumption to 2 percent, from 3.6 percent a year earlier, bringing its contribution to growth to 1.2 percentage points instead of 2.1 percentage points. It would have continued to decelerate in the fourth quarter of 2019, falling from 3.7 percent to 3.5 percent, as suggested by the 2-point deterioration in the household confidence index and the deceleration in imports of finished consumer goods from 10.3 percent to 1.6 percent. In the first quarter of 2020, this trend would continue with growth standing at around 2.8 percent.

The growth rate of the final consumption of public administration increased to 4 percent in the third quarter, from 3.7 percent a year earlier, bringing its contribution to growth to 0.8 percentage points, compared with 0.7 percentage points in the same quarter a year earlier. It would then have been at 3.2 percent in the fourth quarter and would accelerate to 3.4 percent in the first quarter of 2020.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

In the third quarter of 2019, investment was down 0.4 percent instead of increasing by 11.4 percent a year earlier, thus making a negative contribution to growth of 0.2 percentage points against a positive contribution of 3.7 points. In the fourth quarter, growth would have been at 1.7 percent, virtually unchanged from a year ago. Sub-annual indicators show mixed trends. The flow of Treasury investments increased by 11.5 percent after a 9.5 percent drop a year earlier, while imports of capital goods fell by 5.2 percent instead of an 8.7 percent increase. Furthermore, the results of the quarterly economic survey conducted by Bank Al-Maghrib in the industrial sector indicate that the business climate was described as «normal» by the majority of surveyed companies.

In the first quarter of the current year, the pace of investment is expected to increase by 2 percent instead of 1.7 percent a year earlier.

5.2 Foreign demand

Foreign demand went up in the third quarter, contributing 0.3 percentage points to growth, compared with a negative contribution of 3.5 percentage points in the same period of the previous year. The growth rate of exports of goods and services increased to 7.9 percent instead of 2.7 percent, while the pace of imports slowed to 5.5 percent instead of 9.8 percent.

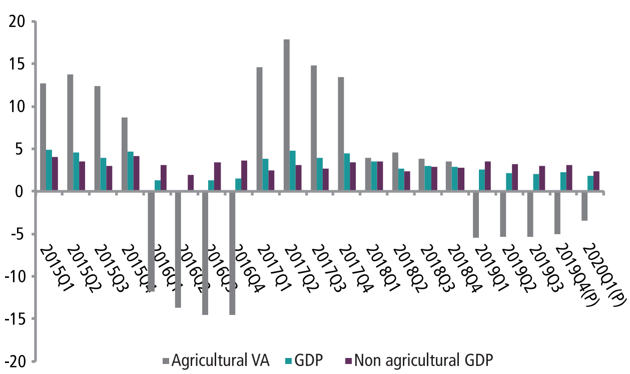
In the fourth quarter, the volume of net exports made a negative contribution of 0.8 percentage point to growth, reflecting the deceleration of the growth rate of exports of goods and services to 3.5 percent, after 5.2 percent a year earlier. On the import side, their growth rate would have decelerated from 5.4 percent to 4.4 percent, reflecting in particular lower imports of energy products and capital goods. The latter fell in nominal terms by 13.2 percent and 5.2 percent compared with increases of 14.3 percent and 8.7 percent, respectively, one year earlier.

In terms of outlook, export volumes for the first quarter of 2020 are expected to rise by 2.5 percent instead of 1.7 percent and import volumes are projected to increase by 4.2 percent after 3 percent in the same quarter a year earlier.

5.3 Overall supply

In the third quarter of 2019, growth slowed to 2.1 percent from 3 percent previously, due to a 5.3 percent decline, instead of a 3.8 percent rise, in agricultural value added and an increase from 2.6 percent to 3 percent in the pace of non-agricultural activities. This trend would have continued in the fourth quarter, when growth would have stood at 2.3 percent against 2.8 percent previously, as a result of a 5 percent decline, instead of a 3.5 percent increase, in the agricultural value added, while that of non-agricultural activities accelerated from 2.5 percent to 3.1 percent.

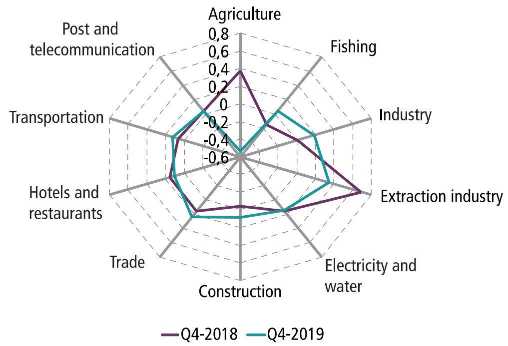
Chart 5.2: GDP per component (chained prices, change in %)



Sources: HCP data, and BAM forecasts.

On a sectorial basis, activity accelerated to 6.5 percent in the fourth quarter compared to 0.4 percent in the same period a year earlier for the mining industries and would have maintained its pace at around 6 percent for the «Electricity and water» branch. At the same time, value added would have increased by 1.6 percent, after a contraction of 0.8 percent in the construction sector and would have on the other hand clearly slowed down from 4.2 percent to 2.1 percent in the manufacturing industries.

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



Sources: HCP data, and BAM forecasts.

With regard to tertiary activities, growth would have increased from 2 percent to 3 percent for the «trade» branch and from 1.8 percent to 3.4 percent for transport services, and would have maintained its pace at around 2 percent for the «posts and telecommunications» sector. On the other hand, it would have slowed down from 5.8 percent to 3.9 percent for the «hotels and restaurants» branch.

In the first quarter of 2020, the activity pace would post a further decline of 3.4 percent after 5.5 percent in agriculture. In the non-agricultural sectors, it is expected to fall from 3.8 percent to 2.2 percent, due in particular to a decline in the «Electricity and water» branch and a deceleration in industrial, tourism and trade activities.

5.4 Labor market and output capacity[1]

5.4.1 Activity and employment

In 2019, the labor market was characterized by a 1.1 percent increase in the number of people aged 15 years and over to nearly 12.1 million people. This trend includes an increase of 3.1 percent in urban areas and a decrease of 1.7 percent in rural ones. Taking into account the increase in the working-age population, the participation rate maintained its downtrend at the national rate although at a slower pace, decreasing from 46 percent to 45.8 percent, while increasing in cities from 42 percent to 42.3 percent.

At the same time, job creation amounted to 165 thousand jobs, instead of 111 thousand in 2018, bringing the employed labor force to nearly 11 million people, up 1.5 percent. This variation is the result of an important creation of 308 thousand jobs in non-agricultural activities which more than offset the loss of 146 thousand jobs in agriculture. By activity sector, services created 267 thousand jobs, against 24 thousand in the building and public works sector and 17 thousand in industry, including handicrafts.

5.4.2 Unemployment and underemployment

The unemployed labor force fell by 2.6 percent to 1.1 million and the unemployment rate dropped from 9.5 percent to 9.2 percent at the national level, from 13.8 percent to 12.9 percent in the cities and moved up from 3.6 percent to 3.7 percent in rural areas. For young people aged 15-24years in particular, this rate decreased by 0.7 points to 24.9 percent overall and by 2.6 points to 39.2 percent in cities. Similarly, the underemployment rate[2] decreased slightly from 9.3 percent to 9.2 percent at the national level, from 8.4 percent to 8.3 percent in urban areas and from 10.6 percent to 10.4 percent in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity would have fallen by 1 percent in 2019, after a slight increase of 0.4 percent, reflecting acceleration from 2.6

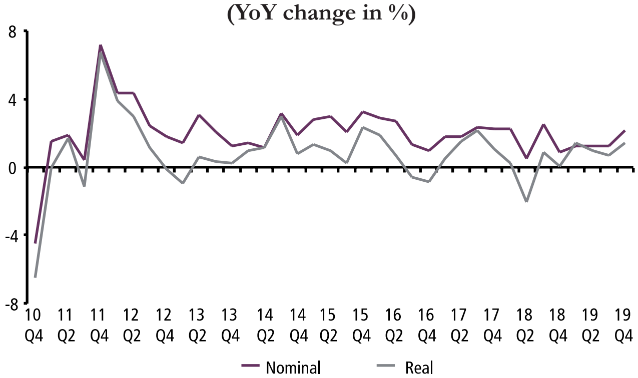
1 The HCP issued a press release on 9 October 2019 on the revision of the National Employment Survey (NES) data released from the second quarter of 2018 onwards. This follows the first release of 7 August, in which the HCP announces its decision to temporarily suspend the publication of employment indicators at regional level, the reasons given being related to the failure of the private company that the HCP has commissioned to redesign the NES data collection mode.

2 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.

percent to 3.3 percent of the value added and from 2.3 percent to 4.3 percent in the number of employees.

In turn, the average wage, calculated on the basis of data provided by the CNSS, rose by 2.1 percent in nominal terms in the fourth quarter of 2019 after 0.9 percent in the same period of the previous year, and by 1.4 percent in real terms instead of 0.1 percent.

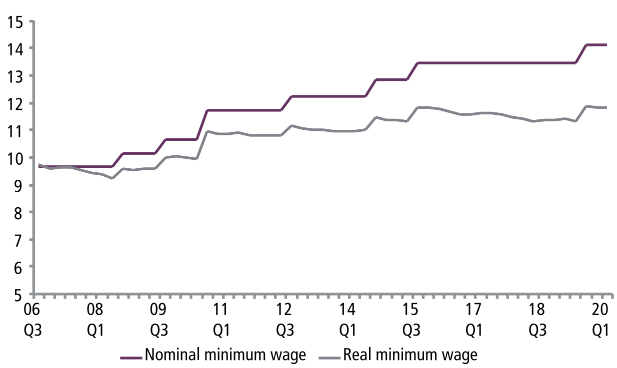
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The hourly SMIG (minimum wage) stood, in the fourth quarter of 2019, at 14.13 dirhams in nominal terms. Taking into account a 0.7 percent rise in the consumer price index, it would have recorded a real increase of 4.2 percent and would rise by 3.6 percent in the first quarter of 2020.

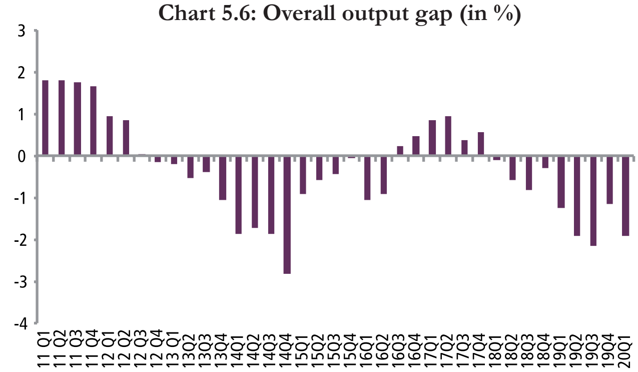
Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)



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

Under these conditions, the output-gap would remain negative during the fourth quarter of 2019 and the first quarter of 2020.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		2018	2019
Participation rate (%)		**46.0**	**45.8**
Urban		42.0	42.3
Rural		53.2	52.2
Unemployment rate (%)		**9.5**	**9.2**
Youth aged between 15 and 24 years old		25.6	24.9
Urban		13.8	12.9
Youth aged between 15 and 24 years old		41.8	39.2
Rural		3.6	3.7
Job creation (in thousands)		111	165
Urban		154	250
Rural		-43	-85
Sectors			
- Agriculture		-46	-146
- Industry including handicraft		44	17
- BTP		-30	24
- Services		142	267
Nonagricultural apparent productivity (change in %)		**0.4**	**-1.0**
		Q4 2018	**Q4 2019**
Average wage index (change in %)	**Nominal**	**0.9**	**2.1**
	Real	**0.1**	**1.4**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

The acceleration of inflation in the fourth quarter of 2019 projected in the last Monetary Policy Report has been confirmed. Inflation stood at 0.7 percent after 0.5 percent in the third quarter. Its average for the whole of 2019 was low at 0.2 percent, compared with 1.9 percent in 2018. In January 2020, inflation reached 1.3 percent, driven by the 6 percent rise in the prices of volatile food products, after an average of 2.6 percent in the fourth quarter, and by the 13.9 percent hike, compared to a 0.5 percent decrease, in the prices of fuels and lubricants. Moreover, core inflation rose to 0.5 percent, after 0.3 percent in the previous quarter, reflecting the easing of the decline in the prices of its food component and the one-off increase in transport insurance premiums. By contrast, the increase in the prices of regulated products was limited to 0.5 percent, compared with 1.6 percent in the previous quarter, reflecting the dissipation of the effect of the rise in tobacco prices a year earlier.

In the first quarter of 2020, inflation is expected to stand at 1.3 percent, while its underlying component is projected to reach 0.7 percent.

6.1. Inflation trends

Despite its gradual acceleration since the second quarter of 2019, inflation remained low, standing at 0.7 percent in the fourth quarter of 2019 and 0.2 percent on average over the year as a whole.

In January 2020, it reached 1.3 percent, driven by a stronger increase than in the fourth quarter in the prices of volatile food products, a rise, after a decline, in the prices of fuels and lubricants and, to a lesser extent, an acceleration of core inflation. The effect of these rises was, however, mitigated by a slowdown in the prices of regulated products.

6.1.1. Prices of goods excluded from core inflation

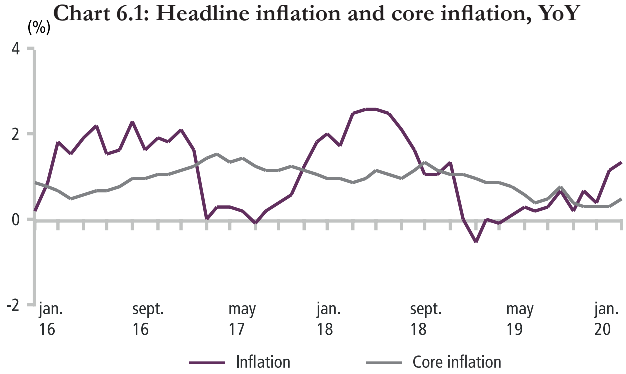
Volatile food prices rose by 6 percent in January after 2.6 percent in the fourth quarter of 2019, mainly reflecting a 29.9 percent hike, compared with a 17 percent decrease, in «citrus» prices. In addition, the rise in the price of «fresh fruit» by 13.1 percent, after 8.1 percent, and the easing of the fall in the price of «poultry and rabbit» to 2 percent, after 4.2 percent, also contributed to this development. In contrast, «fresh fish» prices fell by 1.5 percent after -0.2 percent in the fourth quarter of 2019.

Table 6.1: Change in inflation and its components

(In %)	MoM			YoY		
	nov. 19	dec. 19	jan. 20	nov. 19	dec. 19	jan. 20
Headline inflation	**0.4**	**0.0**	**-0.1**	**0.4**	**1.2**	**1.3**
- Volatile food prices	3.3	0.0	-1.6	0.7	4.5	6.0
- Fuels and lubricants	-1.3	-0.2	2.0	-3.2	5.9	13.9
- Administered prices	0.1	0.0	0.0	1.6	1.5	0.5
Core inflation	**0.1**	**0.0**	**0.2**	**0.3**	**0.3**	**0.5**
- Food products	0.1	0.0	0.2	-1.0	-1.0	-0.6
- Clothing and footwear	0.2	0.0	0.0	1.2	1.2	1.3
- Housing, water, gas, electricity and other fuels[1]	0.1	-0.3	0.1	1.7	1.4	1.3
- Furnishings, household equipment and routine house maintenance	0.1	0.4	-0.1	0.8	1.2	0.4
- Health[1]	0.0	0.1	0.3	3.7	3.1	2.9
- Transportation[2]	-0.4	-0.3	0.1	-0.1	-0.5	-0.2
- Communication	-0.3	0.0	0.0	-0.2	-0.2	-0.2
- Entertainment and culture[1]	-0.1	0.0	-0.1	1.9	1.9	1.8
- Education	0.4	0.0	0.0	2.7	2.7	2.7
- Restaurants and hotels	0.2	0.0	0.1	1.5	1.4	1.4
- Miscellaneous goods and services [1]	0.1	0.0	1.0	0.9	0.9	1.9

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

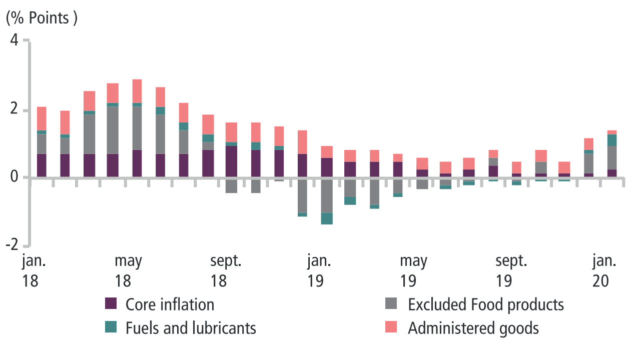
Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

Overall, the contribution of volatile food prices to inflation reached 0.7 percentage point in January, compared with 0.3 percentage point on average in the fourth quarter of 2019.

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

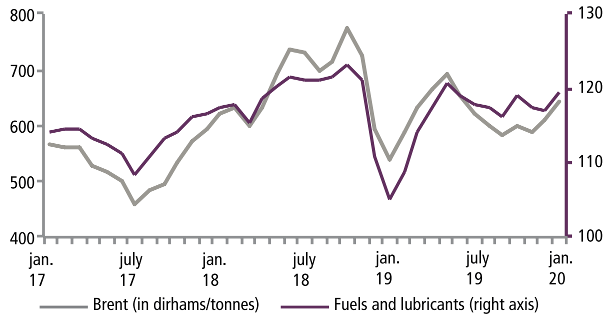


Sources: HCP, and BAM calculations.

As for the prices of fuels and lubricants, they posted a notable increase of 13.9 percent after falling by 0.5 percent on average during the last quarter of 2019, in line with the change in the international prices of petroleum products. Despite its moderate rise from $62.7/bl in the fourth quarter of 2019 to $63.6/bl in January 2020, the year-on-year change in the price of Brent reflects the base effect linked to its decline from $67.4/bl in the fourth quarter of 2018 to an average of $59.3/bl in January 2019.

The contribution to inflation from developments in the prices of these products increased to 0.3 percentage point instead of 0.2 percentage point on average in the fourth quarter of 2019.

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



Sources: World Bank, HCP, and BAM calculations.

As regards tariffs for regulated products, their growth rate slowed to 0.5 percent after an average of 1.6 percent in the previous quarter, reflecting the dissipation of the January 2019 increase in tobacco prices. Their contribution to inflation stood at 0.2 percentage points instead of 0.4 percentage points.

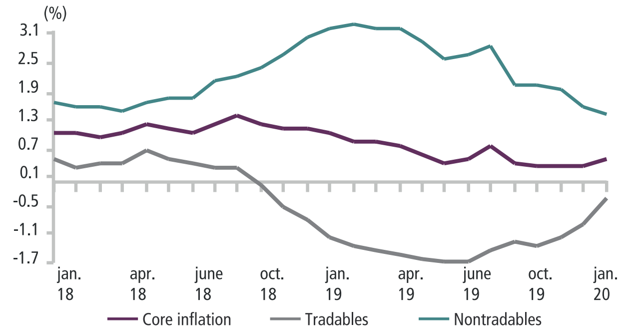
6.1.2. Core inflation

After reaching a low level of 0.3 percent in the last quarter of 2019, core inflation edged up slightly to 0.5 percent in January 2020.

This acceleration is mainly attributable to the easing of the fall in its food component prices from 1 percent to 0.6 percent and to the rise in the growth rate of the prices of various goods and services from 0.9 percent to 1.9 percent, which is itself due to the increase in transport insurance premiums induced by the introduction of a parafiscal solidarity tax against catastrophic events.

The breakdown of the basket of core inflation indicator into tradable and non-tradable goods indicates that its increase results from the less pronounced fall in the prices of tradable products, which offset the slowdown in the inflation of non-tradable products.

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



Sources: HCP, and BAM calculations.

The decline in tradable goods prices, which started since the fourth quarter of 2018, decreased to 0.3 percent in January, after 1.1 percent on average one quarter earlier, reflecting in particular the easing of the decline in oil prices from 7.9 percent to 1.8 percent. Their contribution to core inflation declined from -0.6 percentage point to -0.2 percentage point.

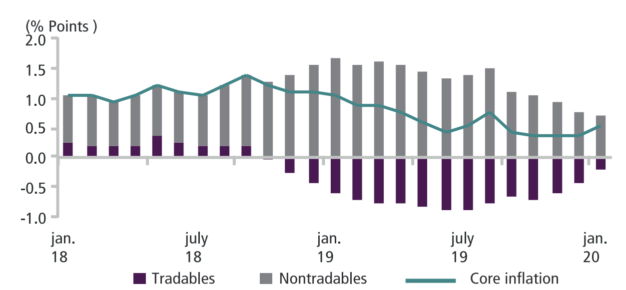
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	nov. 19	dec. 19	jan. 20	nov. 19	dec. 19	jan. 20
Tradables	0.0	0.0	0.1	-1.2	-0.8	-0.3
Nontradables	0.1	0.0	0.2	1.9	1.6	1.4
Core inflation	**0.1**	**0.0**	**0.2**	**0.3**	**0.3**	**0.5**

Sources: HCP, and BAM calculations.

In contrast, the growth rate of non-tradable goods prices slowed from 1.9 percent to 1.4 percent, mainly reflecting a deceleration from 2.1 percent to 0.4 percent in the growth rate of fresh meat prices. Their contribution to core inflation was 0.7 percentage point, compared with 0.9 percentage point.

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



Sources: HCP, and BAM calculations.

Box 6.1 : Inflation trend in 2019

In 2019, inflation decelerated significantly from 1.9 percent to 0.2 percent. This slowdown concerned both core inflation and the prices of products excluded from the latter.

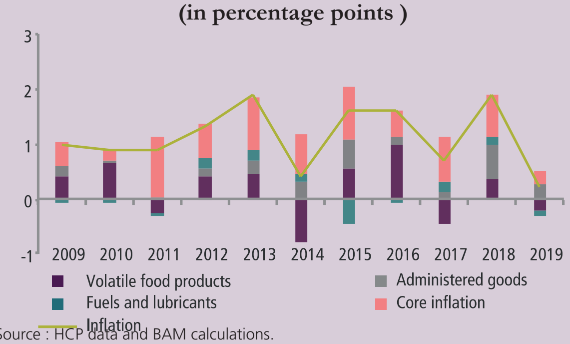
Thus, core inflation stood at 0.6 percent instead of 1.1 percent, mainly driven by the 0.6 percent fall, against a 0.8 percent rise, in the prices of its food component, in particular «oils», «dried leguminous plants» and «oils and fats», the prices of which fell by 10.3 percent, 11.9 percent and 1.5 percent, respectively.

As to the prices of volatile food products, they dropped by 1.4 percent, compared with an increase of 2.6 percent a year earlier, reflecting an almost general decline in the prices of this product category. With the exception of «fresh vegetables» and «unprocessed cereals», which recorded increases of 4.8 percent and 1.2 percent respectively, prices of other products posted falls ranging from 23.4 percent for «citrus fruits» to 0.8 percent for «fresh fish».

In addition, the increase in tariffs for regulated products was limited to 1.5 percent after 2.8 percent in 2018, as a result of the dissipating effect of the previous increase in stamp duties, which more than offset the higher increase in the price of «tobacco».

The prices of fuels and lubricants fell by 2.8 percent compared with an increase of 5.2 percent, due to the decline in international crude oil prices.

Chart B 6.1.1 : Contributions to inflation (in percentage points)



Source : HCP data and BAM calculations.

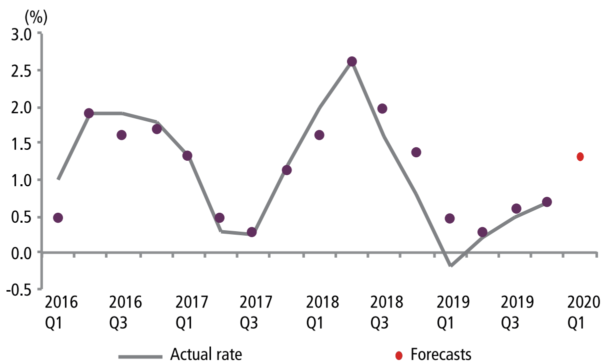
6.2. Short-term outlook for inflation

Inflation is expected to continue its upward trend to reach 1.3 percent in the first quarter of 2020, driven by an expected acceleration in its underlying component, the prices of volatile food products and fuel and lubricant prices.

Core inflation is expected to stand at 0.7 percent after 0.3 percent a quarter earlier. Volatile food prices are projected to rise by 5.5 percent after 2.6 percent in the fourth quarter. Similarly, prices of fuels and lubricants are forecast to rise by 3.7 percent after a 0.5 percent fall in the fourth quarter.

By contrast, in the absence of new government decisions, prices of regulated products would rise by only 0.7 percent instead of 1.6 percent in the previous quarter, driven by the dissipating effect of the tobacco price increase in January 2019.

Chart 6.6: Inflation short-term forecasts and actual rates

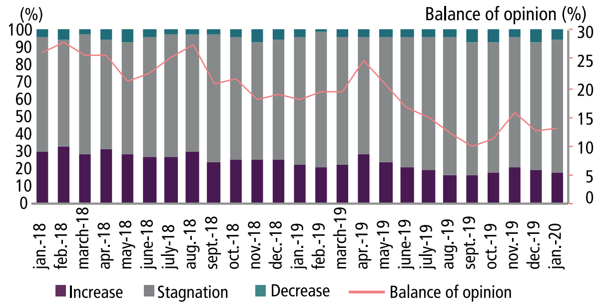


Source: BAM.

6.3. Inflation expectations

The results of Bank Al-Maghrib's business survey in the industrial sector, for January 2020, indicate that 76 percent of the industrialists surveyed expect inflation to stagnate over the next three months, 18 percent anticipate an increase of inflation and 6 percent forecast a decline. The balance of opinion thus stands at 13 percent.

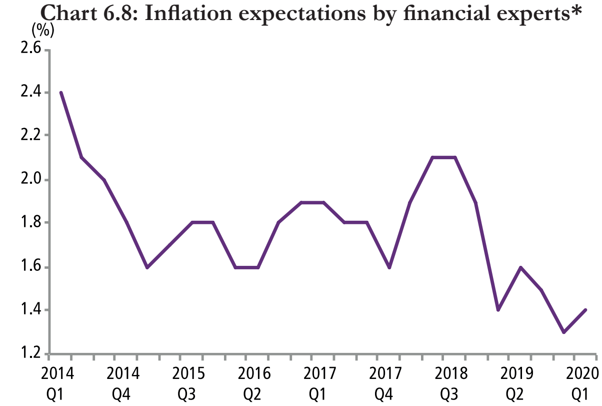
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

On the other hand, the results of Bank Al-Maghrib's survey of inflation expectations for the first quarter of 2020 indicate that financial experts expect inflation to stand at1.4 percent over the next eight quarters instead of 1.3 percent one quarter earlier.

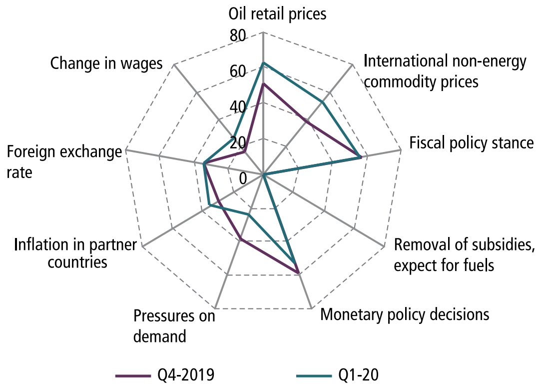
Chart 6.8: Inflation expectations by financial experts*



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

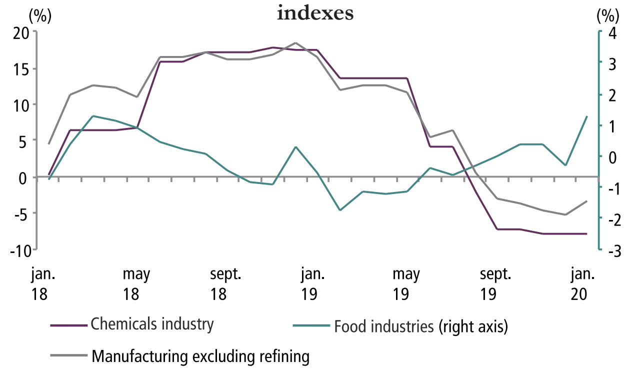
The latter consider that future inflation trends would be determined mainly by pump prices, the fiscal policy stance, monetary policy decisions and non-oil commodity prices.

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



Source: BAM's Quarterly Survey on Inflation Expectations.

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



Source: HCP.

6.4. Producer prices

The decrease of producer prices in non-refining manufacturing industries fell to 1.4 percent in January, after1.7 percent in the fourth quarter of 2019 and arise of0.5 percent on average over the whole year 2019. This trend was due to the acceleration in the growth rate of producer prices from 0.2 percent to 1.3 percent for the "food industries" and, to a lesser extent, to the increase from 1.6 percent to 2.3 in the «clothing industry» and from 0.2 percent to 0.5 percent in the «textile manufacturing» branch. By contrast, producer prices rose by 2.7 percent, instead of 4.2 percent, for «paper and cardboard industry» and fell by 2.4 percent, after a drop of 1.5 percent, for «manufacture of metal products excluding machinery and equipment».

7. MEDIUM-TERM OUTLOOK

Summary

Weakened by the trade war and political and geopolitical tensions, the world economy would have recorded in 2019 its weakest growth rate since 2009. Hopes of a recovery in 2020, cherished at the beginning of the year by positive developments on the trade front, faded away with the spread of Covid-19, the extent of the economic impact of which remains largely uncertain.

Global growth is expected to slow again from 3 percent in 2019 to 2.2 percent in 2020, with a downward revision of 0.8 percentage point from the projections of December, before accelerating to 3.8 percent in 2021. In the advanced economies, the slowdown in the United States would continue, partly reflecting the return to a neutral fiscal policy stance, before strengthening in 2021, thanks in particular to accommodative monetary conditions. In the euro area, growth is expected to weaken further in 2020, as economic difficulties in Italy and Germany in particular are exacerbated by Covid-19, before strengthening in 2021.

In the main emerging countries, growth in China would be particularly affected by this epidemic, with a significant decline in 2020, before rebounding in 2021. In India, supported by fiscal and monetary stimulus measures, growth is projected to accelerate over the forecast horizon, albeit at a slower pace than expected in December.

With regard to commodities, the oil market continues to be highly volatile, amid increasing concerns about global demand, particularly in connection with the impact of Covid-19, in parallel with the failure of the OPEC+ negotiations on the reduction of production. The price of Brent is expected to fall from an average of $64/bl in 2019 to $48.5/bl in 2020, before rising to $59.5/bl in 2021. On the other hand, after a sharp downward correction in 2019, DAP prices would record slight increases in the medium term and food prices would continue to rise overall in 2020 before stabilising in 2021.

Under these circumstances, inflation is projected to remain broadly low to moderate. It would gradually converge towards the FED's objectivein the United States and would remain below the ECB's objective in the euro area.

At the national level, recent economic developments and prospects remain marked by unfavourable weather conditions and the effects of the spread of Covid-19 on several activity sectors.

Concerning external accounts, and after widening to 5.5 percent of GDP in 2018, the current account deficit would have ended 2019 at 4.4 percent of GDP. It would narrow further to 3.5 percent in 2020 and 2.5 percent in 2021, reflecting in particular the expected improvement in car manufacturing sales.FDI receipts are projected to be equivalent to 3 percent of GDP over the forecast horizon.

Under the assumptions of an inflow of 2.2 billion dirhams in GCC donations and an international borrowing transaction of 10.7 billion dirhams by the Treasury in 2020, the outstanding amount of net international reserves (NIRs) would increase to 246 billion dirhams in 2020 and 251.9 billion in 2021, thus covering more than 5 months of goods and services' imports.

At the level of public finance, the budget deficit, excluding privatisation, widened from 3.8 percent of GDP in 2018 to 4.1 percent in 2019. In the medium term, the fiscal adjustment would continue, albeit at a slower pace, with a deficit of around 4 percent of GDP in 2020 and 3.9 percent in 2021, according to Bank Al-Maghrib's forecasts, not taking into account any exceptional effort that the Government would have to make in the current difficult economic situation.

Monetary conditions would remain accommodating overall. The Bank has expanded its non-conventional measures under the Integrated Business Support and Financing Programme. Taking into account the expected impact of this programme, growth in credit to the non-financial sector would decelerate to 4.5 percent in 2020 before accelerating to 5.3 percent in 2021. Additionally, the real effective exchange rate is expected to stabilize over the forecast horizon, after appreciating in 2019.

Against this background, and after a rate of 3 percent in 2018, growth would have decelerated again to 2.3 percent in 2019, as a result of an expected decline in agricultural value-added to 5.3 percent, while the increase in non-agricultural value-added would have improved to 3.3 percent, after 2.6 percent a year earlier. On the basis of the latest data available as of 10 March relating to the climatic conditions and the state of vegetation, cereal production for the 2019-2020 crop year would, according to Bank Al-Maghrib forecasts, be around 40 million quintals and the agricultural value-added would fall by 2.7 percent in 2020. The latter would, under the assumption of an average harvest of 75 million quintals in 2020-2021, rebound by 8.1 percent in 2021. At the same time, the growth rate of non-agricultural activities would slow down to 2.9 percent in 2020, mainly due to the worsening prospects for foreign demand in connection with the spread of Covid-19, before picking up again to 3.3 percent in 2021. Overall, the national economy's growth is expected to stagnate at 2.3 percent in 2020 before strengthening to 3.8 percent in 2021.

On the other hand, and after decelerating sharply to 0.2 percent in 2019, inflation is expected to accelerate moderately to 0.7 percent in 2020 and then to 1.2 percent in 2021, mainly reflecting a gradual recovery of its underlying component, albeit at a slower pace than expected in December.

7.1 Underlying assumptions

High uncertainties about the global economic outlook

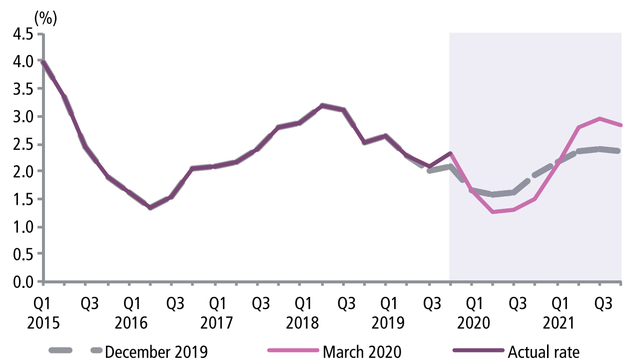
In 2019, the world economy would have recorded its slowest growth rate since 2009, weakened by the trade war and political and geopolitical tensions. Hopes of a recovery in 2020, cherished at the beginning of the year by positive developments on the trade front, have faded away with the spread of Covid-19, the extent of the economic impact of which remains largely uncertain.

Global growth is expected to slow from 3 percent in 2019 to 2.2 percent in 2020, with a downward revision of 0.8 percentage points from the projections of December, before accelerating to 3.8 percent in 2021. In the United States, after a rate of 2.3 percent in 2019, growth is expected to continue to slow to 1.4 percent in 2020, partly reflecting the return to a neutral fiscal policy stance, before strengthening to 2.7 percent in 2021, thanks in particular to accommodative monetary conditions. In the euro area, growth is expected to weaken from 1.2 percent to 0.4 percent in 2020, with a sharp downward revision compared to the projections of December, as economic difficulties in Italy and Germany in particular are exacerbated by Covid-19. It should pick up again to 1.8 percent in 2021, backed mainly by the ultra-accommodating stance of the ECB's monetary policy. At the same time, unemployment is expected to rise moderately in the United States and stagnate in the euro area. In Japan, activity is projected to experience a recession in 2020, due to Covid-19 and the VAT increase in October 2019, before picking up again in 2021.

In the main emerging countries, China would be particularly affected by Covid-19, with growth falling from 6.1 percent in 2019 to 4.1 percent in 2020, its lowest rate in nearly thirty years, before rebounding to 7.3 percent in 2021. Backed by fiscal and monetary stimulus measures, growth in India is expected to accelerate from 5.3 percent in 2019 to 6.3 percent in 2020 and 6.7 percent in 2021, which is yet slower than expected in December. In Brazil, growth is forecast to strengthen from 1.1 percent in 2019 to 1.7 percent in 2020 and then to 2.4 percent in 2021, thanks in particular to pension reform and accommodative monetary conditions.

Chart 7.1: Growth in the euro area

Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of march 2020.

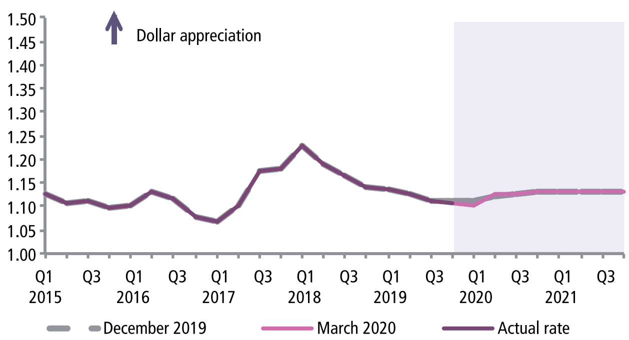
1 Global Projection Model Network.

Further monetary easing and near-stability of the euro against the dollar

Faced with the high level of uncertainty surrounding the outlook for global activity, particularly in connection with the impact of the spread of Covid-19, central banks have strengthened their monetary easing measures. In particular, the Fed, on 15 March, lowered again the target range for the federal funds rate by 100 basis points, following a 50-basis point cut on 3 March to 0 percent-0.25 percent. It plans to maintain this range until it becomes confident that the economy is on a path that would allow the objectives of maximum employment and price stability to be achieved. It also decided to resume its purchases of at least $700 billion in Treasury bills and mortgage-backed securities (MBS). As to the ECB, it announced on 12 March a package of additional quantitative easing measures and kept its key interest rates unchanged, reiterating that it expects them to remain at or below their current levels until it considers that the inflation outlook converges on a persistent basis towards its objective. At the same time, the Fed, the ECB, the Bank of Japan, the Bank of England, the Bank of Canada and the Swiss National Bank announced on 15 March a coordinated action to enhance the provision of liquidity through standing US dollar liquidity swap line arrangements by reducing the rates applied to these swaps by 25 basis points.

On the foreign exchange market, the euro depreciated by 5.2 percent to $1.12 in 2019, reflecting in particular weakening economic fundamentals in the euro area. It is expected to remain virtually stable at this level over the forecast horizon.

Chart 7.3: USD/ EUR exchange rate



Source: GPMN forecasts of march 2020.

Downward pressure on energy prices

Owing to concerns about global demand, particularly in connection with the spread of Covid-19, and the failure of negotiations between OPEC and Russia on the decrease of production, the oil market remains highly volatile. The price of Brent in particular is expected to fall from $64/bl in 2019 to $48.5/bl in 2020, before rising to $59.5/bl in 2021.

As regards phosphate and its derivatives, DAP prices experienced a sharp downward correction in 2019, mainly as a result of weak demand from China and lower input costs, while the price of crude was virtually stagnant. In terms of outlook, the World Bank forecasts of last October indicate an increase in DAP prices from$306/t in 2019 to $324/t in 2020 and $335/t in 2021. As for food prices, they ended 2019 up by 1.8 percent, reflecting in particular the increase in meat, dairy and sugar prices, and would continue to rise in 2020 before stabilising in 2021.

Under these circumstances, inflation is expected to remain broadly low to moderate. In the United States, after a slight deceleration from 1.8 percent in 2019 to 1.7 percent in 2020, it would converge towards the FED target in 2021, with an expected rate of 2.8 percent on average. In the euro area, it would fall from 1.2 percent in 2019 to 0.6 percent in 2020 before rising to 1.3 percent in 2021.

Chart 7.4: Brent price

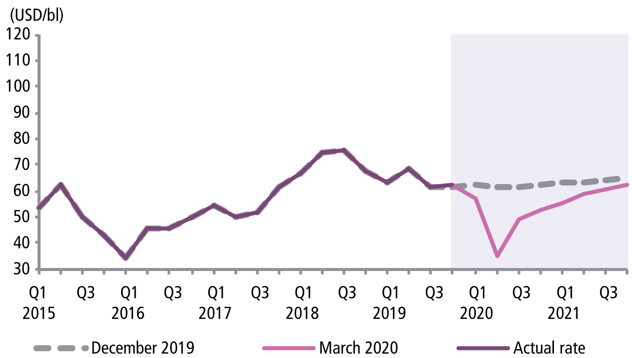


Chart 7.5: FAO food product price index

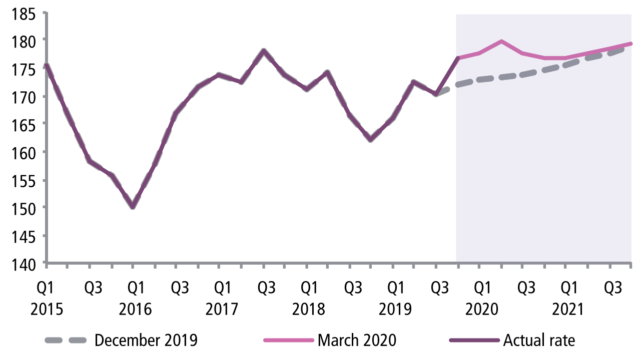


Chart 7.6: Inflation in the euro area

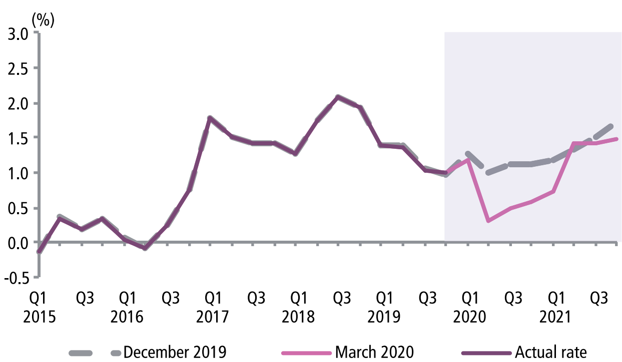
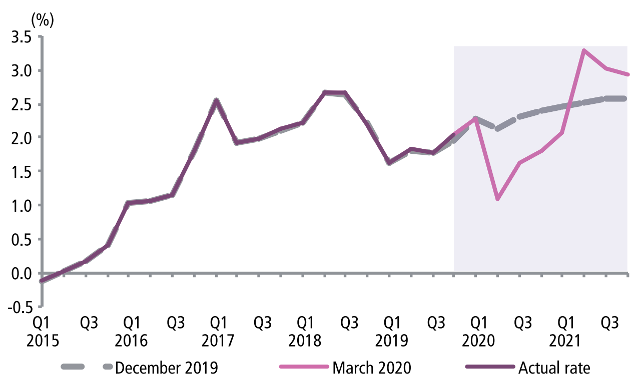


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of march 2020.

An estimated cereal production of around 40 million quintals in 2020 and an average harvest forecast in 2021

At the national level, climate-related data as of 10 March show a nearly generalized rainfall deficit with a total not exceeding 152.2 mm, down 38.7 percent compared to the previous season and 37.4 percent compared to the average of the last five years.Regarding the condition of vegetation, data as at the same date indicate that the vegetation cover is 7.1 percent lower than that of the previous season and 14.3 percent lower than the average for the last five years. Under these conditions, cereal production for the 2019-2020 crop year is forecast by Bank Al-Maghrib to be around 40 million quintals, down 22.9 percent compared to the previous season and 49.8 percent compared to the average of the last five years.

For the 2020-2021 crop year, the assumptions of an average cereal production of 75 million quintals and the forecasts for the other crops are retained.

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 have ended 2019 at 4.4 percent and is expected to narrow further to 3.5 percent in 2020 and 2.5 percent in 2021.

In 2019, import growth decelerated to 2 percent, mainly in relation to the decrease in the energy bill and the slowdown in the growth rate of capital goods acquisitions. As for exports, their growth slowed to 2.4 percent, mainly due to the decline in sales of phosphates and derivatives. Travel receipts improved by 7.7 percent after 1.3 percent in 2018 and Moroccan expatriates' remittances remained virtually stable at 64.9 billion, after a 1.5 percent decline in 2018.

In 2020, exports are projected to accelerate to 9.1 percent, driven mainly by higher sales in the car manufacturing sales, taking into account an announced production of 100 thousand cars by the PSA plant, and by the expected increase in shipments of phosphates and derivatives. The increase in imports is expected to decelerate to 1.1 percent, in line with the rise in acquisitions of equipment goods. Travel receipts are projected to decline by 8.7 percent due to the expected short-term decline in arrivals linked to the spread of Covid-19. As for Moroccan expatriates' remittances, they are expected to remain almost stable.

In 2021, the increase in exports is forecast to decelerate to 8.5 percent, with an increase for car manufacturing, assuming an increase in the capacity of the PSA plant to 200 thousand units. Imports would go up by 7 percent, with a forecast increase in the energy bill. Travel receipts and remittances by Moroccan expatriates are expected to increase by 16 percent and 2.4 percent, respectively.

FDIs are expected to stabilise at a level equivalent to 3 percent of GDP over the forecast horizon.

Under the assumptions of GCC grant inflows of 2.2 billion dirhams and an international borrowing transaction by the Treasury for 10.7 billion dirhams in 2020, NIRs are expected to strengthen to 246 billion dirhams in 2020 and 251.9 billion dirhams in 2021, thus continuing to cover more than 5 months of goods and services' imports.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (march/dec.)	
	2016	2017	2018	2019	2020	2021	2020	2021
Exports of goods (FOB)	3.5	10.3	10.7	2.4	9.1	8.5	-0.4	0.0
Imports of goods (CAF)	10.3	6.7	9.9	2.0	1.1	7.0	-3.0	1.9
Travel receipts	5.0	12.3	1.3	7.7	-8.7	16.0	-11.9	12.1
Expatriate remittances	4.0	5.3	-1.5	-0.1	0.2	2.4	-1.5	0.1
Current account balance (% of GDP)	**-4.1**	**-3.4**	**-5.5**	**-4.4**	**-3.5**	**-2.5**	**0.2**	**0.4**
Net international reserves in months of goods and services' imports	**6.3**	**5.6**	**5.3**	**5.4**	**5.0**	**5.3**	**0.3**	**0.3**

Sources: Foreign Exchange Office and BAM forecasts.

Continued improvement of the pace of bank credit to the nonfinancial sector

After appreciating in 2019, the real effective exchange rate is expected to remain broadly stable over the forecast horizon, reflecting an expected marked moderation in its appreciation in nominal terms and lower domestic inflation compared to partners and competitors.

Taking into account the expected change in NIRs and currency in circulation, the deficit of bank liquidity is expected to increase to 79.4 billion dirhams at end-2020 and to 92.4 billion dirhams at end-2021. As regards bank credit to the non-financial sector, its growth rate stabilized at 5.3 percent in January 2020, covering a slowdown from 7.1 percent to 6.3 percent in the growth of loans to private companies, an acceleration from 4 percent to 4.5 percent in the growth of lending to households and a slight increase of 0.4 percent after a 2.1 percent drop in lending to public companies. In terms of outlook and taking into account the downward revision of non-agricultural value-added and the expected effect of the new Intelaka Programme, its growth rate would decelerate to 4.5 percent in 2020 before accelerating to 5.3 percent in 2021. Against this background, and on the basis of the expected change in the other counterparts of the money supply, the growth of M3 aggregate would reach 3.4 percent in 2020 and 4.1 percent in 2021.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (march/dec.)	
	2016	2017	2018	2019	2020	2021	2020	2021
Bank lending to the nonfinancial sector*	3.9	3.8	3.1	5.3	4.5	5.3	-0.2	0.3
M3	4.7	5.5	4.1	3.7	3.4	4.1	-1.0	-0.6
Liquidity surplus or deficit, in billion dirhams	-14.7	-40.9	-69.0	-62.3	-79.4	-92.4	2.6	4.4

* Including BAM's estimated effect of the Intelaka program.

Continuation of the budget consolidation process

As expected in December, the 2019 fiscal year ended with a budget deficit, excluding privatisation, of 47 billion, or 4.1 percent of GDP, compared to 3.8 percent of GDP in 2018. This trend is the result of an increase in expenditure exceeding that of revenues, mainly due to the effects of social dialogue decisions on operating expenses and the acceleration of investment execution, which posted a 122.2 percent execution rate compared to the 2019 Finance Act.

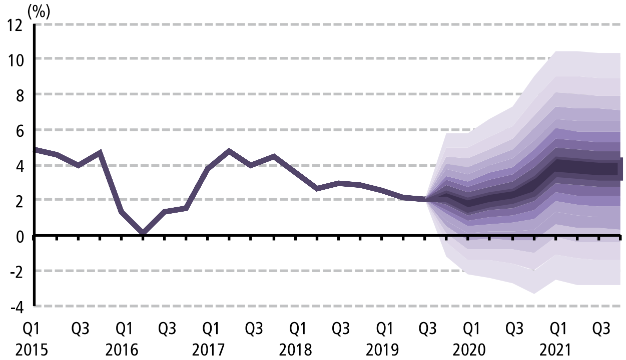
In the medium term, the budget consolidation process is expected to continue, albeit at a slower pace. The update of Bank Al-Maghrib's projections based on the latest available data shows, not taking into account any exceptional effort that the Government would have to make in the current difficult economic situation, a budget deficit, excluding privatisation, of 4 percent of GDP in 2020, i.e. an increase of 0.2 point compared to December. Adjustments were thus made, namely the downward revision of certain revenues as a result of the economic growth update in 2019 and 2020, the inclusion of the fine levied by the National Telecommunications Regulatory Agency (ANRT)on IAM in nontax revenues and the inclusion of the unrealized $0.4 billion balance of GCC grants for 2019 in 2020 donations. On the expenditure side, a reclassification of social security charges from the employer's share of other goods and services to staff expenditure was made, with no impact on the balance. In addition, the subsidization cost was revised downwards in line with the new forecasts for butane gas prices and the exchange rate, assuming that the Government would not use the hedging mechanism in a context of falling international oil prices. As for capital expenditure, it was kept unchanged.

In 2021, the budget deficit is expected to narrow slightly compared to 2020 to 3.9 percent of GDP, a forecast that was revised slightly up compared to December, in line with the revised economic growth forecast.

Slowdown in the growth rate of non-agricultural activities in 2020 and expected recovery in 2021

The growth of the national economy would have decelerated again in 2019, to 2.3 percent after 3 percent in 2018 and 4.2 percent in 2017, as a result of the expected 5.3 percent decline in agricultural value-added, while the rise in non-agricultural value-added would have accelerated from 2.6 percent to 3.3 percent. This slowdown was more pronounced than expected in December, due to a downward adjustment in agricultural value-added following revisions made by the Ministry of Agriculture to the output of some crops. On the demand side, this change reflects a decline in the positive contribution of domestic demand, due to an expected deceleration in investment growth. The negative contribution of net exports, on the other hand, would have dropped, due to a significant moderation in the pace of goods and services imports.
In 2020, the combined effects of adverse weather conditions and the spread of Covid-19 are expected to keep growth at 2.3 percent, but it would rebound to 3.8 percent in 2021. On the basis of the latest data available as of 10 March relating to climatic conditions and the state of vegetation, the cereal harvest for the 2019-2020 crop year would be around 40 million quintals and the agricultural value-added would fall by 2.7 percent in 2020. The latter would, under the assumption of an average harvest of 75 million quintals in 2020-2021, rebound by 8.1 percent in 2021. The growth rate of the non-agricultural added-value would slow down to 2.9 percent in 2020 before increasing to 3.3 percent in 2021. On the demand side, growth would continue to be driven by domestic demand, while net exports would maintain a negative contribution to growth given the less favourable outlook for foreign demand.

Chart 7.8: Growth outlook over the forecast horizon (Q4 2019 - Q4 2021), (YoY)*



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

Table 7.3: Economic growth

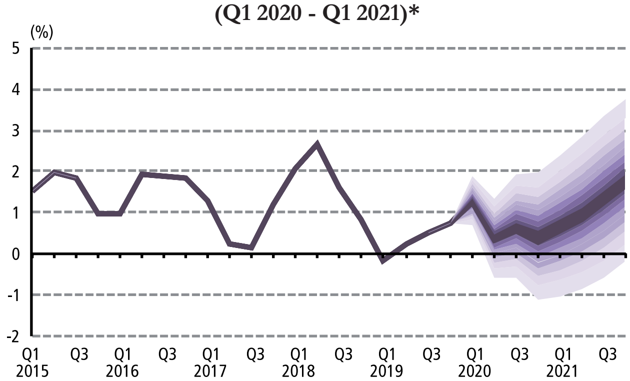
Change in %	Actual rates				Forecasts		Gap (march/dec.)		
	2016	2017	2018	2019	2020	2021	2019	2020	2021
National GROWTH	**1.1**	**4.2**	**3.0**	**2.3**	**2.3**	**3.8**	**-0.3**	**-1.5**	**0.1**
Agricultural VA	-13.7	15.2	4.0	-5.3	-2.7	8.1	-1.3	-8.9	5.1
Nonagricultural VA	2.1	2.9	2.6	3.3	2.9	3.3	0.0	-0.6	-0.4
Net tax on subsdies	8.8	3.1	4.6	2.7	3.0	3.1	0.0	0.0	0.0

Sources: HCP data, and BAM forecasts.

Slight acceleration in inflation over the forecast horizon, after a sharp decline in 2019

After a sharp deceleration from 1.9 percent in 2018 to 0.2 percent in 2019, inflation is expected to accelerate moderately to 0.7 percent in 2020 and 1.2 percent in 2021, driven by itsunderlying component. The latter would gradually recover from 0.6 percent in 2019 to 1 percent in 2020 and then to 1.3 percent in 2021, rates which are yet slower than projected in December. As for the other components, the rise in regulated products prices are expected to slow down in 2020, before returning to their underlying growth rate in 2021. Volatile food product prices are projected to rise slightly in 2020 before stabilising in 2021, assuming a gradual dissipation of the effects of supply shocks. The prices of fuels and lubricants are expected to fall in 2020 before rising in 2021, in line with the outlook for Brent on the international market.

Chart 7.9: Inflation forecast over the forecast horizon (Q1 2020 - Q1 2021)*



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

Table 7.4: Inflation and core inflation

	Actual rates				Forecasts			Gap (march/dec.)	
	2016	2017	2018	2019	2020	2021	Horizons of 8 quarters (Q1 2020-Q4 2021)	2020	2021
Inflation	**1.6**	**0.7**	**1.9**	**0.2**	**0.7**	**1.2**	**1.0**	**-0.4**	**-0.2**
Inflation sous-jacente	0.8	1.3	1.1	0.6	1.0	1.3	1.2	-0.3	-0.6

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

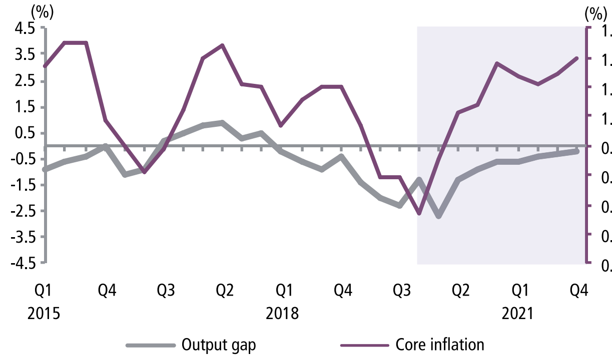
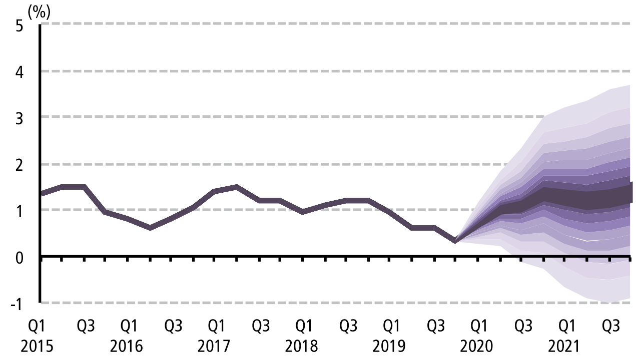


Chart 7.11: Projections of core inflation over the forecast horizon (Q1 2020 - Q4 2021)*



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

Sources: HCP, and BAM forecasts and calculations.

7.3 Balance of risks

In a global macroeconomic context marked by strong concerns about the spread of Covid-19, the national economic outlook remains uncertain. The balance of risks is tilted to the downside for growth and balanced for inflation.

Risks surrounding the central growth forecast relate, on the external side, to a deterioration in foreign demand. Despite the positive developments recorded on the trade front at the beginning of the year, uncertainties about the negotiations on the second phase of the Sino-American agreement and future relations between the United Kingdom and the European Union, as well as geopolitical risks, are weakening the world economy. In addition, the spread of Covid-19 is weighing heavily on economic activity and financial markets. At the national level, lower agricultural production compared to the baseline scenario would decrease growth forecasts.

With regard to inflation forecasts and taking into account serious concerns about global demand, lower oil prices than assumed in the central scenario could result in 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 lower short-term food commodity prices and a possible appreciation of the real effective exchange rate, in connection with downward pressures on the currencies of trading partners and competitors amid continued uncertainty. On the other hand, more pronounced disruptions in global production and supply chains, linked to the spread of Covid-19, could lead to a surge in the prices of some imported products.

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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