

المملكة المغربية

KINGDOM OF MOROCCO



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مديرية الدراسات والتوقعات المالية

## National economic overview at the beginning of the current year

**The confirmed dynamic of the main non-agricultural activities comforts the national economy growth prospects in a continuous recovery of the international environment**

**The world economy** pursues its progressive recovery, led by developed countries which still profit from compliant financial conditions. Meanwhile, emerging economies which are confronted to the effects of the American monetary policy, show moderate growth.

In the **United States**, the GDP increased by 2,4% in annualized rate in the fourth quarter of 2013 (after 4,1% in the 3<sup>rd</sup> quarter) due to the combined effect of the decline of public expenditure and a lower contribution of stocks and the good performance of households consumption and exports. The growth perspectives of the American economy remain strong, supported by the continuous recovery of employment, real estate and stock markets.

In the **Euro area**, after an exit of recession in the second half of 2013, growth continues to improve gradually, in a context of less budgetary consolidation. According to the European Commission, the GDP of the Euro area should grow by 1,2% in 2014 and 1,8% in 2015, after a decrease of 0,4% in 2013. The labor market tends to stabilize slowly in the Euro area with an unemployment rate which will remain high. To restrain the deflationary risks, the ECB should maintain the accommodating guideline of its monetary policy.

The short term economic indicators are globally encouraging at the beginning of 2014. Therefore, the PMI composite index of the Euro area reached a high of 32 months in February, indicating an acceleration of the growth of the private sector activity. The overall activity index shows a strengthening growth in Germany, Italy and a slight decline in France.

To restrain inflationary risks and the depreciation of their currencies, several **emerging countries** were obliged to tighten their monetary policy (Brazil, Russia, India, Turkey and South Africa).

In the **MENA region**, according to the IMF, growth should improve in 2014 to settle at an average rate of 3,8% after 2,1% in 2013, despite the effects of the political instability in some countries of the region. This occurs in a context of consolidating growth in the other countries with the beneficial effects of the global recovery.

**The commodity prices** show a slight increase in February 2014, due to fears over supply disruptions, accentuated by the geopolitical crisis in Ukraine. So, the price of the Brent averaged 109 dollars in February against 107 dollars in January and 117 dollars one year before. Food commodity prices increased by 4% in February.

At **the national level**, the growth of non-agricultural activity should accelerate in 2014, due to the double effect of the consolidation of the domestic demand and the renewed dynamism of foreign demand towards Morocco. Thus, the new emerging industries (automobile, aeronautics) benefit from the world recovery.

On the other hand, the recent evolution of **the crop year 2013/2014** removed concerns which could impact the sector behavior. According to the department of agriculture, the vegetation cover of cereals is basically satisfactory and evolves positively, considering the recent precipitation that should positively impact the progress of the current season. Indeed, with a cumulated rainfall average of 194 mm in 14<sup>th</sup> February 2014, these precipitations led to a filling rate of dams for agricultural use of 68%. Besides the cultivation of cereals, whose contribution to the agriculture added value does not exceed 30% maximum, the crop year should benefit from the performance of breeding activities, supported by the surplus of forage stock of the previous crop year, the good current situation of the vegetation cover, the good performance of fruit tree cultivation and vegetable crops which is reflected by the good results shown in exports, due particularly to the preliminary effects of the Green Morocco Plan.

In February 2014, **cement sales** volume declined, year on year (yoy), by 5,4%, after a decrease of 12,8% in the previous month. This is mainly due to the important precipitation which characterized the Kingdom during these two months. At the end of February 2014, the cement consumption volume decreased by 9,1%, after a reduction of 18,4 % in the previous year. Besides, it should be noted the slight acceleration of the outstanding amount of loans to property developers (+3,4% after +0,5 % at the end of 2013), paving the way towards the recovery of the sector situation in the next months.

The **electrical energy sector** indicators record an overall favorable orientation at the beginning of the year. The electricity production increased, yoy, by 6,8% during the first month of 2014, after an increase of 3,9% in the fourth quarter and a slight increase of 0,8% in the third quarter of 2013. This resulted from the positive trend of the private production which increased by 27,3%, after a decline of 3,3% at the end of December 2013 and 20,8% in the previous year. However, this was partially offset by the ONEE total net production decrease of 10,7%, after an increase of 14,4% during the same period of the last year. Concerning the consumption of electricity, it improved by 2,5%, after an increase of 1% in the previous year. This is related to the increase of the very high, high and medium voltage electrical energy consumption of 1,8% and the one of the low voltage of 10,5%.

At the level of **industrial activity**, the production index confirmed its recovery, rising by 2,2% in the fourth quarter of 2013, after an increase of 0,6 % in the third, a quasi-stagnation in the second and a reduction of 1,7% in the first, to record an increase of 0,3% for the year 2013.

This dynamic is continuing at the beginning of 2014, as reflected in the results of the economic survey of Bank Al-Maghrib in the industry. According to this survey, the industrial activity would have been marked by a good orientation during January at the level of electric and electronic industries and mechanic and metallurgic industries. This encouraging fact is also shown, by the continuous improvement of the production capacities use rate, reaching 69% in January 2014 after 68% a year before. For the next three months, the manufacturers expect a favorable evolution in all industries, except for electric and electronic industries.

The good dynamic of **tourism indicators** recorded in 2013 is continuing at the beginning of 2014. Indeed, after an increase of 7% at the end of December 2013, arrivals to the border posts of Morocco increased by 10% compared to January 2013. This was essentially driven by the performance of the foreign tourists arrivals (+14%), reflecting the positive trend in all source markets. This improvement was strengthened by the growth of 9% of the number of tourists overnight stays, confirming the rhythm of evolution registered at the end of 2013.

The main barometers of the **telecommunication sector** acted favorably at the end of December 2013. Indeed, the global park of the telephony increased by 7,2% to 45,3 million subscribers, driven essentially by the increase of 8,7% of the global park of mobile telephony. For its part, the internet park has continued its expansion, increasing by 46% compared to the year 2012.

At the level of the domestic demand, **households consumption** would have benefited at the beginning of 2014 from a weak evolution of consumer prices (increase of 0,5% in January) and the good performance of the household disposable income components, in relation, particularly, with the positive impact of the crop year on the rural population income, the quasi-stability of unemployment, the evolution still positive, though moderate, of consumer loans outstanding amount (+0,9% at the end of January) and with the good performance of the public sector wage bill (increase of 2,4% at the end of January). For its part, **the effort investment** components show a mixed trend at the beginning of this year. If imports of capital goods declined by 10,1% to 11,9 billion dirhams at the end of February 2014, the flows of FDI, except the remarkable operations realized in the agri-food sector in February 2013, increased by 18,6% in the same period. Besides, central government investment and equipment loans outstanding amount rose, at the end of January 2014, respectively by 9,6% to nearly 9 billion dirhams and by 1,5% to 139,1 billion dirhams. In the same context, it should be noted that the Inter-ministerial commission of investments approved, at the beginning of 2014, nearly 40 investment projects for a total amount of 42 billion dirhams, which could generate more than 2.000 steady jobs and 14.000 indirect jobs.

For **foreign trade**, imports increased, yoy, by 3,8% to 60,8 billion dirhams at the end of February 2014, a rhythm exceeding that of exports (+2,8% to 29,4 billion dirhams), which led to an increase of trade deficit of 4,7% or of 1,4 billion dirhams to reach 31,4 billion. The progress of imports resulted essentially from the increase of wheat imports which have more than tripled, moving from 1,1 billion dirhams at the end of February 2013 to 3,7 billion at the end of February

2014. Excluding purchases of wheat, imports almost stagnated (-0,6%). Regarding the evolution of exports, it benefited, particularly, from notable performances of the automobile sector, whose exports recorded a remarkable increase of 43,7% to 6,3 billion dirhams. However, the exports of phosphates and derivatives decreased by 18,1% to 4,4 billion dirhams. Excluding those products, exports increased by 7,6%, confirming the gradual recovery of the foreign demand towards Morocco. As regards the financial flows, FDI flows decreased by 60,1% to 4,1 billion dirhams and remittances of Moroccan expatriates declined by 3,3% to 8,8 billion dirhams, while travel receipts have almost stagnated at about 8 billion dirhams.

On **the fiscal side**, budget execution at the end of January 2014 shows a budget surplus of 1,9 billion dirhams after a deficit of 4,4 billion dirhams in the previous year. This trend resulted from the improvement of current revenues combined with the slight decline in current expenditures. The current revenues increased by 15,6% to 18,5 billion dirhams under the effect, particularly, of the strengthening of non-tax revenues which moved from 559 million dirhams to 2,5 billion, in link, particularly, with donations received from the countries of the CCG totaling 2,1 billion dirhams. As for tax revenues, they increased by 2,3% to 15,8 billion dirhams, in relation, essentially, with the increase of indirect taxes by 6,3% to 7,1 billion, particularly, those related to domestic taxes on consumption of energy products (+48,1%) and VAT on imports (+11,5%). Current expenditures declined slightly by 0,6% to 17,9 billion dirhams. This evolution was due to the decline of expenditures of other goods and services and debt interests respectively by 10,6% and 14,2% to 4,2 and 1,5 billion dirhams, in parallel with the increase of wages expenditures and subsidy costs respectively by 2,4% and 13% to 8,4 and 3,8 billion dirhams. On the other hand, investment expenditures increased by 9,6% to 8,9 billion dirhams.

Turning to monetary conditions, **money supply** increased by 3,7% at the end of January 2014, marking an improvement compared to the rate recorded in the previous year (+2,7%). This trend resulted, particularly, from the increase of net international reserves by 4,4% to 150,6 billion dirhams after a decline of 14,8% at the end of January 2013. As for the claims on the economy, their growth rate registered a slight slowdown, yoy, reaching 2,8% after 3,6% a year earlier. This evolution covers an increase of bank loans of 3,3% to 725,3 billion dirhams after an increase of 3,2% at the end of January 2013. By economic purpose, the evolution of bank loans covers a decrease in cash loans of 4,9% after an increase of 6,4% at the end of January 2013 and the deceleration of the increase rate of consumer loans and, in a lesser extent, of real estate loans which passed, respectively, from +9,2% to +0,9% and from +5,8% to +5,1%. On the other hand, equipment loans improved by 1,5 % after a reduction of 1,9% in the previous year. Regarding net claims on central government, which reached 151,4 billion dirhams, their progress rate slowed down from +28,8% at the end of January 2013 to +10,6% at the end of January 2014.

**The interbank market** recorded an increase of banks liquidity deficit during February 2014 in connection with the restrictive effect of the autonomous factors of liquidity. To fill the shortage in banks liquidity, Bank Al-Maghrib increased its interventions to drain liquidity, mainly through 7-day advances, whose average volume increased from 52 billion dirhams in

January to 53,3 billion in February. The Central Bank intervened, also, through three-month refinancing operations and by means of operations of loans secured by private securities representing credits to SMEs and VSEs. As for the interbank weighted average rate, it recorded an increase, compared to the previous month, of 3 basis points (bp) to reach a monthly average of 3,07%.

At the level of **the Treasury bonds primary market**, Treasury subscriptions reached 25,1 billion dirhams at the end of the first two months of 2014, exceeding the estimated need, but it decreased by 22,8% compared to the end of February 2013. These subscriptions concerned, mainly, middle and long term bonds whose shares of the total of subscriptions increased to reach respectively 52,2% and 41,6% versus 30,3% and 3,1% during the same period of the last year, while the share of short term bonds fell to 6,2% after 66,7% during the previous year. As for Treasury repayments, they declined, yoy, by 22,2% to 16,8 billion dirhams at the end of February 2014. Considering these developments, the outstanding amount of Treasury bonds increased, compared to the end of December 2013, by 2% to reach 421,3 billion dirhams. Concerning the evolution of the Treasury bond yields on the primary market during February 2014, they continued their reduction, recording decreases, compared with the previous month, comprised between 1 bp and 35 bp.

**The Casablanca stock exchange** indicators recorded an upward adjustment during February 2014, after a volatile evolution on a downward trend since November 2013. MASI and MADEX indexes increased compared to the previous month respectively by 3,52% and 3,67%, moving their performances compared to the end of December 2013 to +3,60% and +3,61% after +0,1% and -0,1% at the end of January 2014. The market capitalization, on the other hand, increased compared with the end of January 2014 by 3,59% and by 3,55% compared to the end of December 2013 to reach 467,1 billion dirhams. However, the global volume of transactions realized in February was low, reaching 2,3 billion dirhams, decreasing by 27% compared to the previous month. It should be noted that the Casablanca stock exchange recorded during this month a buyout offer for stock market delisting of FERTIMA securities.