MONETARY POLICY REPORT

N° 29/ 2013

Document prepared for
the Bank Board
December 17, 2013

BANK AL-MAGHRIB

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بنك المغرب

LIST OF ABBREVIATIONS

ANCFCC	:	National Land Registry Office
APC	:	Cement manufacturers professional association
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
CUR	:	Capacity utilization rate
DH	:	Dirham
ECB	:	European Central Bank
FDI	:	Foreign direct investments
FISIM	:	Financial intermediation services indirectly measured
GDP	:	Gross domestic product
HCP	:	High Commission for Planning
IMF	:	International Monetary Fund
IPI	:	Import price index
IPPI	:	Industrial producer price index
MASI	:	Moroccan All Shares Index
MPR	:	Monetary Policy Report
NPL	:	Nonperforming loans
OCP	:	Office chérifien des phosphates (Moroccan Phosphates Office)
OECD	:	Organization for Economic Cooperation and Development
ONE	:	Office national d'électricité (National Electricity Office)
OPEC	:	Organization of the Petroleum Exporting Countries
PER	:	Price Earning Ratio
REPI	:	Real estate price index
SMIG	:	Salaire Minimum Interprofessionnel Garanti (minimum wage)
YoY	:	Year-on-year
UCITS	:	Undertakings for collective investment in transferable securities
UPC	:	Unit production cost
VA	:	Value added

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 17, 2013

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, December 17, 2013.

2. At this meeting, the Board examined recent economic, monetary and financial developments and inflation forecasts up to the first quarter of 2015.

3. Internationally, the Board noted that activity in the third quarter of 2013 continued to improve in advanced economies and to grow at varying rates in emerging countries. While the recovery continued in the United States, the United Kingdom and Japan, year-on-year GDP contraction eased in the euro area. In the main emerging countries, available data for the third quarter show that growth sped up in China and India but slowed down from the previous quarter in Brazil. Despite signs of recovery, unemployment remained elevated in the euro area, reaching 12.1 percent in October. In the United States, however, it further declined to 7 percent in November. In terms of monetary policy, the U.S. Federal Reserve, at its meeting of October 30, kept the target range for the federal funds rate at 0 - 0.25 percent. Similarly, the European Central Bank maintained its policy rate unchanged in December, after having lowered it to 0.25 percent in November. In this context, financial conditions eased somewhat in the euro area, mostly with lower interbank rates and bond yields. Bank lending in the euro area fell by 2.1 percent in October, its 17th consecutive month of contraction. In the United States, its growth slowed down to 1.5 percent in November. Commodity prices further declined in November, especially the price of Brent which was down 2.4 percent on a monthly basis and 3 percent on an annual basis. Under these circumstances, the disinflationary pressures observed in recent months in the major advanced economies still persist, with an inflation rate of 0.9 percent in the euro area in November and 1 percent in the United States in October.

4. Domestically, the national economy grew by 4.4 percent in the first half of the year, covering an increase of 20.3 percent in the agricultural value added and a deceleration to 2.2 percent in nonagricultural activities, down from 4.5 percent on average in 2012. In the second half, GDP is expected to expand by 5 percent due to the strong growth in agricultural value added and the relative improvement in nonagricultural activities that would pick up by 2.8 percent. For the full year 2013, growth would range between 4.5 and 5 percent. The Bank's preliminary projections, assuming an average cereal harvest of 70 million quintals, show that GDP in 2014 would grow between 2.5 and 3.5 percent, covering higher nonagricultural growth between 3.5 and 4.5 percent. Under these conditions, nonagricultural output gap would remain negative in the coming quarters, broadly suggesting low pressure on prices in the short term.

5. On the fiscal side, budget execution as at end October shows wider fiscal deficit to 46.8 billion dirhams from 40.6 billion a year earlier. This change mainly reflects higher overall spending, especially those relating to investment and other goods and services, together with the decrease in tax revenues, mostly those from corporate tax and customs duties. Subsidy costs, in particular, fell by 22.4 percent to 35.6 billion. At the end of December 2013, budget deficit should be around 5.5 percent of GDP, as a result of the effort to control expenses, the collection of donations and the drop in subsidy costs.

6. External accounts data as at the end of October show a 3.4 percent reduction in the trade deficit, alongside a 2.4 percent decline in imports as purchases of both energy commodities and other products shrank by 3.3 percent and 2.1 percent, respectively. However, imports

of capital goods rose by 6 percent. In contrast, exports fell by 1.4 percent, masking a 21.7 percent decline in sales of phosphates and derivatives and a 6.1 percent increase in other exports. At the same time, remittances of Moroccan expatriates improved by 0.5 percent, travel receipts were up 1.6 percent and FDI moved up by 18.8 percent. Under these circumstances, the current account deficit would narrow to 7.4 percent by the end of 2013, from 10 percent in 2012. Given the other elements of the capital account, the stock of net international reserves totaled 145.4 billion dirhams, equaling 4 months and 5 days of goods and services' imports, and would remain at this level by the end of the year.

7. Turning to monetary conditions, data for October 2013 indicate slight acceleration of growth in monetary aggregates and bank lending, with a continued negative money gap. Money supply grew by 6.1 percent from 5.8 percent a quarter earlier, while bank credit recorded an annual increase of 3.1 percent from 2.6 percent in the third quarter. At the end of December 2013, credit growth would be around 3.5 percent. The results of Bank Al-Maghrib's survey on lending rates for the third quarter of 2013 report an increase of 21 basis points in the weighted average rate to 6.3 percent, due mainly to higher interest rates on cash loans and, to a lesser extent, equipment loans. The effective exchange rate of the dirham in the third quarter appreciated by 0.98 percent in nominal terms and 1.31 percent in real terms, on a quarterly basis, in conjunction with an inflation rate of Morocco broadly higher than that of the main partners and competitors. The real estate price index rose by 0.4 percent year on year in the third quarter of 2013, reflecting increases of 0.4 percent in the prices of land and commercial property and 0.5 percent in residential property.

8. Under these conditions, year-on-year inflation, measured by the change in the consumer price index, eased from 1.7 percent on average in the third quarter to 1.5 percent in October, reaching 2.1 percent in the first ten months of the year. Reflecting slower growth in the prices for nontradables from 2.1 percent to 1.6 percent and stable growth in those of tradables at 1.5 percent, core inflation stood at 1.6 percent, down from 1.8 percent in September, averaging 1.6 percent in the second quarter and 1.5 percent between January and October 2013. In addition, industrial producer prices continued the downward trend that began in February 2013, with a year-on-year decrease of 4.5 percent in October from that of 4.3 percent in September.

9. Based on all these elements and taking into account the expected level of international oil prices and the subsidy expenditures set in the Finance Bill 2014, inflation is projected at 2.1 percent in 2013, 2.5 percent in 2014 and 2 percent at the end of the forecast horizon (first quarter 2015), with an average of 2.3 percent over the forecast horizon.

10. In this context where the balance of risks is broadly neutral and the central inflation forecast is above its average of recent years, while remaining consistent with the medium-term price stability objective, the Board decided to keep the key rate unchanged at 3 percent.

11. The Board considered and approved the strategic allocation of reserves management for the year 2014.

12. After reviewing the Audit Committee report, the Board approved the internal audit program for 2014.

13. The Board also examined and approved the budget for 2014.

14. Finally, the Board agreed on the following schedule for its meetings in 2014:

March 25, 2014

June 17, 2014

September 23, 2014

December 16, 2014

OVERVIEW

Economic activity in the third quarter of 2013 continued to recover in advanced economies and to show divergent trends in emerging countries. Indeed, euro area's GDP contraction eased from 0.6 percent in the second quarter to 0.4 percent, reflecting accelerated growth in Germany and lower GDP contraction in Spain and Italy. The upturn also continued in the United States and the United Kingdom, with respective GDP increases of 1.7 percent and 1.5 percent from 1.6 percent and 1.4 percent a quarter earlier. In Japan, growth improved significantly from 1.2 percent to 2.6 percent, boosted mostly by government investment. In emerging countries, available data for the third quarter show that the Chinese economy expanded by 7.8 percent, its fastest pace since Q4 of 2012, led by higher industrial production and retail sales. Similarly, growth in India was up from 4.4 percent to 4.8 percent, while in Brazil it slowed down to 2.2 percent as against 3.3 percent a quarter earlier.

Despite these signs of recovery, unemployment in the euro area remains elevated, reaching 12.1 percent in October. Conversely, in the United States the latest data for November report a decline in the jobless rate from 7.3 to 7 percent, its lowest level since December 2008, with the creation of 203,000 jobs.

The relative economic recovery, coupled with a cut of 25 basis points in the ECB policy rate on November 7, helped ease financial conditions in the euro area, as evidenced by lower interbank rates and bond yields. However, credit contracted further, declining by 2.1 percent in October as against 2 percent a month earlier. In contrast, credit in the United States accelerated slightly after nine consecutive months of deceleration, growing by 1.9 percent from 1.8 percent in September.

International commodity prices continued to decline in November. The Brent price was down 2.4 percent from the previous month and 3 percent from the same period of last year. The Dow Jones index, which tracks price movements in non-energy commodities, was down 17.6 percent year on year, reflecting decreases by 8.4 percent in base metal prices and 21.1 percent in agricultural commodity prices. Under these conditions, the deflationary pressures observed in recent months in the major advanced economies persist, with an inflation rate of 0.9 percent in November in the euro area and 1 percent in the United States in October.

Concerning the global growth outlook, the IMF in October lowered its projections to 2.9 percent for 2013 and 3.6 percent for 2014, mainly as it cut its growth forecast for some major emerging countries.

Domestically, the national economy grew by 4.4 percent in the first half of the year, covering an increase of 20.3 percent in the agricultural value added and a deceleration to 2.2 percent in nonagricultural activities, down from 4.5 percent on average in 2012. This development results from the contraction in industrial value added for the third consecutive quarter, mainly because of the underperformance of the sectors of mining, construction as well as electricity and water production. In the second half, GDP should expand by 5 percent, due to a further strong growth in the agricultural value added and a relative improvement in nonagricultural activities, which would increase by 2.8 percent. These forecasts are consistent with those predicted for the full year 2013 in the Monetary Policy Report of September, indicating a growth between 4.5 and 5 percent. Growth forecasts for 2014 remain surrounded by significant uncertainties, particularly relating to weather conditions, economic growth in our major partner countries and changes in commodity prices. However, taking into account the latest available data and assuming an average cereal production of 70 million quintals, the Bank's preliminary projections show that GDP would expand by 3 percent, covering a contraction of 4.7 percent in the agricultural value added and an improvement of 4.3 percent in nonagricultural activities.

Under these conditions, nonagricultural output gap would remain negative in the second half, as suggests the development of the capacity utilization rate in industry that fell slightly by one percentage point in October to 71 percent. The persistence of spare production capacity in nonagricultural activities broadly suggests low pressure on prices in the short term.

Regarding domestic demand, household consumption should remain relatively buoyant, largely boosted by higher agricultural income and a relative improvement in remittances of Moroccan expatriates. The recovery of investment seen in the second quarter is expected to continue, particularly with accelerated central government investment expenditure in October. In fact, budget execution as at end-October revealed that budget deficit widened to 46.8 billion dirhams, as against 40.6 billion a year earlier. This change is mainly attributed to the continued increase in overall spending, despite a 22.4 percent decline in subsidy costs to 35.6 billion, and the decline in tax revenues, mostly those from corporate tax and customs duties.

Net external demand should maintain its positive contribution to growth in 2013, mainly as imports would fall at a faster rate than exports. Indeed, data as to the end of October indicate a 3.4 percent reduction in the trade deficit, due to a decline of 2.4 percent in imports and 1.4 percent in exports. The drop in imports is caused by respective decreases of 3.3 percent and 2.1 percent in purchases of energy commodities and other goods. However, purchases of capital goods remained on the rise, up 6 percent. The decline in exports covers a 21.7 percent decrease in the sales of phosphates and derivatives and a 6.1 percent increase in other exports mainly as shipments of cars moved up 56.9 percent to 9 billion dirhams. Excluding these shipments and phosphate exports, the growth rate in export stands at 3.3 percent. At the same time, remittances of Moroccan expatriates improved by 0.5 percent, travel receipts were up 1.6 percent and FDI expanded by 18.8 percent. Given the other elements of the capital account, the stock of net international reserves totaled 145.4 billion dirhams, equaling 4 months and 5 days of goods and services' imports.

On the monetary side, data for October 2013 indicate slight acceleration of growth in monetary aggregates and bank lending, with a continued negative money gap. Money supply grew by 6.1 percent from 5.8 percent a quarter earlier, while bank credit recorded an annual increase of 3.1 percent from 2.6 percent in the third quarter. The results of Bank Al-Maghrib's survey on lending rates for the third quarter of 2013 report an increase of 21 basis points in the weighted average rate to 6.3 percent, due mainly to higher interest rates on cash loans and, to a lesser extent, equipment loans. The effective exchange rate of the dirham in the third quarter appreciated by 0.98 percent in nominal terms and 1.31 percent in real terms, on a quarterly basis, in conjunction with an inflation rate of Morocco broadly higher than that of the main partners and competitors. The real estate price index rose by 0.4 percent year on year in the third quarter of 2013, reflecting increases of 0.4 percent in the prices of land and commercial property and 0.5 percent in residential property.

Bank liquidity deficit reached 78.1 billion dirhams on average between October and November, widening by 4.1 billion from the previous quarter. Under these conditions, Bank Al -Maghrib intervened through 7-day advances for an average amount of 57.8 billion dirhams and overnight advances for an amount of 5 billion. It also maintained the outstanding amount of its three-month refinancing operations at 20 billion dirhams, of which 6 billion as loans secured by private bills representing credits for SMEs and VSEs.

Under these circumstances, inflation, measured by the change in the consumer price index (CPI), moved down year on year from 1.7 percent on average in the third quarter to 1.5 percent in October, averaging 2.1 percent over the first ten months of the year. These developments are broadly consistent with BAM forecasts published in the MPR of September. Following the slowdown in the growth rate of prices for nontradables from 2.1 percent to 1.6 percent and the persistence of growth in prices for tradables at 1.5 percent for the third month in a row, core inflation stood at 1.6 percent in October, down from 1.8 percent in September, averaging 1.6 percent in the second quarter and 1.5 percent between January and October 2013. Industrial producer prices continued the downward trend that began in February 2013, with a year-on-year decrease of 4.5 percent in October as opposed to 4.3 percent in September.

The future inflation trend would be further impacted by fluctuations in global energy prices through the indexation mechanism. Taking into consideration the global forecasts for oil prices, the amount of subsidy costs set in the Finance Bill 2014 should result in a downward revision of unit subsidies as of January 2014 and an increase in oil prices at the pump.

Based on all these elements, inflation is expected to increase but would remain consistent with the price stability objective. The average forecast stands at 2.1 percent in 2013, 2.5 percent in 2014 and 2.0 percent at the end of the forecast horizon (first quarter of 2015), with an average of 2.3 percent over the entire forecast horizon. Core inflation would remain subdued, not exceeding 2 percent at the end of the same forecast horizon. Moreover, BAM's quarterly survey on inflation expectations shows that financial sector experts predict an inflation rate of 2.3 percent over the same forecast horizon, which is a downward adjustment of 0.3 percentage point.

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1. AGGREGATE SUPPLY AND DEMAND

National growth should stand at 5 percent in the second half of 2013, from 4.4 percent in the first half, reflecting respective increases of 21.8 percent and 2.8 percent in the agricultural value added and nonagricultural GDP. Despite the uptrend in tertiary activities, mainly tourism, nonagricultural activities should continue to suffer from the underperformance of the extractive industry and construction sector. Regarding demand, after two consecutive quarters of decline, investment rebounded by 2.4 percent in the second quarter and should maintain its momentum by the end of the year. Household final consumption should remain relatively strong, thanks in particular to improved agricultural incomes. Similarly, the contribution of foreign trade would remain positive throughout the year, reflecting a 2.4 percent decline in goods and services' imports, greater than 1.4 percent decrease in exports at end-October 2013. Overall, the latest available data remain in line with BAM forecasts for 2013, as GDP growth should be between 4.5 percent and 5 percent. In 2014, the outlook remains surrounded by significant uncertainties, in conjunction with those affecting economic trends in partner countries, pressures on global commodity prices and weather conditions. Assuming an average cereal production of 70 million quintals, economic growth should be around 3 percent, reflecting a negative contribution of the agricultural sector and a relative recovery of nonagricultural activities. In sum, the analysis elements of supply and demand suggest that price pressures remain subdued.

1.1 Output

In the second half of 2013, nonagricultural growth should continue its slowdown that began earlier this year, to an average of 2.8 percent, as against 4.4 percent in the same period of the previous year. Taking into account an expected increase to 21.8 percent of the agricultural value added, GDP should grow 5 percent from 4.4 percent in the first half and 2.7 percent in 2012. Throughout 2013, forecasts presented in the last MPR remain unchanged, with a GDP growth of between 4.5 percent and 5 percent.

In the primary sector, imports of cereals were down 25.6 percent at end-October 2013, covering decreases of 19.7 percent for wheat, 22.4 percent and 73.9 percent for corn and barley, respectively. Concerning small-scale and coastal fisheries, landings rose by 5.4 percent in volume, mainly with respective increases of 5.7 percent and 35.6 percent in pelagic fish and cephalopods.

Table 1.1: YoY growth of quarterly GDP at chained prices per major sectors (%)

Activity sectors	2011		2012				2013			
	QIII	QIV	QI	QII	QIII	QIV	QI	QII	$QIII_F$	QIV_F
Agriculture	6.0	4.3	-8.3	-9.5	-8.5	-9.1	17.7	22.8	20.3	23.2
Nonagricultural VA	**5.0**	**5.1**	**4.4**	**4.5**	**4.7**	**4.0**	**1.9**	**2.5**	**2.7**	**3.2**
Extractive industry	0.8	9.5	-5.0	-5.0	4.7	-3.7	-3.6	0.1	-3.6	-4.0
Processing industry	3.2	3.5	2.9	1.4	1.4	0.1	0.5	0.8	1.2	1.6
Electricity and water	4.2	12.1	11.2	9.0	9.9	-1.9	-4.2	-0.9	1.3	2.7
Construction	6.1	7.0	5.0	3.5	-0.5	0.7	-5.9	-4.6	-2.8	-3.7
Trade	4.6	4.9	3.2	2.7	2.0	1.4	2.3	3.7	3.0	3.1
Hotels and restaurants	-2.8	-6.8	-4.8	3.9	2.7	8.8	3.7	5.1	5.7	3.4
Transportation	5.9	3.9	2.8	4.2	2.5	5.3	0.2	2.7	2.8	2.8
Post and telecommunication	24.1	23.0	23.7	22.4	27.1	28.6	14.7	11.5	11.5	10.7
General government and social security	5.7	4.5	7.4	6.9	6.3	6.1	6.4	6.5	6.3	6.1
Other services*	5.6	4.4	5.1	5.5	5.4	5.8	2.6	2.9	3.0	2.8
Taxes on products net of subsidies	3.5	1.4	5.6	5.7	4.6	4.8	1.0	2.4	2.4	2.2
Nonagricultural GDP	**4.8**	**4.7**	**4.5**	**4.6**	**4.7**	**4.1**	**1.9**	**2.5**	**2.7**	**3.0**
Gross domestic product	**5.0**	**4.7**	**2.8**	**2.7**	**2.9**	**2.3**	**3.8**	**5.1**	**4.9**	**5.1**

(*) Including financial activities and insurance, services to corporations and personal services, education, health, and social action, and the FISIM.

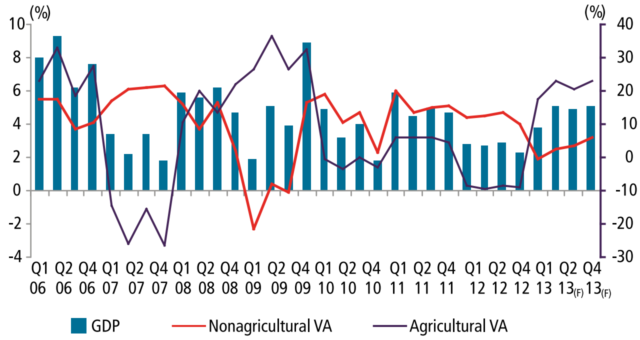
Sources: HCP, and BAM forecasts.

Nonagricultural growth should continue to slow with rates of 2.7 percent and 3 percent in the third and fourth quarters of 2013, as against 4.7 percent and 4.1 percent, respectively, a year earlier. By branch, the mining value added should shrink by 3.8 percent in the second half of 2013 after a slight rebound of 0.1 percent in the second quarter. The marketable production of crude phosphate recorded a year-on-year decrease of 3.9 percent in October 2013, after a decline of 4.6 percent in the third quarter and a slight increase of 0.1 percent a quarter earlier. In addition, phosphate exports were down 27.6 percent at end-October, along with a continued decline in phosphate prices.

The value added of the processing industry should improve by 1.4 percent in the second half after a limited 0.7 percent increase in the first half. The recovery in the processing industry would be mainly supported by the development of the automotive and aeronautics sectors, as evidenced by respective increases of 18.9 percent and 14.3 percent in their exports at end-October 2013. However, according to BAM's quarterly business survey, manufacturers expect deterioration in October, suggesting a lower activity compared to the previous month. The utilization capacity rate stood at 71 percent, slightly down one percentage point from September. For the three coming months, the activity would improve, according to 32 percent manufacturers, and would stagnate according to 55 percent of them.

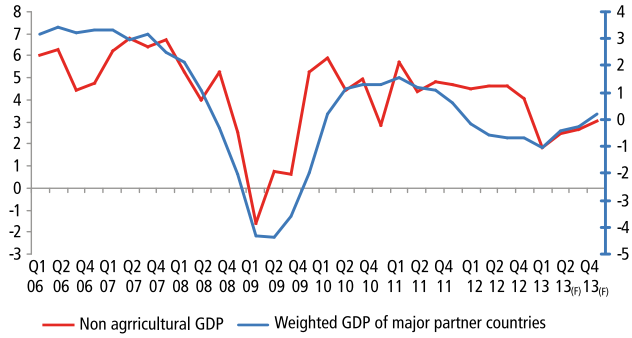
After a decline of 2.6 percent in the first half of 2013, the value added of the "electricity and water" sector would return to growth with increases of 1.3 percent and 2.7 percent in the third and fourth quarters, respectively. This trend would be mainly attributed to a rebound of 3.1 percent in local net production of the National Electricity Office in the third quarter after falling 2.5 percent on average in the first half of the year. However, its overall sales moved down 0.3 percent, covering a 1.4 percent decline in demand for medium and high voltage and a 3.1 percent increase in demand for low voltage. In October, the electricity net production continued its recovery with an increase of 10.5 percent, while the decline in sales eased by 0.1 percent.

Chart 1.1: YoY change in the GDP and its components (chained prices)



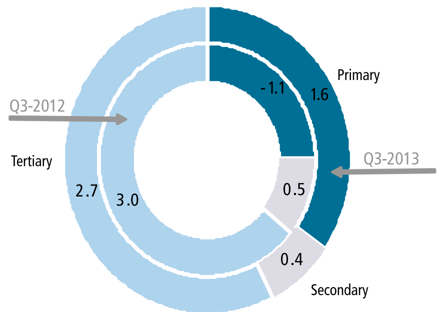
Sources: HCP, and BAM calculations and forecasts.

Chart 1.2: YoY change in domestic non agricultural GDP and in partner countries' GDP



Sources: HCP, IMF and BAM forecasts.

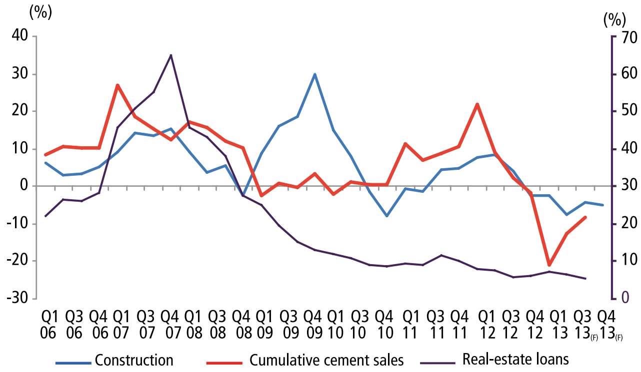
Chart 1.3: Contribution of the primary, secondary and tertiary sectors to overall growth, in percentage points



Sources: HCP, and BAM calculations and forecasts.

The value added of the building and public works sector should drop by 2.8 percent in the third quarter of 2013, after a 5.3 percent decline in the first half. In addition, with a loss of 54,000 jobs in the third quarter, the sector recorded the largest decline in the volume of employment since the fourth quarter of 2011. The most recent data indicate that this underperformance would continue, with a decrease of 2.1 percent in loans to property developers at end-October 2013 and 6.5 percent in cumulative cement sales at end-November, with, yet, a slowdown compared to the previous months.

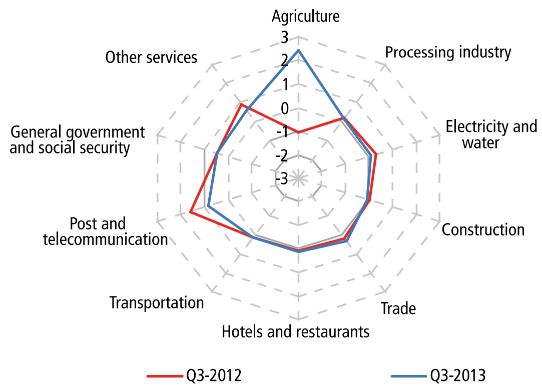
Chart 1.4: YoY change in the construction sector's value added, cement cumulative sales and real-estate loans



Sources: APC, BAM and BAM forecasts.

As to tertiary activities, the value added of posts and telecommunications should move up 11.1 percent in the second half of 2013. The latest available data for the third quarter of 2013 show an increase of 7.9 percent in the number of mobile phone subscribers and 34.7 percent in that of Internet subscribers.

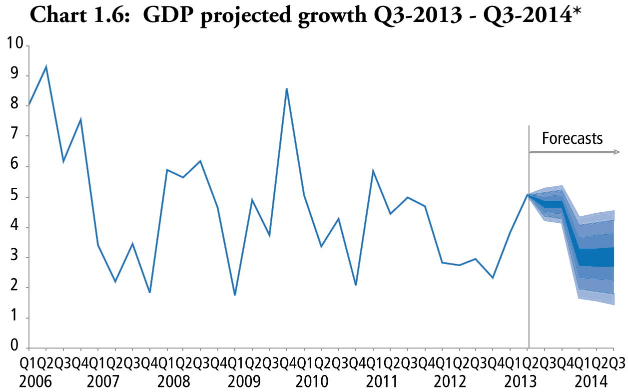
Chart 1.5: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations.

The value added of the "hotels and restaurants" sector should grow 5.7 percent in the third quarter of 2013, from 5.1 percent in the previous quarter. End-October 2013 data highlight respective increases of 6.6 percent and 8.9 percent, year on year, in tourist arrivals and overnight stays in classified hotels. Although travel receipts were up 1.6 percent, the growth of this branch should stand at 3.4 percent in the fourth quarter, as against 8.8 percent in the same period a year earlier, suffering mainly from an unfavorable base effect.

Chart 1.6: GDP projected growth Q3-2013 - Q3-2014*



(*) Fans depending on the standard deviation.

Sources: HCP, and BAM forecasts.

For 2014, growth prospects remain heavily dependent on international environment and weather conditions. Assuming an average cereal production of 70 million quintals, national growth should be around 3 percent, reflecting a negative contribution of the agricultural sector and a relative recovery of nonagricultural activities.

1.2 Consumption

The growth of the national final consumption accelerated in the second quarter of 2013 to 4.2 percent from 3.4 percent in the previous quarter and 4.5 percent in 2012. This trend reflects an increase of 4 percent in the household final consumption and 4.7 percent in the general government one.

Throughout the year, household consumption should maintain its growth, mainly due to improved rural income and relative recovery of private transfers. In particular, foreign trade data show a 0.5 percent increase in remittances from Moroccans living abroad at the end of October, while the household confidence survey, conducted by the HCP, indicates that the household confidence index recorded in the third quarter of 2013, a slight improvement of 1.2 point from the previous quarter but still lower by 2.2 percentage points from its level a year earlier. In parallel, consumer loans slowed sharply in one year from 11.1 percent to 1.7 percent at end-October 2013.

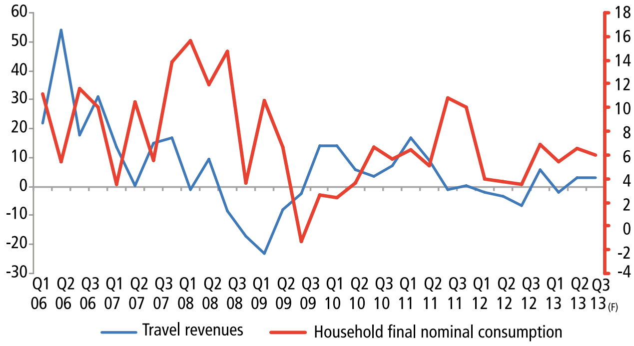
Regarding government consumption, the latest available data show a 5.9 percent increase in operating expenses at end-October, driven by respective increases of 3.6 percent and 11.6 percent in personnel costs and spending on other goods and services.

1.3 Investment

In the second quarter of 2013, investment grew by 2.4 percent after two quarters of negative developments. Its trend at end-December will be affected by the Government's decision to freeze open and uncommitted credits at October 31, 2013.

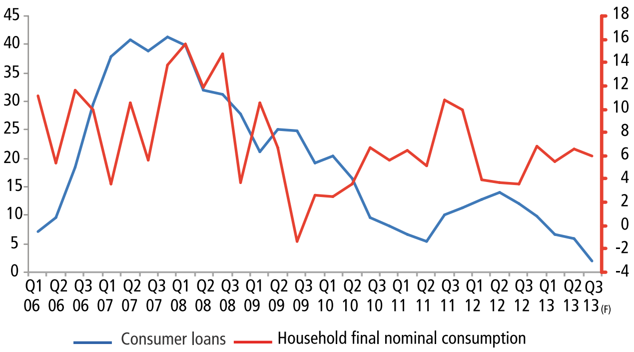
According to the quarterly findings of BAM monthly business survey for the third

Chart 1.7: YoY change in household final consumption and travel revenues (%)



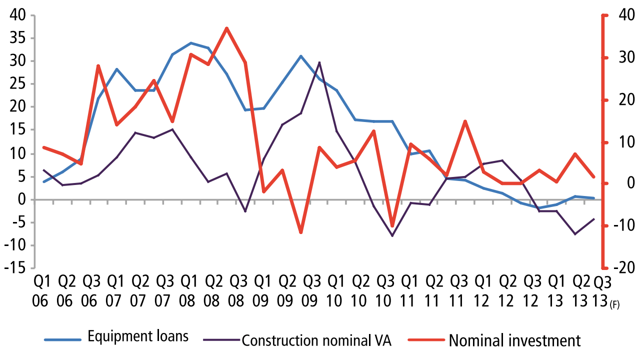
Sources: HCP, Foreign Exchange Office and BAM forecast.

Chart 1.8: YoY quarterly change in household final consumption and consumer loan (%)



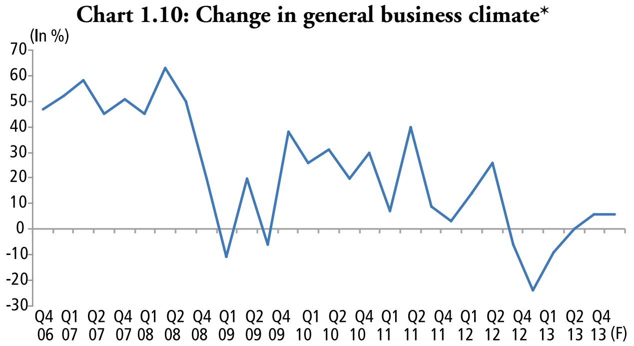
Sources: HCP, Foreign Exchange Office and BAM forecast.

Chart 1.9: YoY change in investment. construction sector's value added and real-estate loans



Sources: HCP, Foreign Exchange Office and BAM forecast.

Chart 1.10: Change in general business climate*



** Balance of opinion representing the difference between the percentage of "good" and "poor" answers.*

Source: BAM monthly business survey.

quarter of 2013, 70 percent of manufacturers describe the general business climate in their branch as average and 18 percent as good as against 76 percent and 12 percent, respectively, in the second quarter of 2013. In addition, monetary data indicate a 1.4 percent improvement of equipment loans at end-October, along with a 6 percent increase in imports of finished capital goods.

Available indicators show that residential investment continued its downward trend on the short term, with particularly a slowdown in real-estate loans, moving down in one year from 5.8 percent to 4.8 percent at end-October, and persistent contraction of aggregate cements sales at end-November 2013. Meanwhile, real estate prices fell 1.9 percent in the third quarter compared to the previous quarter, while remaining up 0.4 percent from their level a year earlier.

Data on Treasury investment as at end-October show an 11.1 percent increase, indicating an acceleration in its expenditure in October, particularly due to the Government's decision to freeze open and uncommitted credits at October 31, 2013, which would have accelerated expenditure commitment during this month.

1.4 Foreign trade

Foreign trade data of October 2013 confirm a further reduction of the trade deficit in conjunction with lower imports. The trade balance posted a deficit of 163.3 billion dirhams, down 3.4 percent compared to the same period of last year, as against a widening of 13.5 percent a year earlier. This trend is attributed to a decline of 2.4 percent or 7.8 billion dirhams of imports to 315.1 billion dirhams. Meanwhile, exports fell 1.4 percent or 2.1 billion dirhams to 151.8 billion dirhams. The import coverage increased from 47.7 percent to 48.2 percent.

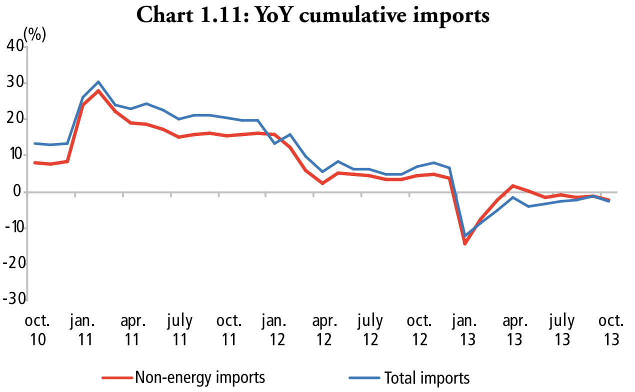
The decline in imports is due to both a 3.3 percent decrease in energy purchases

Table 1.2 : Change in the trade balance at end october 2013

(In millions of dirhams)	october 2012	october 2013*	Change	
			Amount	%
Exports	**153 923**	**151 792**	**-2 131**	**-1.4**
Phosphates and derivatives' exports	41 284	32 316	-8 968	-21.7
Exports excluding phosphates and derivatives'	112 639	119 476	6 837	6.1
Automobile	20 727	24 645	3 918	18.9
Aeronautics	5 555	6 347	792	14.3
Electronics	5 878	6 487	609	10.4
Agriculture and food industry	25 908	27 798	1 890	7.3
Textile and leather	27 795	26 550	-1 245	-4.5
Imports	**322 947**	**315 141**	**-7 806**	**-2.4**
Energy imports	87 747	84 884	-2 863	-3.3
Non-energy imports	235 200	230 257	-4 943	-2.1
Consumer goods	55 108	52 544	-2 564	-4.7
Food products	33 920	29 764	-4 156	-12.3
Unprocessed goods	19 175	15 487	-3 688	-19.2
Capital goods	61 835	65 527	3 692	6.0
Semi-finished goods	65 160	66 934	1 774	2.7
Trade deficit	**169 024**	**163 349**	**-5 675**	**-3.4**

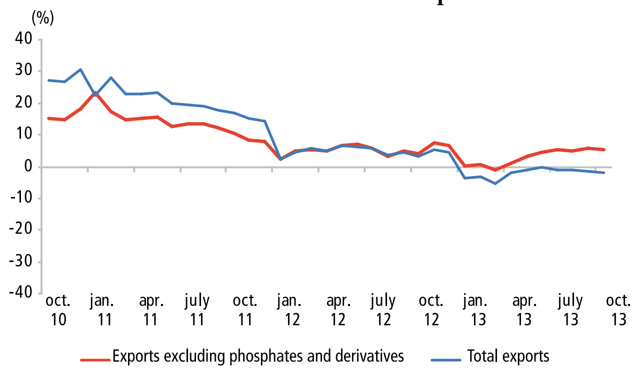
** Provisional data.*
Source: Foreign Exchange Office.

Chart 1.11: YoY cumulative imports



Source: Foreign Exchange Office.

Chart 1.12: YoY cumulative exports



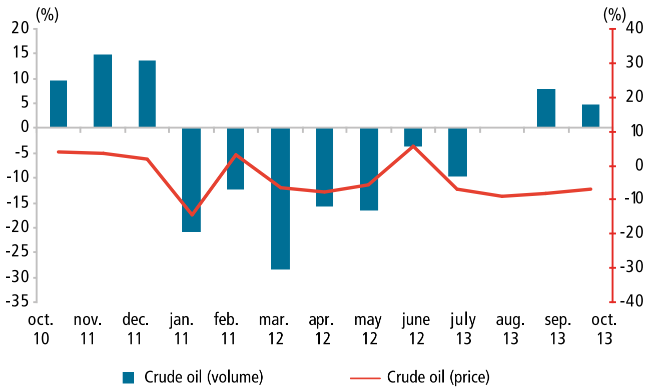
Source: Foreign Exchange Office.

to 84.9 billion dirhams, and a 2.1 percent decline in other products to 230.3 billion dirhams. Indeed, crude oil purchases dropped by 2.6 percent to 29.1 billion dirhams, and coal and petroleum gas supplies decreased respectively by 18.4 percent and 5.2 percent to 4.2 and 15.8 billion dirhams. Imports of raw products, consumer goods and food items fell 19.2 percent, 4.7 percent and 12.3 percent, respectively. However, purchases of capital goods grew by 6 percent to 65.5 billion dirhams, in conjunction with a strong increase of 67.6 percent in purchases of spare parts for industrial vehicles to 3.3 billion dirhams. Similarly, imports of semi-finished goods rose 2.7 percent to 66.9 billion dirhams, particularly due to a 39.9 percent increase in purchases of wires and cables to 3.8 billion dirhams.

Exports trends cover a 21.7 percent decline in sales of phosphates and derivatives to 32.3 billion dirhams, and a 6.1 percent increase in other exports to 119.5 billion dirhams. Indeed, shipments of cars were up 56.9 percent to 9 billion dirhams. Exports of the agriculture sector also rose by 7.3 percent to 27.8 billion dirhams, particularly owing to a 12.1 percent increase in sales of the food industry. However, shipments of fisheries declined by 6.5 percent.

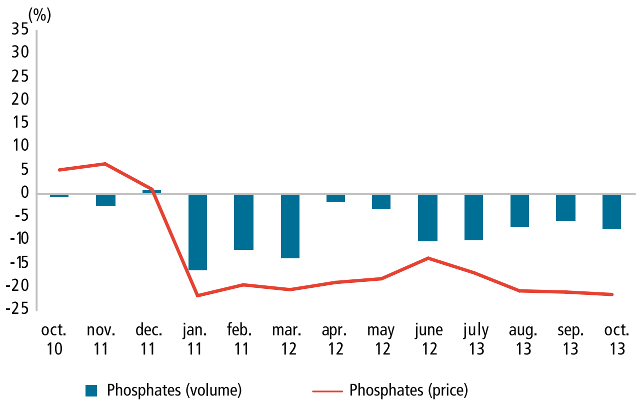
The aeronautics sector sales grew by 14.3 percent to 6.3 billion dirhams. Meanwhile, exports of electronic components increased by 10.4 percent to 6.5 billion dirhams. In contrast, shipments of the textile and leather sector showed a decline of 4.5 percent to 26.6 billion dirhams, in conjunction with respective declines of 11.9 percent and 3.6 percent in sales of hosiery items and ready-made garments.

Chart 1.13 : YoY change in volume and price of crude oil imports



Source: Foreign Exchange Office.

Chart 1.14 : YoY change in volume and price of phosphate exports



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

In the second half of 2013, nonagricultural output gap would continue to show negative values, according to estimates by Bank Al -Maghrib. The capacity utilization rate in the industrial sector declined slightly by one percentage point between September and October, to 71 percent. As to the labor market, following mainly a 0.2 percentage point decline in the participation rate, the unemployment rate in the third quarter declined by 0.3 percentage point to 9.1 percent, despite weak job creation in urban areas. Over the same period, the available data on private sector wages showed an increase of 4.3 percent in real terms.

Overall, although the data do highlight some tensions in production costs, the persistence of a margin of unused capacity in nonagricultural activities suggests that price pressures should remain weak in the near term.

2.1 Pressures on output capacity

According to the latest estimates by Bank Al -Maghrib, output should stand below its potential level, with negative deviations of 0.6 and 0.3 in the third and fourth quarters, respectively, reflecting continued moderation of price pressures.

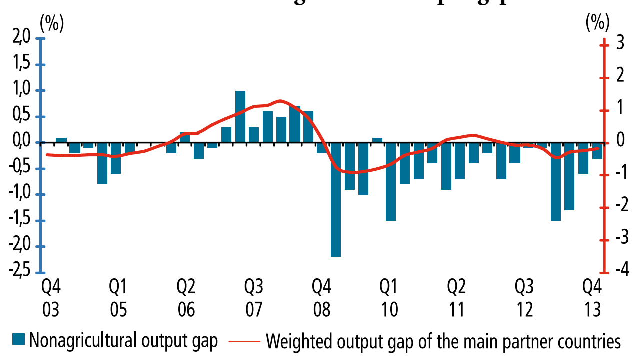
The capacity utilization rate (CUR), as reported by BAM monthly business survey, moved down from 72 percent to 71 percent month on month (Chart 2.2). However, this decline did not affect electrical and electronic industries, in which the CUR improved, and food industries, which registered stagnation.

The same survey shows that the unit production costs grew in the third quarter of 2013 in all branches (Chart 2.3). According to manufacturers, this change is attributed mainly to higher costs of raw materials.

In the same vein, the industrial producer price index moved up 0.9 percent in the third quarter as against a decline of 0.6 percent a year earlier.

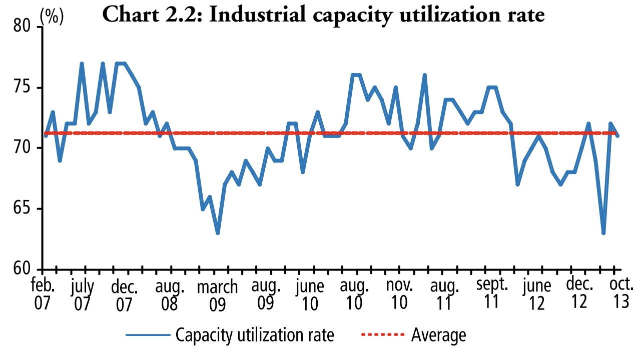
Apparent labor productivity index in nonagricultural activities improved by 3 percent, year on year, in the third quarter, as against a rise of 4.1 percent, reflecting

Chart 2.1: Nonagricultural output gap



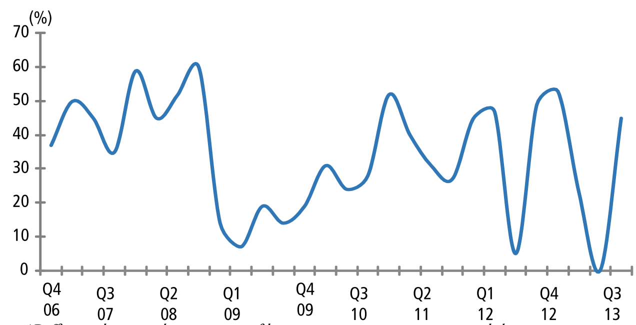
Sources: HCP, Eurostat and BAM estimates.

Chart 2.2: Industrial capacity utilization rate



Source: BAM monthly business survey.

Chart 2.3: Balance of opinion* on the change in production unit cost



**Difference between the percentage of businesses reporting an increase and those reporting a decrease.*

Source: BAM monthly business survey.

a 0.3 percent decline in nonagricultural employment and deceleration in growth of nonagricultural activities from 4.7 percent to 2.7 percent (Chart 2.4).

2.2 Pressures on the labor market

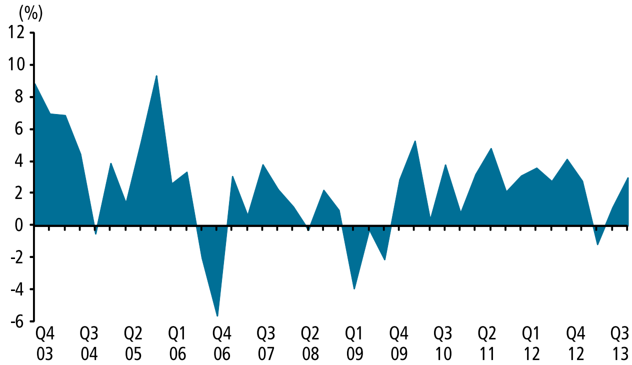
During the third quarter, the labor force aged 15 and over rose by 1 percent to 11.7 million people, due to a 2.1 percent increase in rural areas and stagnation in urban areas. Taking into account the growth of the total population aged 15 and over, the participation rate fell 0.2 percentage point to 48.5 percent.

Regarding job creation (Chart 2.5), 139,000 jobs were created almost all in rural areas, including nearly 76 percent as unpaid jobs. At the sectoral level, agriculture and services were the only job-providing sectors, with 156,000 and 64,000 positions, respectively. In contrast, the industrial and construction sectors lost 27,000 and 54,000 jobs, respectively.

Against this backdrop, the labor force increased by 1.3 percent to nearly 10.7 million people in the third quarter. In contrast, the employment rate dropped from 44.1 percent to 44 percent globally, with mainly a reduction from 37 percent to 36.3 percent in urban areas (Table 2.1).

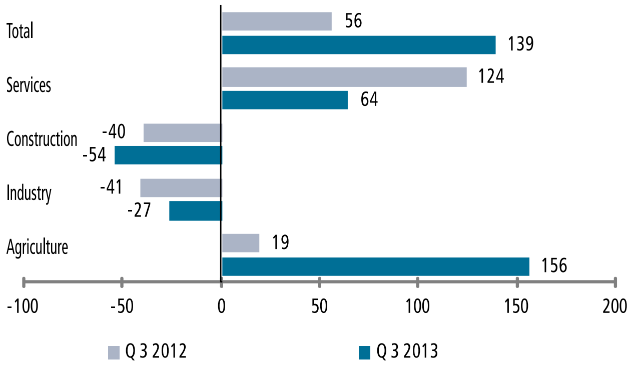
Overall, the unemployment rate declined year on year by 0.3 percentage point to 9.1 percent, covering a 4.2 percent decline to 3.7 percent in rural and stagnation at 14 percent in urban areas. By age group, unemployment among young people aged 15 to 24 years showed the largest decline from 20.2 percent to 19.1 percent (Table 2.1).

Chart 2.4: YoY change in apparent labor productivity (Nonagricultural VA/urban employment)



Sources : HCP, and BAM estimates.

Chart 2.5: Employed labor force per sector (in thousands)



Source: HCP.

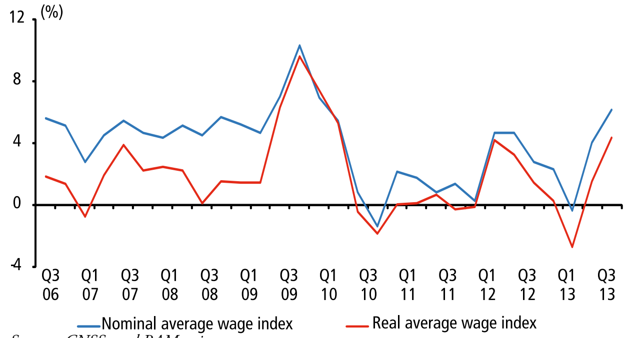
Table 2.1: Quarterly indicators of activity, employment, and unemployment indicators

In thousand / in %	Q3 - 2012 Urban	Q3 - 2012 Rural	Q3 - 2012 Total	Q3 - 2013 Urban	Q3 - 2013 Rural	Q3 - 2013 Total
Labor force and employment						
Labor force (1)	6202	5445	11647	6205	5558	11763
Labor force participation rate (%) (2)	43.1	57.4	48.7	42.2	58.1	48.5
Employed labor force	5332	5217	10548	5335	5352	10687
Employment rate (%) (3)	37.0	55.0	44.1	36.3	55.9	44.0
Unemployment						
Unemployed labor force	870	228	1098	870	206	1076
Unemployment rate (in %) (4)	14.0	4.2	9.4	14.0	3.7	9.1
By age						
.15 - 24 years	35.2	9.6	20.2	37.8	7.3	19.1
.25 - 34 years	20.4	4.5	13.7	19.3	3.9	12.8
.35 - 44 years	7.1	2.3	5.1	8.1	3.2	6.1
By degree						
. Non-graduates	7.1	2.4	4.1	7.6	2.3	4.2
. Graduates	18.8	11.5	17.2	18.4	9.8	16.5

(1) Population aged 15 years and above (in thousand of persons).
(2) Labor force aged 15 years and above /total population aged 15 years and above.
(3) Employed labor force aged 15 years and above /total population aged 15 years and above.
(4) Unemployed labor force aged 15 years and above /labor force aged 15 years and above.
Source : HCP.

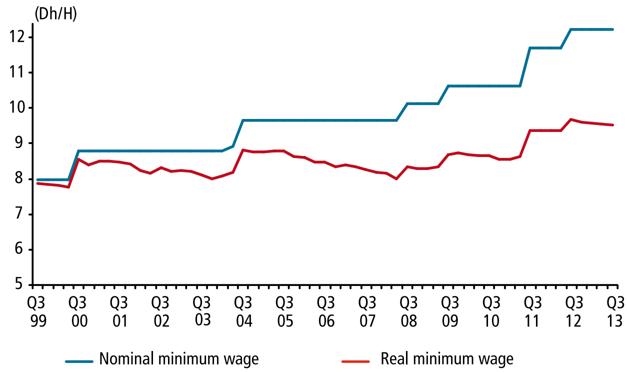
With regard to the latest available data on labor costs, the private sector wage index, based on CNSS data, recorded a year-on-year increase of 6.1 percent in the third quarter in nominal terms and 4.3 percent in real terms. The hourly minimum wage declined by 1.7 percent in real terms over the same period.

Chart 2.6: YoY change in the private sector's average wage index in nominal and real terms



Sources: CNSS, and BAM estimates.

Chart 2.7: Minimum wage in real and nominal terms



Sources: Ministry of Employment and Vocational Taining, and BAM calculations.

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

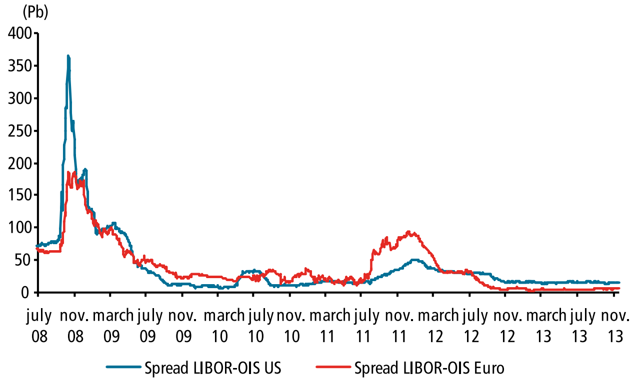
The global economy continued to recover in the third quarter, particularly in developed countries. Economic activity in the United States continues to gain momentum gradually, as evidenced by the positive trends of high-frequency indicators. In the euro area, growth continued to improve, although its pace weakened from one quarter to another. Despite these signs of recovery, the unemployment rate is still high in the eurozone countries, while in the United States, it continued to decline to reach the lowest level since late 2008. In Japan, GDP rose significantly, supported mainly by government investment expenditure, while the UK growth improved slightly thanks to the uptrend of the industrial sector. Concerning emerging countries, growth in China recorded in the third quarter the first acceleration since the fourth quarter of 2012. Overall, the gradual improvement of growth combined with the lowering of the ECB key rate in November, contributed to easing financial conditions, particularly in the euro area. In commodity markets, energy and non-energy prices trended downward, thus contributing to reinforcing the deflationary pressures observed in recent months. Regarding the outlook, recent forecasts by the OECD in November 2013, as well as those by the IMF, show a downward revision of global growth in 2013 and 2014. Under these conditions, external inflationary pressures on the Moroccan economy should remain moderate.

3.1 Global financial conditions and economic activity

3.1.1 Financial conditions

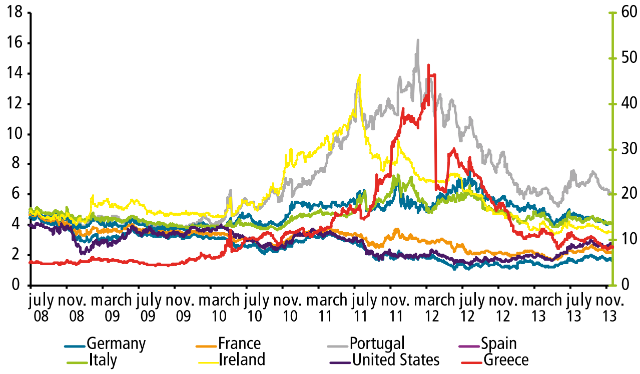
In bond markets, sovereign yields continued to decline overall in advanced economies. In peripheral eurozone countries, 10-year yields moved down from 8.8 percent in October to 8.3 percent in November in Greece, from 4.2 percent to 4.1 percent in both Italy and Spain and from 6.5 percent to 6.1 percent in Portugal. Similarly, yields of other countries in the euro area declined from 1.8 percent to 1.7 percent in Germany and from 2.3 percent to 2.2 percent in France, over the same period. It should also be noted that Standard and Poor's lowering of France's sovereign rating from "AA+" to "AA", on November 8, had no significant impact on its 10-year borrowing rates. In contrast, yields in the United States rose slightly to 2.7 percent in November from 2.6 percent in the previous month. 10-year yields in major emerging economies were also up month on month, to 8.9 percent from 8.6 percent in India and in Turkey, to 12.1 percent from 11.5 percent in Brazil and to 4.4 percent from 4.1 percent in China.

Chart 3.1: Change in the OIS-LIBOR spread*



** The Libor-OIS spread reflects an interest rate risk. and corresponds to the difference between the 3-month interbank rate (Libor Eurodollar) and the 3-month overnight indexed swap rate (OIS).*
Source: Datastream .

Chart 3.2: Change in the yield of ten-year euro area and U.S. government bonds



Source: Datastream .

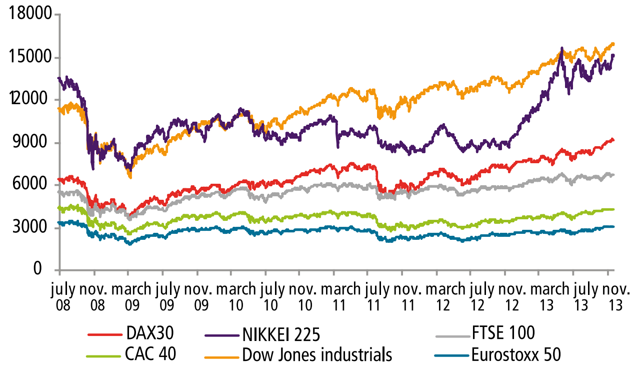
In money markets, the 3-month Euribor decreased slightly to 0.22 percent in November, from 0.23 percent in the previous month, while the 3-month Libor stagnated at 0.24 percent. The euro Libor-OIS spreads rose between October and November from 5.7 basis points to 6.1 points, while the dollar Libor-OIS spreads were up from 14.6 points to15.2 points.

However, credit growth in the United States accelerated slightly after 9 consecutive months of deceleration, standing at 1.9 percent in October, year on year, from 1.8 percent in the previous month. In addition, in the euro area, credit contraction observed since May 2012 accentuated somewhat month on month, from 2 percent to 2.1 percent.

In stock markets, major indexes of advanced economies trended upward, with a decline of volatility. From one month to the next, the DAX30 rose in November by 3.4 percent, while the EUROSTOXX50 and the CAC40 were up 2 percent and 1.2 percent, respectively. In addition, the FTSE100, Dow Jones Industrials and NIKKEI225 registered respective increases of 2.1 percent, 3.3 percent and 1.7 percent. In terms of volatility, VSTOXX moved down from 17.9 basis points in October to 16.3 points in November, while VIX fell from 15.4 basis points to 12.9 points. Unlike the previous month, indexes of emerging economies trended downward in November, as the MSCI EM dropped 1.5 percent, month on month, reflecting particularly respective declines of 0.8 percent and 6.1 percent in India and Turkey.

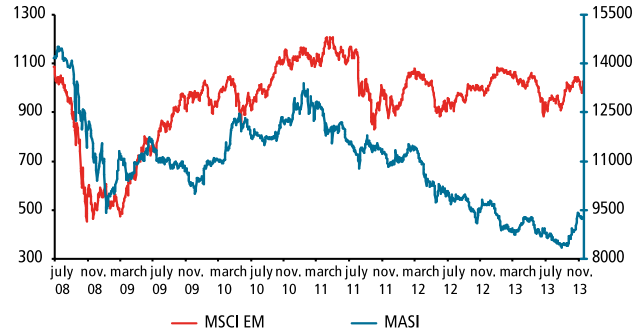
In foreign exchange markets, the euro traded at $1.35 on average in November as against $1.36 in October, registering a depreciation of 1.3 percent. In addition, it depreciated 1 percent vis-à-vis the pound sterling, while it appreciated 0.4 percent against the Japanese

Chart 3.3: Change in the major stock market indexes of advanced economies



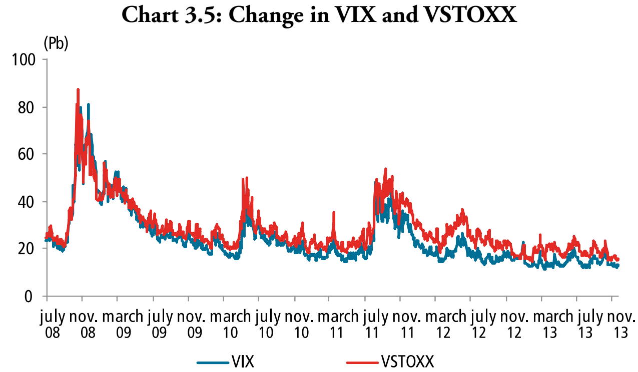
Source: Datastream.

Chart 3.4: Change in the MSCI EM and MASI



Source: Datastream.

Chart 3.5: Change in VIX and VSTOXX

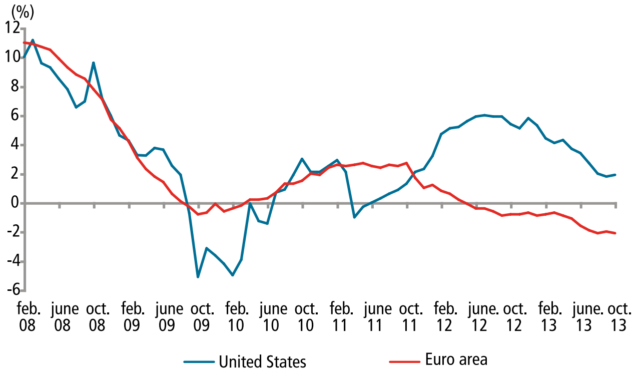


Source: Datastream.

yen. The currencies of key emerging countries reversed their trend of the previous month. Between October and November, the Indian rupee and the Brazilian real appreciated 1.6 percent and 4.7 percent, respectively, versus the dollar, while the Chinese yuan depreciated 0.2 percent against the dollar.

With regard to monetary policy decisions, the ECB decided on December 5, to keep its key rate unchanged at 0.25 percent, its lowest historical level. The Bank of England also kept its key rate unchanged at 0.5 percent. The Fed maintained its bond buyback program at a pace of $85 billion a month and decided at its meeting of October 30 to keep its key rate unchanged within a range of 0 percent to 0.25 percent.

Chart 3.6: YoY change in credit in the United States and euro area



Source: Datastream.

3.1.2 Global economic activity

The latest national accounts data show a further recovery of global economy. However, trends differ between advanced and emerging economies, and also across each group.

In advanced countries, the year-on-year GDP growth moved up from 1.6 percent to 1.8 percent in the third quarter in the United States, due to stock building and rising exports. In the United Kingdom, it reached 1.5 percent from 1.4 percent in the previous quarter, mainly reflecting an uptrend in the industrial sector. In Japan, growth improved from 1.2 percent to 2.6 percent, driven mainly by government investment expenditure.

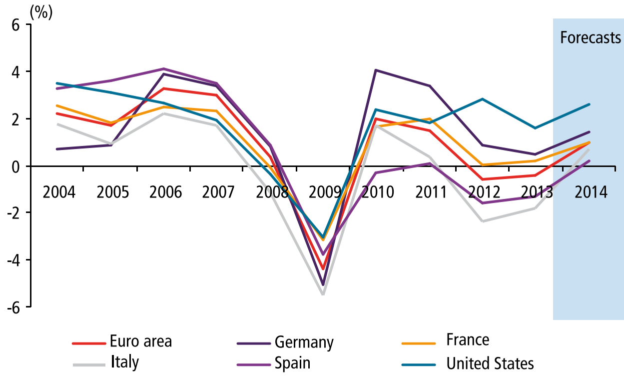
In the euro area, the economic recovery lost some of its momentum in the third quarter, as the pace of mitigation of GDP year-on-year contraction slowed from one quarter to another, from -0.6 percent to -0.4 percent. Growth stood at 0.6 percent from 0.5 percent in Germany, at -1.9 percent from -2.2 percent in Italy and at -1.2 percent from -1.6 percent in Spain.

Table 3.1: YoY change in quarterly growth

	2011		2012			2013	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States	3.3	2.8	3.1	2	1.3	1.6	1.8
Euro area	-0.2	-0.6	-0.7	-1	-1.2	-0.6	-0.4
France	0.4	0.1	0	-0.3	-0.4	0.5	0.2
Germany	1.3	1.1	0.9	0.3	-0.3	0.5	0.6
Italy	-1.8	-2.6	-2.8	-3	-2.5	-2.2	-1.9
Spain	-1.2	-1.6	-1.7	-2.1	-2	-1.6	-1.2
United Kingdom	0.6	0	0	-0.2	0.2	1.4	1.5
Japan	3.3	3.9	0.4	0.3	0.1	1.2	2.6
China	8.1	7.6	7.4	7.9	7.7	7.5	7.8
India	5.1	5.4	5.2	4.7	4.8	4.4	4.8
Brazil	0.8	0.6	0.9	1.8	1.8	3.3	2.2

Source : Eurostat.

Chart 3.7: GDP growth in advanced countries



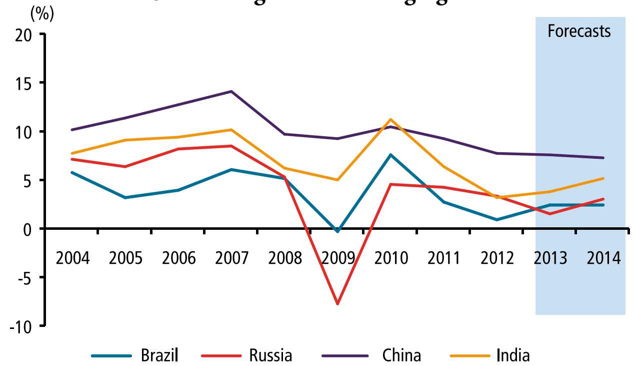
Source: IMF.

In emerging countries, growth in China in the third quarter recorded the first increase since the fourth quarter of 2012 from 7.5 percent to 7.8 percent, mainly driven by higher industrial production and retail sales. In India, growth increased from 4.4 percent to 4.8 percent thanks to the good performance of the agricultural sector, while in Brazil, it fell from 3.3 percent to 2.2 percent. As for Russia, the data remain those of the second quarter, with growth moving down from 1.6 percent to 1.2 percent.

High-frequency indicators for November highlight that recovery was fragile in the euro area. Indeed, the composite PMI fell from 51.9 points in October to 51.7 points, due to a decrease in services activities, while the manufacturing PMI rose from 51.3 to 51.6 points in November. The ISM manufacturing index rose from 56.4 points to 57.3, a difference of 14.6 percent compared to the contraction threshold (50 points).

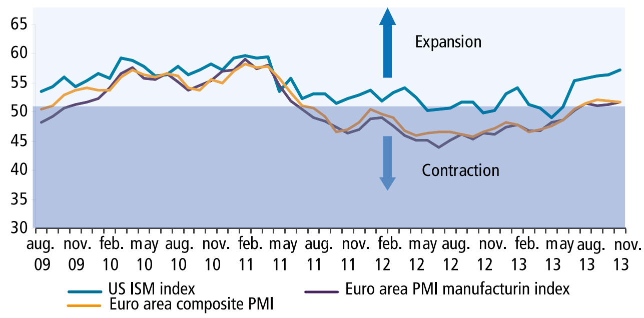
Regarding the global economic outlook, the IMF revised down its global growth forecasts in October. Thus, global growth is projected at 2.9 percent in 2013 and 3.6 percent in 2014, mainly due to the lowering of forecasts in emerging economies to 4.5 percent in 2013 and 5.1 percent in 2014. In advanced countries, GDP should grow 1.2 percent in 2013 and 2 percent in 2014. By country, projected growth in the United States was revised down to 1.6 percent and 2.6 percent in 2013 and 2014, respectively, while in the euro area, growth was revised upward to -0.4 percent in 2013 and kept unchanged at 1 percent in 2014. Moreover, the IMF predicted a 7.6 percent growth in 2013 and 7.3 percent in 2014 in China, and 3.8 percent and 5.1 percent in India, respectively. For the Middle East and North Africa, growth should be limited to 2.1 percent in 2013 before reaching 3.8 percent in 2014.

Chart 3.8: GDP growth in emerging countries



Source: IMF.

Chart 3.9: Change in high-frequency indicators in the USA and euro area



Source: Datastream .

Table 3.2: Global growth outlook

	Forecasts (%)					
	European commission		IMF*		OECD	
	2013	2014	2013	2014	2013	2014
Global GDP	2.8	3.6	2.9	3.6	2.7	3.6
United States	1.6	2.6	1.6	2.6	1.7	2.9
Euro area	-0.5	1.1	-0.4	1	-0.4	1
Germany	0.5	1.7	0.5	1.4	0.5	1.7
France	0.2	0.9	0.2	1	0.2	1
Italy	-1.8	0.7	-1.8	0.7	-1.9	0.6
Spain	-1.3	0.5	-1.3	0.2	-1.3	0.5
United Kingdom	1.3	2.2	1.4	1.9	1.4	2.4
Japan	2.1	2	2	1.2	1.8	1.5
China	7.5	7.4	7.6	7.3	7.7	8.2
India	2.9	4	3.8	5.1	3.4	5.1
Brazil	2.2	2.5	2.5	2.5	2.5	2.2
Russia	1.9	3	1.5	3	1.5	2.3

Sources: European commission (May 2013). OECD (June 2013). IMF (July 2013).

Like the IMF projections, the OECD forecasts of November show a downward revision of global growth in 2013 and 2014. These revisions are particularly attributed to uncertainties surrounding fiscal policy in the United States and vulnerabilities in emerging countries. Indeed, according to the OECD, global growth should stand at 2.7 percent in 2013 and 3.6 percent in 2014. By country, growth in the United States would reach 1.7 percent in 2013 and 2.9 percent in 2014, while in euro area, it should be -0.4 percent and 1 percent, respectively.

Table 3.3: Change in unemployment rate

	2011	2012	September 2013	October 2013	November 2013
United States	9.0	8.1	7.2	7.3	7.0
Euro area	10.2	11.4	12.2	12.1	N.A
France	9.6	10.2	11.1	10.9	N.A
Italy	8.4	10.7	12.5	12.5	N.A
Germany	6.0	5.5	5.2	5.2	N.A
Spain	21.7	25.1	26.6	26.7	N.A
United Kingdom	8.0	7.9	N.A	N.A	N.A

Source : Eurostat.

3.1.3 Labor market

In the United States, November 2013 data on the labor market show a decline in the unemployment rate to 7.0 percent, its lowest level since 2008, as against 7.3 percent in the previous month, showing a creation of 203,000 jobs in November as opposed to 200,000 jobs last month.

In the euro area, October data show an unemployment rate of 12.1 percent. In partner countries in particular, this rate stood at 5.2 percent in Germany, 10.9 percent in France, 12.5 percent in Italy and 26.7 percent in Spain (Table 3.3).

Regarding labor market prospects, the latest IMF projections of October 2013 highlight increases in unemployment rates for most developed countries, with the exception of the United States, in 2013, before registering declines in 2014.

Thus, the IMF predicts an unemployment rate of 7.6 percent in 2013 and 7.4 percent in 2014 in the United States, and 12.3 percent and 12.2 percent, respectively, in the euro area. In partner countries, the unemployment rate in France would stand at 11.0 percent in 2013 and 11.1 percent in 2014, while in Germany it should drop from 5.6 percent to

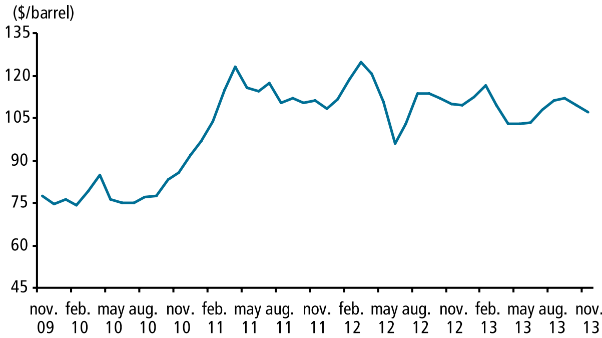
Table 3.4 : Expected change in unemployment rate in main advanced countries

	IMF		OECD		European commission	
	2013	2014	2013	2014	2013	2014
United States	7.6	7.4	7.5	6.9	7.5	6.9
Euro area*	12.3	12.2	12.0	12.1	12.2	12.2
Germany	5.6	5.5	5.4	5.4	5.4	5.3
France	11.0	11.1	10.6	10.8	11.0	11.2
Italy	12.5	12.4	12.1	12.4	12.2	12.4
Spain	26.9	26.7	26.4	26.3	26.6	26.4
United Kingdom	7.7	7.5	7.8	7.5	7.7	7.5

Sources : European commission (May 2013). OECD (November 2013). IMF (October 2013).

(*) OECD Forecasts for the euro area include 15 countries while those of the IMF and the European Commission cover the area's 17 countries.

Chart 3.10: World price of brent oil in dollar per barrel



Source: Datastream.

5.5 percent over the same period. In Italy and Spain, it would reach respectively 12.5 percent and 26.9 percent in 2013, before decreasing slightly to 12.4 percent and 26.7 percent, respectively, in 2014. Finally, the IMF expects for the United Kingdom a rate of 7.7 percent in 2013 and 7.5 percent in 2014.

November projections of the OECD remain broadly in line with those of the IMF. Thus, the OECD expects in the United States an unemployment rate of 7.5 percent in 2013 before declining to 6.9 percent in 2014. In the euro area, it forecasts an unemployment rate of 12.0 percent and 12.1 percent, respectively.

In partner countries, the OECD predicts for France an unemployment rate of 10.6 percent in 2013 and 10.8 percent in 2014. For Germany, this rate should be 5.4 percent over the same period. In Italy, this rate should reach 12.1 percent and 12.4 percent in 2013 and 2014, respectively. In Spain, the unemployment rate would stand at 26.4 percent and 26.3 percent in 2013 and 2014, respectively.

3.2 Commodity prices and inflation

In November, commodity prices trended downwards, from one year to the next. Inflation declined between September and October in most developed countries, thus strengthening the disinflationary pressures observed in recent months.

3.2.1 Energy commodity prices

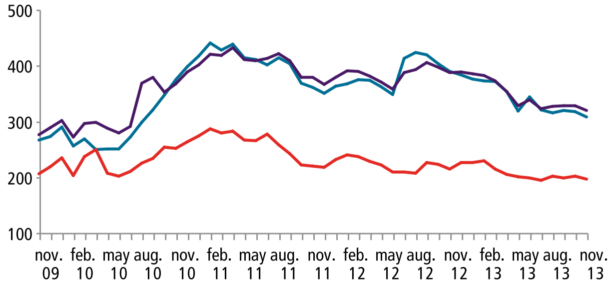
The Brent price was down 2.4 percent from one month to the next, averaging 107 dollars per barrel in November. This trend is particularly due to the weak demand and to production which remains high in Saudi Arabia. Likewise, this price is down 3 percent year on year.

Table 3.5: Oil futures price (Brent in U.S. $)

	Q4:13	Q1:14	Q2:14	Q3:14	2014	2015	2016
Oil	108.13	106.98	105.98	104.62	105.2	99.79	95.09

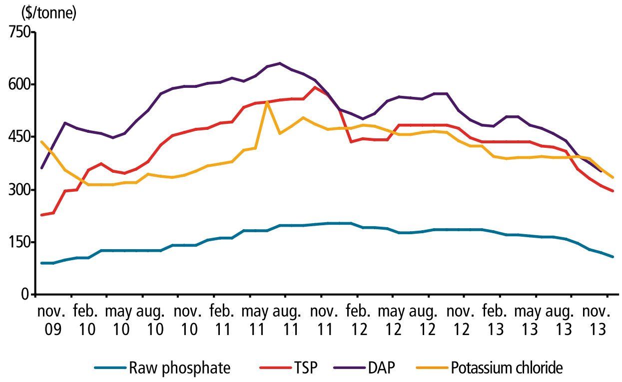
Source : Bloomberg.

Chart 3.11: Change in the DJ-UBS non-energy commodity indexes (100=2006)



Source: Datastream.

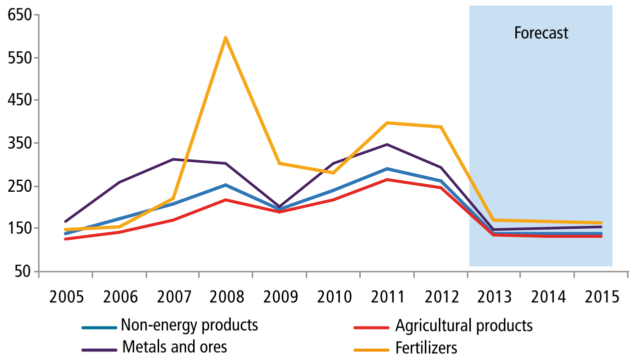
Chart 3.12: Change in the world prices of phosphate and derivatives



Source: World Bank.

Regarding the outlook for 2013[1], the World Bank revised up its estimates for October from $100.7 to $105 per barrel. Similarly, the IMF forecast rose from $100.09 in its updated WEO of July to $104.49 a barrel in the WEO of October 2013. Meanwhile, the European Commission revised up its forecast Brent price, now assuming a price of $108.8 per barrel in its autumn economic outlook, compared to $104.9 in the previous forecast.

Chart 3.13: Outlook for commodity price indexes

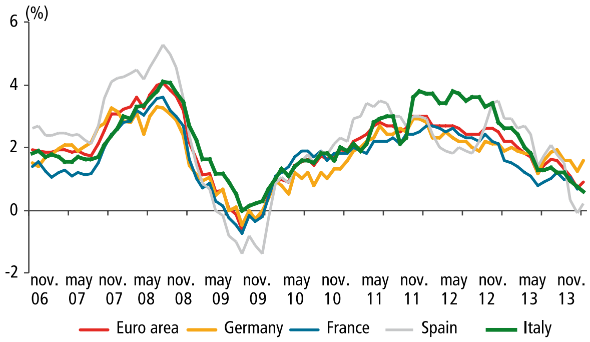


Source: World Bank.

3.2.2 Non energy commodity prices

In November 2013, non-energy prices were down, year on year. Indeed, the relevant Dow Jones index fell sharply by 17.6 percent, reflecting an 8.4 percent decrease in the index of industrial metal prices and a sharp decline of 21.1 percent in agricultural commodities index.

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat and Datastream.

In the world market of phosphate and derivatives, the price of crude phosphate fell by 10 percent between October and November, from $120.6 to $108.5 per tonne. Similarly, prices of derivatives recorded month-on-month declines of 4.8 percent for TSP and almost 7 percent for DAP and Potassium Chloride. However, Urea price rose by 4.4 percent from one month to another. Year on year, prices were down 41.4 percent for crude phosphate, 34.1 percent for TSP, 33.1 percent for DAP, 21.4 percent for Potassium Chloride and 16.5 percent for Urea.

3.2.3 Inflation in the world

In October 2013, inflation declined in the United States from 1.2 percent to 1 percent, its lowest level since October 2009. However, it rose slightly in Japan from 1 percent to 1.1 percent. In the euro area, an initial Eurostat estimate for November indicates that inflation was up from 0.7 percent to 0.9 percent, mainly

Table 3.6 : World inflation outlook, YoY

	OECD		European Commission		IMF	
	2013	2014	2013	2014	2013	2014
United States	1.5	1.8	1.5	1.9	1.4	1.5
Euro area*	1.4	1.2	1.5	1.5	1.5	1.5
Germany	1.7	1.8	1.7	1.7	1.6	1.8
France	1	1.2	1	1.4	1	1.5
Spain	1.6	0.5	1.8	0.9	1.8	1.5
Italy	1.4	1.3	1.5	1.6	1.6	1.3
United Kingdom	2.6	2.4	2.6	2.3	2.7	2.3
Japan	0.2	2.3	0.3	2.6	0	2.9

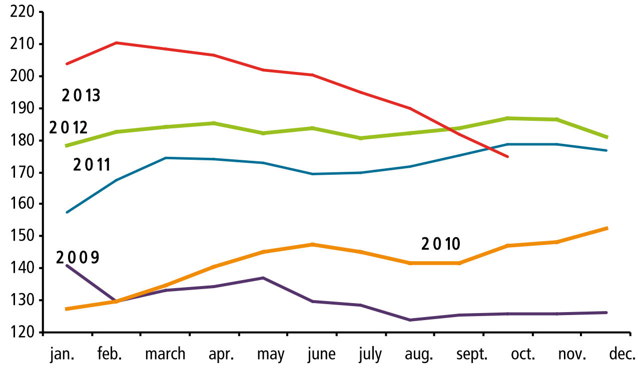
Sources : OECD, European Commission and IMF.
(*) OECD Forecasts for the euro area include 15 countries while those of the IMF and the European Commission cover the area's 17 countries.

1 The World Bank and the IMF make their forecasts based on the average price of the three oil categories (Brent, WTI and Dubai). The European Commission forecasts the Brent price only.

reflecting an increase in Germany from 1.2 percent to 1.6 percent. Moreover, after a 0.1 percent decline in consumer prices in October, Spain registered an inflation rate of 0.2 percent in November. In Italy, inflation moved down in November from 0.8 percent to 0.6 percent. As for France, the latest available data remain those of October and show a declining inflation from 1 percent to 0.7 percent. Similarly, inflation in the United Kingdom dropped in October from 2.7 percent to 2.2 percent. In emerging and developing economies, inflation decelerated in Brazil from 5.9 percent to 5.8 percent, while it rose slightly in China from 3.1 percent to 3.2 percent in October.

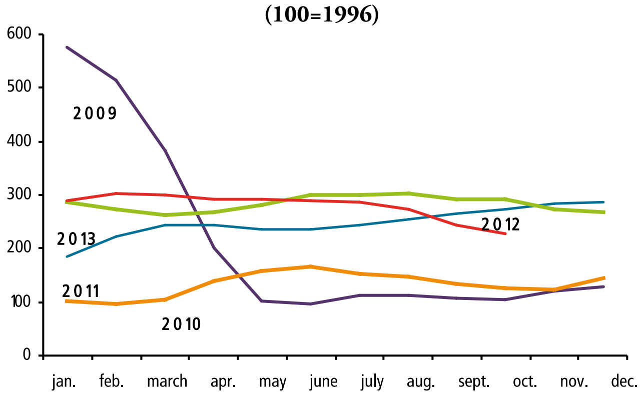
Regarding the outlook for price trends, the IMF expects that inflation would reach, in emerging and developing countries, 6.2 percent in 2013 and 5.7 percent in 2014. However, it should be limited to 1.4 percent and 1.8 percent in developed countries over the same period. Moreover, according to the latest OECD projections, inflation should stand in the euro area at 1.4 percent in 2013 before slowing to 1.2 percent in 2014 and would reach in the United States 1.5 percent and 1.8 percent in 2013 and 2014, respectively.

Chart 3.15: Non-energy import price index (100=1996)



Sources: Foreign Exchange Office, and BAM calculations.

Chart 3.16: Mineral import price index (100=1996)

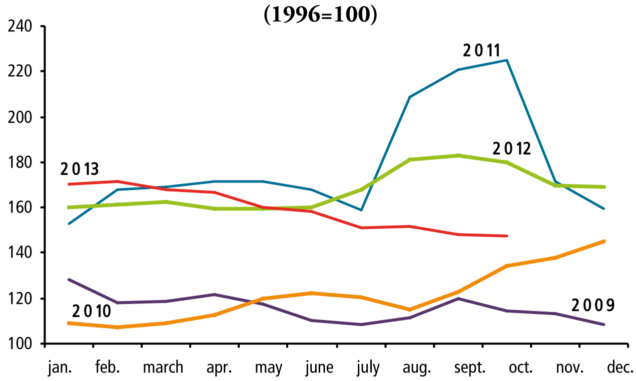


Sources: Foreign Exchange Office, and BAM calculations.

3.3 Morocco's import unit price index

At the end of October 2013, the non-energy import price index (IPI) showed a monthly decline of 3.8 percent, as against 4.3 percent in the previous month. Thus, the mining IPI dropped by 6.9 percent as opposed to 10 percent, largely due to a 9.7 percent decline in the average import unit price of iron and steel. Similarly, the food IPI fell 0.3 percent as against 2.3 percent in September. This change covers a 3.2 percent decline in the average import unit price of corn and a 1.1 percent increase in that of wheat.

Chart 3.17: Food import price index (1996=100)

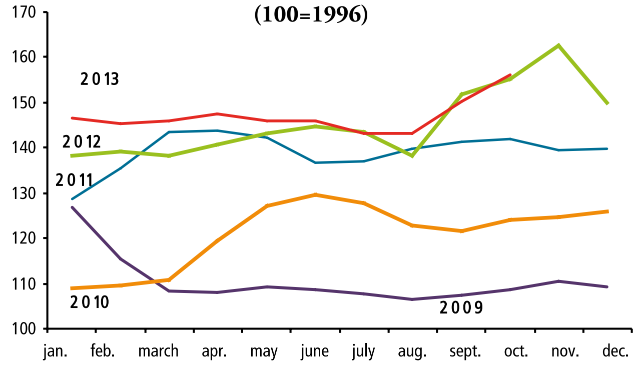


Sources: Foreign Exchange Office, and BAM calculations.

However, the IPI of semi-finished goods was up 3.9 percent as opposed to 5.1 percent a month earlier. This change is mainly attributed to respective increases of 2.3 percent and 1 percent in the average import unit price of wires and bars, and plastics.

Year on year, the non-energy IPI decreased by 15.9 percent as against 4.6 percent during the same period of last year. Indeed, the food IPI registered a drop of 18.2 percent, mainly in connection with respective declines of 25.5 percent and 13.2 percent in the average import unit price of corn and that of wheat. The mining IPI fell 21.9 percent. This trend reflects a 39.4 percent decline in the average import unit price of crude sulfur and a 15.3 percent increase in that of iron and steel. However, the IPI of semi-finished goods registered a slight increase of 0.6 percent, especially in conjunction with a 4.6 percent increase in the average import unit price of plastics, partially offset by a 3.8 percent decline in that of paper and cardboard.

Chart 3.18: Import price index of semifinished goods (100=1996)



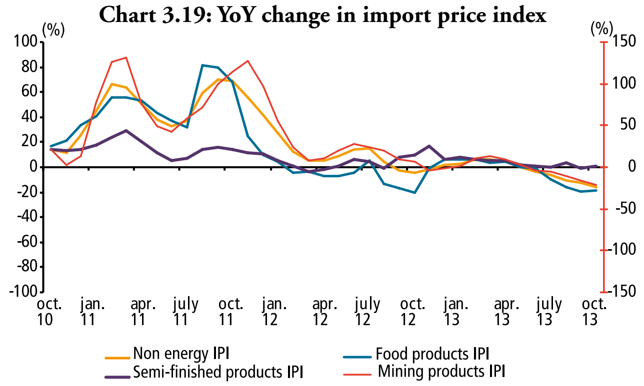
Sources: Foreign Exchange Office. and BAM calculations

Table 3. 7 : Change in import price index (IPI)

	Monthly change in %			Annual change in %		
	aug. 2013	**sept. 2013**	**oct. 2013**	**aug. 2013**	**sept. 2013**	**oct. 2013**
Non energy IPI	-2.7	-4.3	-3.8	-10.5	-12.7	-15.9
Food IPI	0.3	-2.3	-0.3	-16.3	-19.3	-18.2
Semi-finished products IPI	-4.7	-10.0	-6.9	-10.2	-16.0	-21.9
Mining IPI	-0.1	5.1	3.9	3.5	-1.0	0.6

N.B: Indexes calculated on the basis of unit prices in Dirhams

Chart 3.19: YoY change in import price index



Sources: Foreign Exchange Office. and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

Monetary data for October 2013 indicate a slight acceleration in the growth rate of monetary and credit aggregates, while the monetary gap remained negative. Indeed, money supply expanded by 6.1 percent as against 5.8 percent in the third quarter, reflecting in particular higher deposits with banks. Bank lending recorded an annual increase of 3.1 percent as against 2.6 percent a quarter earlier. As to lending rates, Bank Al-Maghrib's survey for the third quarter of 2013 shows a rise of 21 basis points in the weighted average rate to 6.3 percent, mainly due to higher rates on cash advances and, to a lesser extent, equipment loans. The dirham's effective exchange rate in the third quarter appreciated by 0.98 percent in nominal terms and 1.31 percent in real terms, on a quarterly basis, in conjunction with an inflation rate of Morocco broadly higher than that of the main partners and competitors. The real estate price index was up 0.4 percent, year on year, reflecting increases of 0.4 percent in land and commercial property prices and 0.5 percent in residential property prices. The developments of monetary conditions and asset prices generally indicate the absence of significant monetary inflationary pressures in the medium term.

4.1 Monetary conditions

4.1.1 Interest rates

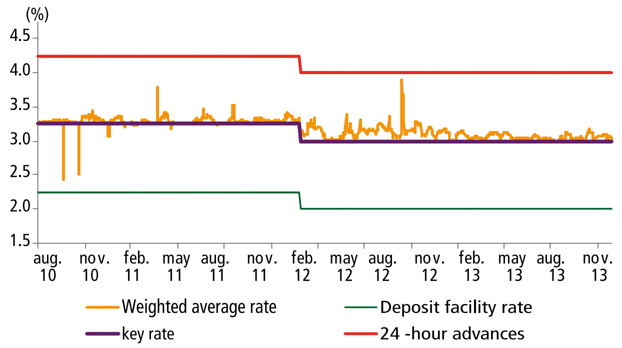
At its meeting of September 24, 2013 the Bank Board decided to keep the key rate unchanged at 3 percent. In this context, the interbank weighted average rate averaged 3.07 percent between October and November 2013, up 3 basis points from the third quarter.

Meanwhile, Treasury bond yields on the primary market in October recorded increases up to 17 basis points compared to the previous quarter, with the exception of yields on 13- and 26-week bonds which declined by 2 and 7 basis points, respectively. In the secondary market, the same trend pattern broadly marked the various maturities, except for rates on 52-week and 20-year bonds, which remained stable.

The weighted average rate of 6- and 12-month deposit rates fell 2 basis points between the third quarter and October 2013, to 3.71 percent. This change covers a decrease of 3 basis points in one-year deposit rates and an increase of 2 basis points in 6-month deposit rates.

BAM's lending rates survey among banks for the third quarter of 2013 shows an

Chart 4.1: Change in the interbank rate*
(Daily data)



**Data at November 27th, 2013.*
Source : BAM.

Table 4.1: Change in Treasury bond yields on the primary market

	2012				2013			oct. 13
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
21 days	-	-	-	-	-	-	-	-
24 days	-	-	-	3.71	-	-	-	-
35 days	-	-	-	3.78	4.12	-	-	-
43 days	-	-	3.48	-	-	-	-	-
44 jours	-	-	3.59	-	-	-	-	-
45 jours	-	-	-	3.97	-	-	-	-
13 weeks	3.42	3.21	3.31	3.40	3.93	3.94	3.50	3.48
26 weeks	3.55	3.39	3.42	3.57	4.07	4.11	3.82	3.75
52 weeks	3.65	3.53	3.74	3.84	4.20	4.23	4.11	4.14
2 years	3.88	3.71	3.93	4.24	4.57	4.68	4.61	4.72
5 years	4.05	4.00	4.32	4.52	4.75	-	4.93	5.1
10 years	4.32	4.29	4.51	4.84	-	-	5.42	-
15 years	4.46	4.52	4.74	5.08	5.52	5.69	5.71	5.8
20 years	-	-	5.01	-	-	-	-	-

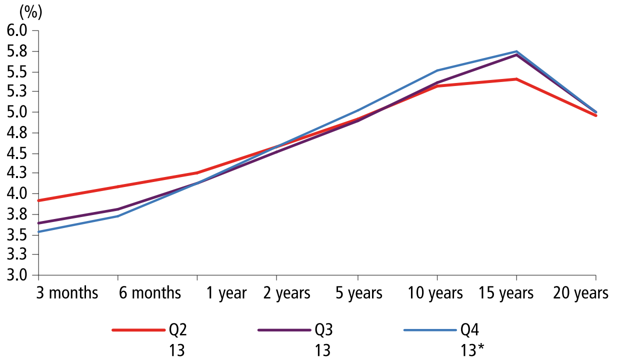
increase of 21 basis points in the weighted average rate of bank loans to 6.3 percent. This trend is mainly attributed to higher rates on cash advances and, to a lesser extent, equipment loans. However, rates on other loan categories recorded declines ranging from 5 to 11 basis points.

4.1.2 Money. credit and liquid investments

M3 growth

October 2013 data report slight acceleration in the annual growth of money supply compared to the third quarter. Nevertheless, monetary inflationary pressures remain broadly subdued in the medium term, as the monetary gap remains negative.

Chart 4.2: Term structure of TB interest rates in the Treasury securities market



Observation of the third quarter of 2013 corresponds to the daily average of data from October 1st to November 25, 2013.
Source : BAM.

Table 4.2: Borrowing Rates (time deposits)

	2012				2013			oct. 13
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
6 months	3.49	3.43	3.49	3.55	3.52	3.56	3.55	3.57
12 months	3.84	3.83	3.83	3.84	4.02	3.89	3.83	3.80
Weighted average	3.68	3.69	3.71	3.73	3.85	3.76	3.73	3.71

Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

During the third quarter of 2013, bank liquidity shortage increased by 14.6 billion dirhams from the previous quarter, reaching 74 billion dirhams, due to the combined restrictive effect of all autonomous factors. Indeed, currency in circulation was up 7.2 billion dirhams, owing to major withdrawals related to summer time, the holy month of Ramadan and Eid Al-Fitr.

Similarly, foreign assets operations had a negative impact of 4.8 billion dirhams on banks' liquidity. Sales of foreign banknotes, which reached 6.5 billion dirhams, were fully offset by the accelerated pace of foreign exchange purchases by commercial banks (11.3 billion dirhams).

Treasury operations (excluding transactions on the money market) caused a liquidity drain of 3.9 billion dirhams. Bank subscriptions to Treasury bond auctions (43.8 billion dirhams) and the collection of the second installment of corporate tax were only partially offset by the repayments of domestic debt to the banking system (30.2 billion dirhams), the settlement of subsidy costs (14 billion dirhams) and the payment of civil service salaries (15.9 billion dirhams).

Chart B 4.1.1: Change in liquidity position and in the weighted average rate. in quarterly average

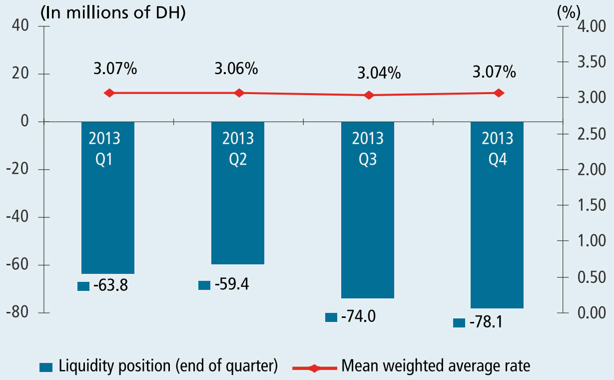


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market

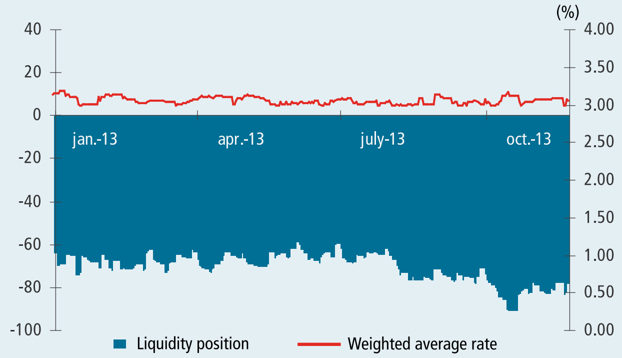


Chart B 4.1.3: Change in reserve requirements

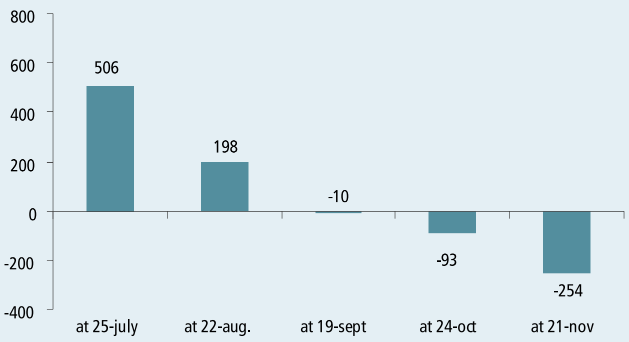
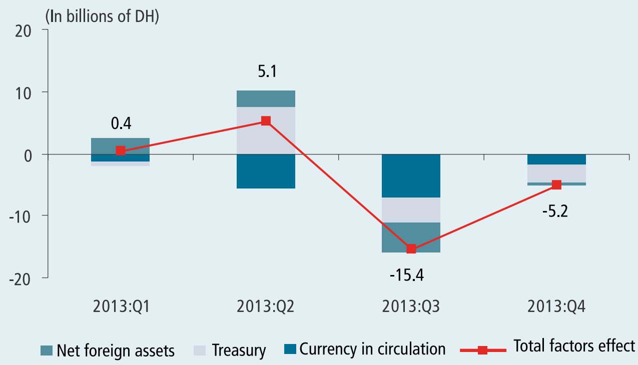


Chart B 4.1.4: Change in liquidity factors' effect



During the fourth quarter of 2013[1], banks' liquidity deficit widened further to 78.1 billion dirhams, up 4.1 billion from the previous quarter, due to the combined restrictive effect of all autonomous factors. Indeed, Treasury operations (excluding operations on the money market) caused a liquidity drain of 3 billion dirhams due to the difference between:

- On the one hand, bank subscriptions to T-bond auctions (29.7 billion dirhams) and the collection of tax revenues, including the third installment of corporate tax;
- On the other hand, the repayments of domestic debt to the banking system (24.8 billion dirhams), the payment of civil servants' salaries (5.3 billion dirhams) and the settlement of subsidy costs (3.5 billion dirhams).

Also, the increase in the currency in circulation had a restrictive impact of 1.7 billion dirhams following major withdrawals on the occasion of Eid Al-Adha.

Finally, foreign assets operations had a negative impact of 500 million dirhams on banks' liquidity: foreign currency purchases by commercial banks amounted to 4.6 billion dirhams, while foreign banknotes sales reached 4.1 billion dirhams.

Due to the improvement in its liquidity, the stock of Treasury investments in the money market stood at 4 billion dirhams on daily average, as against 2.3 billion dirhams in the previous quarter.

To fill the shortage in banks' liquidity, Bank Al-Maghrib intervened mainly through 7-day advances, with an average daily amount of 57.8 billion dirhams, up 8.3 billion dirhams compared to the average amount injected in the previous quarter.

Bank Al-Maghrib also maintained the outstanding amount of its three-month refinancing operations at 20 billion dirhams, including 6 billion as operations of loans secured by private securities representing credits to SMEs and VSEs.

In addition, the Bank granted an overnight advance for an amount of 5 billion dirhams.

The money market weighted average rate increased slightly by 3 basis points from the average of the third quarter of 2013, standing at 3.07 percent. However, its volatility was limited to 4 basis points, unchanged from the level of the previous quarter, evidencing the stability of the weighted average rate at levels close to the key rate.

Chart B 4.1.5: BAM interventions on the money market

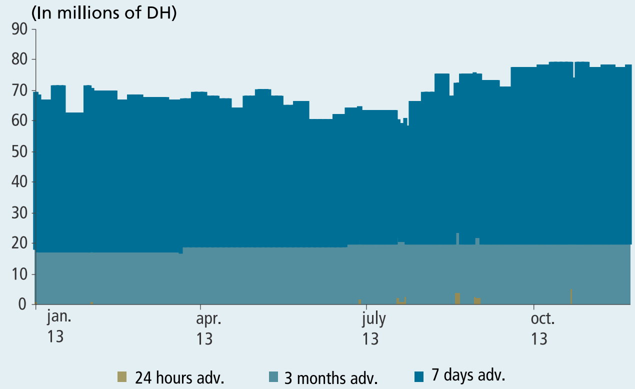
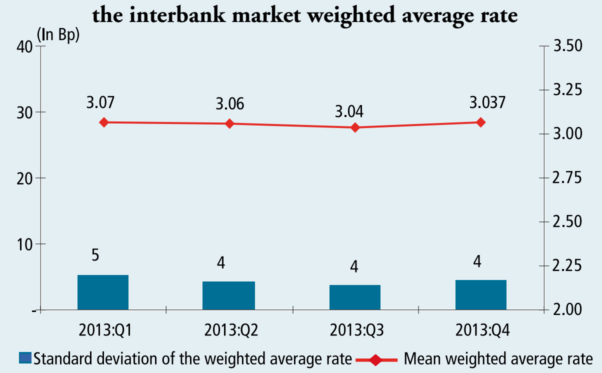


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



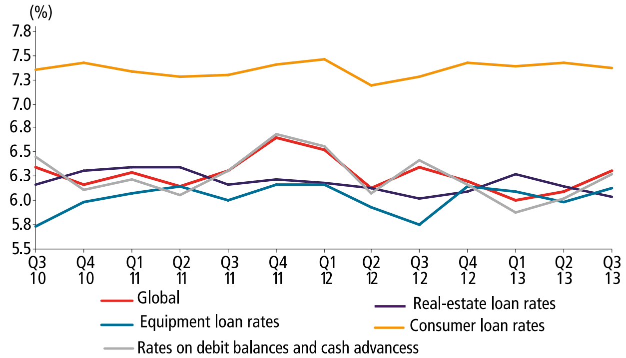
[1]The period from October 1st to November 22nd, 2013.

Indeed, the M3 aggregate increased by 6.1 percent year on year, as against 5.8 percent on average in the third quarter. This change covers a slower growth in net claims on central government and net international reserves, and an accelerated growth of bank loans.

The change in the main components of M3 shows that bank money recorded an annual growth of 5.7 percent, up from 3.8 percent in the last quarter, despite a monthly contraction of 0.9 percent. Time deposits rose by 5.4 percent as against 3.6 percent on average during the previous three months. In contrast, despite a monthly increase of 1.4 percent due to withdrawals on the occasion of Eid Al-Adha, the annual growth of currency in circulation fell from 5.9 to 3.7 percent, reflecting in particular a base effect. After an annual increase of 6.8 percent in the third quarter, the outstanding amount of money market fund shares/units was 2.6 percent lower than the same period of 2012. The annual growth of interest-bearing demand deposits and certificates of deposit did not change significantly between the third quarter and October 2013, standing at 9 percent and 28.1 percent, respectively.

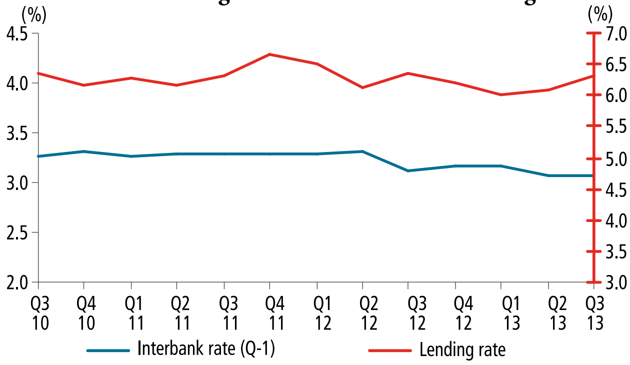
The growth of deposits included in money supply by economic unit is mainly due to stronger contribution of private nonfinancial corporations, whose holdings expanded by 14.8 percent in October, as against 10.2 percent in the previous quarter. Household assets were up 5.8 percent, a rate similar to that of the last quarter, making the largest contribution to the growth of deposits. Public sector deposits continued their downward trend registered in recent months.

Chart 4.3 : Change in lending rates*



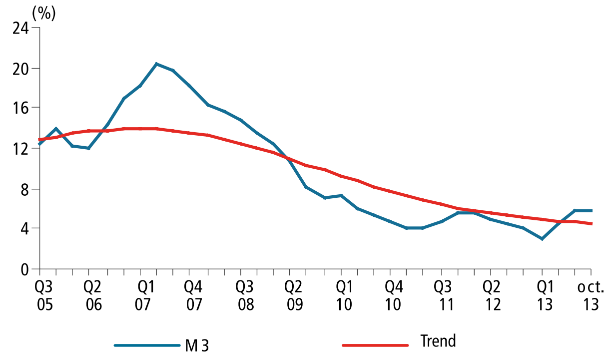
** As from Q3-2010. the survey sample was expanded to 80 percent of loans granted to nonfinancial customers (see the Methodological Note published on Bank Al-Maghrib website).*

Chart 4.4: Change in interbank rate and lending rates



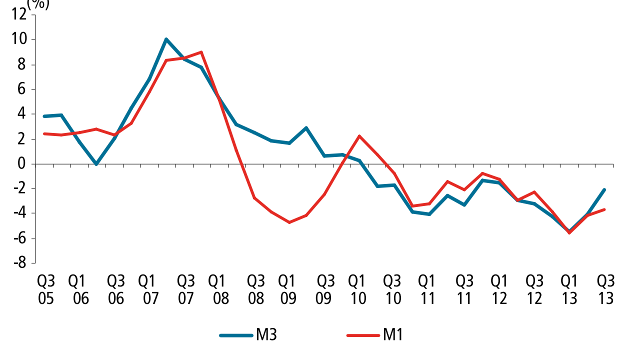
Source : BAM.

Chart 4.5: YoY M3 growth and its trend



Source : BAM.

Chart 4.6: Money gap[1] (in percentage of M3 and M1 balance outstanding amount in real terms)



1. Money gap is the difference between the money stock recorded and its balance level. The latter. defined based on the quantity equation of money. corresponds to the change rate of the potential economic activity in real terms. minus the average rythm of money circulation velocity decrease.
Source : BAM.

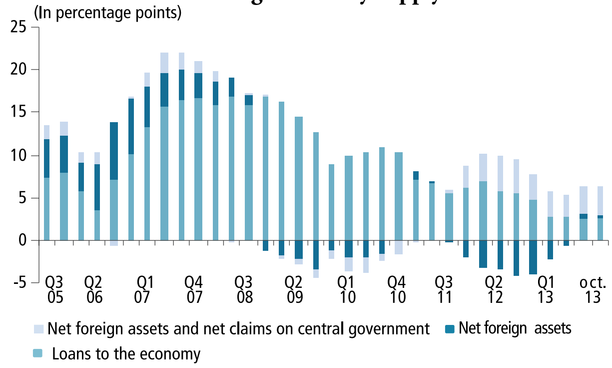
Credit

Recent developments show a 3.1 percent increase in bank lending in October, up from an average of 2.6 percent in the third quarter, reflecting the slight recovery that began in August.

The analysis of bank credit by economic purpose indicates that cash advances increased from zero annual change in the third quarter, primarily due to a base effect caused by the sharp rise during the same period of the previous year, to a growth rate of 0.8 percent in October. Similarly, equipment loans grew at an annual rate of 1.4 percent, as against 0.7 percent in the third quarter. In contrast, real-estate loans moved down year on year from 5.4 percent in the third quarter to 4.8 percent in October, reflecting a deceleration from 8.3 to 7.5 percent in housing loans and a contraction of 2.1 percent in loans to developers, as against 0.4 percent in the previous quarter. Consumer loans continued the slowdown trend that started in August 2012, as their annual growth decelerated from 2.4 percent in the third quarter to 1.7 percent in October. The annual growth of nonperforming loans jumped from 12.8 percent in the previous quarter to 16.1 percent in October, causing their ratio to bank credit to rise from 5.5 to 5.8 percent.

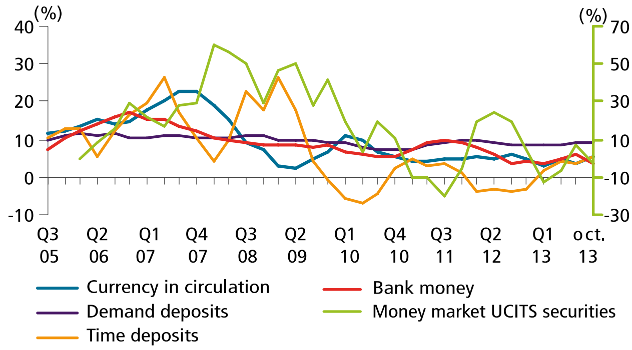
The breakdown of bank loans by institutional sector reflects faster growth in loans to the private sector and slower increase in loans to the public sector and other financial corporations. Indeed, loans to the private sector in October registered an annual increase of 3.5 percent, up from 2.2 percent in the third quarter, raising their contribution to credit growth from 1.8 to 2.9 percentage points. This change results from higher increase in both loans to households, whose growth

Chart 4.7: Contribution of the major conterparts to YoY change in money supply



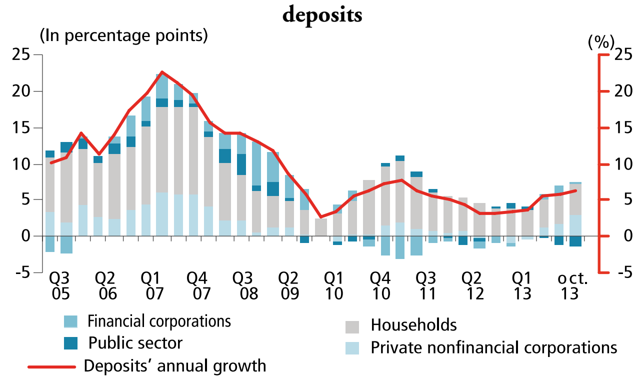
Source : BAM.

Chart 4.8: YoY change in the major M3 components



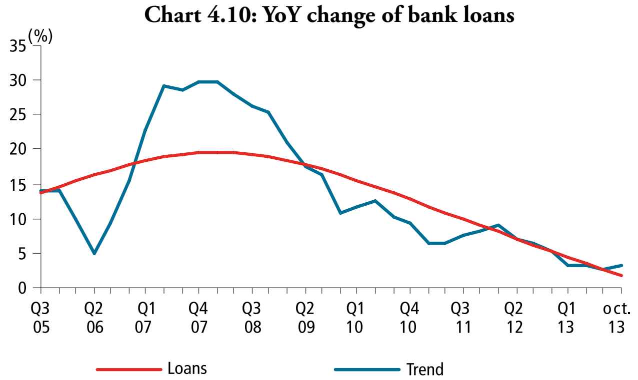
Source : BAM.

Chart 4.9: Institutional sectors' contribution to YoY change of deposits



Source : BAM.

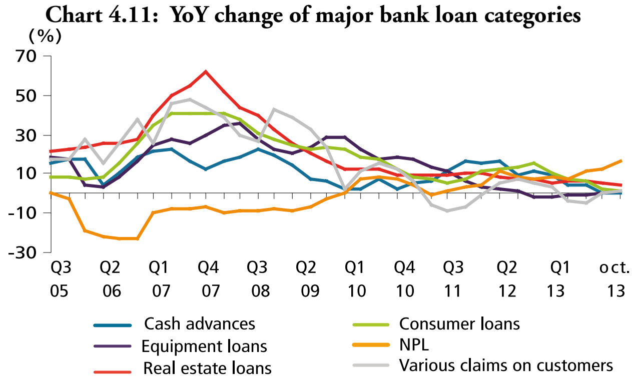
Chart 4.10: YoY change of bank loans



Source : BAM.

rate moved up from 5.2 to 5.4 percent, and loans to nonfinancial corporations, from 0.3 to 2.3 percent. In contrast, the growth rate of credit to the public sector slowed down year on year from 11.4 to 2.4 percent, thus reducing their contribution to credit growth from 0.6 to 0.1 percentage point. The annual growth of loans to other financial corporations fell to 0.8 percent in October from 1.3 percent on average a quarter earlier.

Chart 4.11: YoY change of major bank loan categories



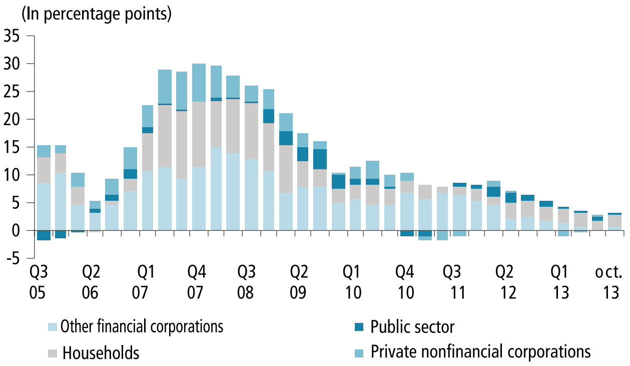
Source : BAM.

Other sources of money creation

The annual growth of net international reserves, which constitute the official reserve holdings excluding central bank short-term liabilities to nonresidents, slowed down from 4.4 percent in the third quarter to 3.7 percent in October.

Net claims on central government moved up 26.2 percent in October, virtually unchanged from the 26.4 percent recorded in the previous quarter. This change covers slight acceleration in the growth rate of net claims of other depository corporations from 26 to 27.4 percent and a contraction of 57.4 percent in that of BAM claims.

Chart 4.12: Contribution of institutional sectors to credit change, YoY

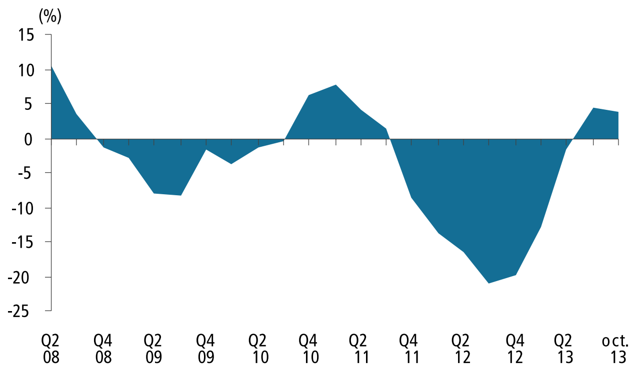


Source : BAM.

Liquid investments

At the end of October 2013, liquid investment aggregates rose by 9.4 percent from 7.4 percent in the third quarter, primarily due to faster increase in the LI1 aggregate. Indeed, securities included in this aggregate grew by 13.3 percent from 11.7 percent in the third quarter, particularly owing to a 15 percent increase in marketable Treasury bonds. Similarly, bond fund shares/units included in the LI2 aggregate were up 4.3 percent, as

Chart 4.13: Annual growth of net internationales reserves



Source : BAM.

against 2.4 percent a quarter earlier.

Equity and diversified fund shares/units, which compose the LI3 aggregate, showed a year-on-year decline of 3 percent, compared with 7.9 percent in the previous quarter, mainly reflecting changing prices on the Casablanca Stock Exchange.

Exchange rate

During the third quarter of 2013 and compared to the previous quarter, the national currency lost 0.25 percent against the euro, but gained 1.11 percent versus the dollar, 1.43 percent against the Japanese yen and 0.18 percent vis-à-vis the pound sterling. During October and November, the dirham depreciated by an average of 0.42 percent against the euro and 1.69 percent versus the pound sterling. However, it appreciated 1.95 percent and 1.7 percent against the U.S. dollar and the Japanese yen, respectively.

The dirham's effective exchange rate, calculated on the basis of bilateral exchange rates with Morocco's major trading partners and competitors, gained 0.98 percent in nominal terms in the third quarter of 2013. In real terms, the national currency appreciated more significantly by 1.31 percent, due to a national inflation rate broadly higher than that of the main partners and competitors.

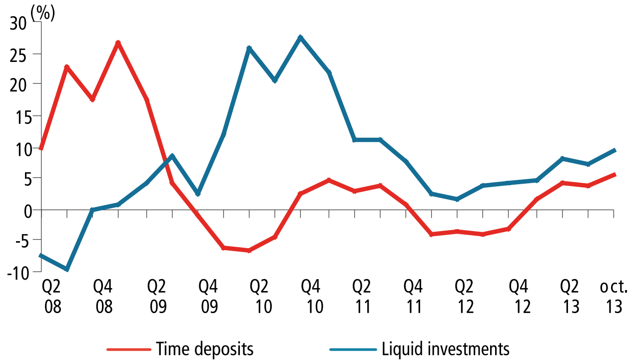
4.2. Asset prices

4.2.1 Real estate assets

In the third quarter of 2013, real estate prices registered an annual increase of 0.4 percent, with a 0.4 percent rise in land and commercial properties and a 0.5 percent increase in residential ones.

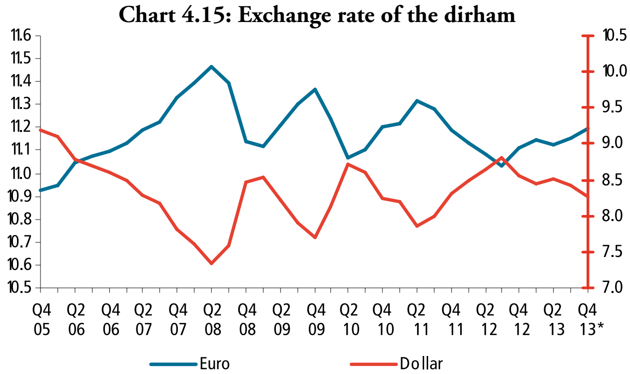
On a quarterly basis, these prices decreased by 1.9 percent, reflecting respective

Chart 4.14: YoY change in liquid investments and time deposits



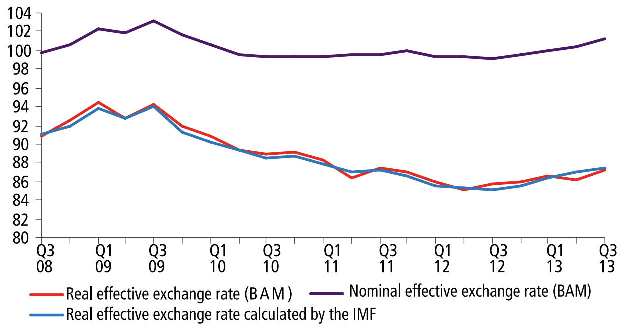
Source : BAM.

Chart 4.15: Exchange rate of the dirham



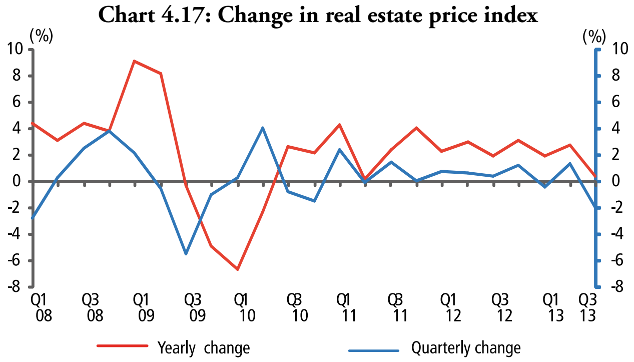
* *Observation of the fourth quarter of 2013 corresponds to the arithmetic average from October 1st to November 25, 2013.*
Source : BAM.

Chart 4.16: Real and nominal effective exchange rate (100=2000)



Sources: IMF and BAM calculations.

Chart 4.17: Change in real estate price index



declines of 0.8 percent and 5.8 percent in prices for residential property and land, while commercial property prices were up 3.5 percent. By city, with the exception of El Jadida and Kenitra, where prices fell by 3 percent and 3.8 percent, respectively, prices in other cities recorded annual increases ranging from 0.4 percent in Meknes to 6 percent in Oujda.

The number of real estate sales registered 35 days after the end of the third quarter 2013, was down 17.6 percent compared to the previous quarter and 5.3 percent year on year, reaching 23,741 sales.

At the same time, housing loans grew by 8.1 percent year on year, as against 9.1 percent a quarter earlier, totaling 159.4 billion dirhams.

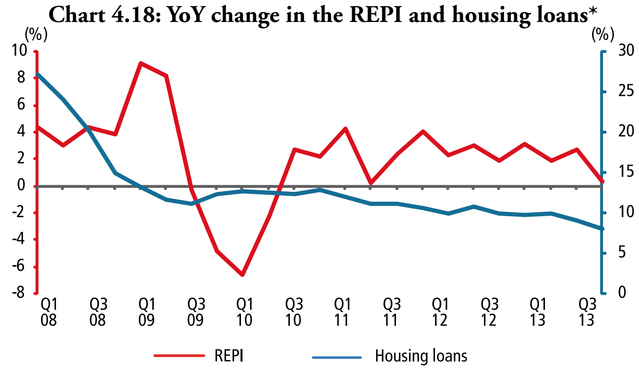
These elements indicate the absence of inflationary pressures from real estate prices in the medium term.

4.2.2 Share prices

In the third quarter 2013, the MASI depreciated 8.4 percent year on year and 1.3 percent on a quarterly basis, bringing its year-to-date underperformance to 7.3 percent. However, the substantial monthly appreciation of the MASI in October, by 8.2 percent, more than offset the underperformance seen in the first nine months of 2013. In fact, the year-to-date change was 0.3 percent in October, but fell to a negative level of 0.7 percent at end-November1. Meanwhile, stock prices of real estate companies dropped by 29 percent compared to the same quarter of the previous year and by 26 percent since the beginning of the year.

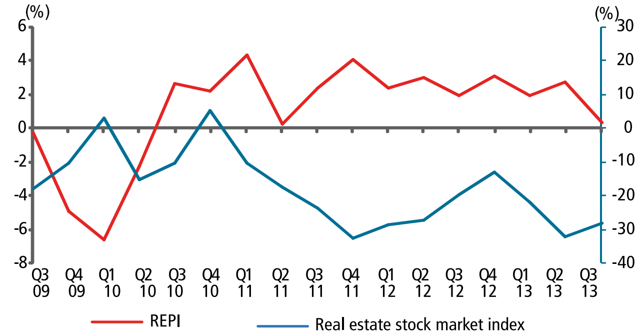
By sector, with the exception of the entertainment and hotels industry, which

Chart 4.18: YoY change in the REPI and housing loans*



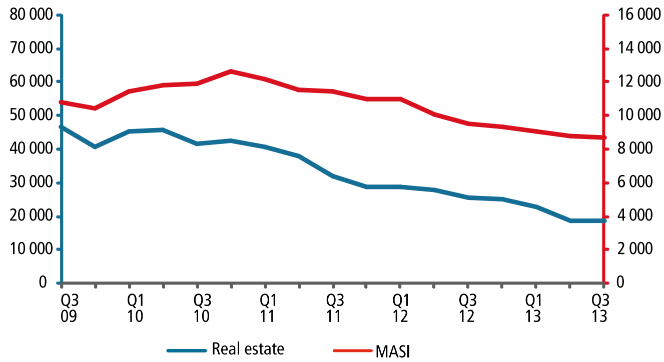
** Housing loans do not include loans to real estate developers.*
Sources: BAM and ANCFCC.

Chart 4.19: YoY change in the REPI and the real estate stock market index



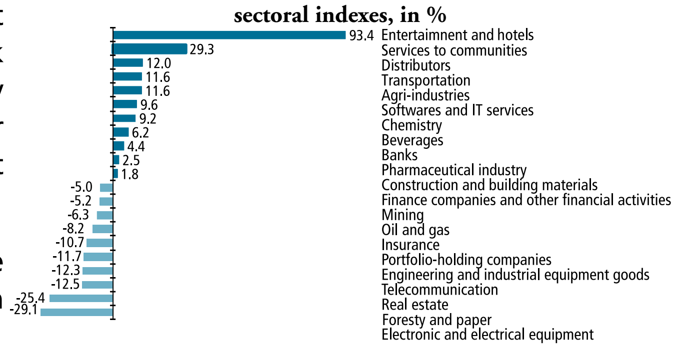
Sources: BAM, ANCFCG and Casablanca stock exchange.

Chart 4.20: Stock market indexes



Source: Casablanca stock exchange.

Chart 4.21: Performance. since the beginning of the year, of sectoral indexes, in %



Source: Casablanca stock exchange.

1 Data as at November 27, 2013.

recorded an exceptional increase of 93 percent, the other increases ranged from 2 percent in the construction sector to 29 percent in services to local governments, while decreases ranged from 5 percent for finance companies and other financial activities to 29 percent for electronics and electrical equipment.

Market capitalization totaled 419.7 billion dirhams in the third quarter 2013, down 1.3 percent from the previous quarter. However, it reached 447.2 billion dirhams at the end of November*.

In this context, the valuation indicators of the Casablanca stock market, mainly the Price Earnings Ratio1 and the price/book ratio2 stood respectively at 16.1 and 2.22 in November from 15.2 and 2.09 in the third quarter. However, these levels remain relatively high compared to some frontier markets[3] (Table 4.3).

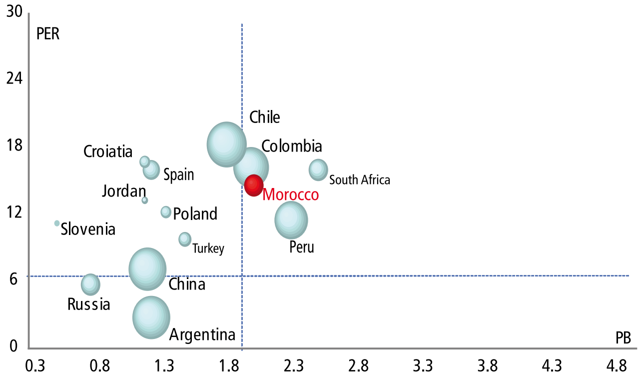
The volume of transactions in the third quarter of 2013 stood at 4.7 billion dirhams, as against 15.7 billion a quarter earlier. The year-to-date volume was around 35.3 billion dirhams, from 37.3 billion dirhams in the same quarter of the previous year.

Table 4.3: Equity market valuation

PER	Q1:12	Q2:12	Q3:12	Q4:12	Q1 : 13	Q2:13	Q3:13	nov. -13
				PER				
Argentina	9.4	6.7	7.3	8.2	10	2.1	3.3	4.1
China	14.1	12.7	13.3	13.6	14.5	14.4	13.4	15
Slovenia	11	9.9	11.6	12	10.5	10.7	11	11.5
Croatia	12.7	13	21.7	15.6	17.7	16.9	16.9	15.4
Morroco	**17.1**	**15.5**	**15.2**	**15.1**	**15.2**	**15.2**	**15.2**	**16.1**
				P/B				
Argentina	1.32	0.97	0.96	1.1	1.06	0.95	1.5	1.87
Jordan	1.35	1.27	1.32	1.34	1.36	1.28	1.12	1.24
Slovenia	0.59	0.5	0.58	0.61	0.57	0.57	0.52	0.54
Croatia	1.15	1.1	1.2	1.19	1.3	1.22	1.19	1.13
Morroco	**2.58**	**2.38**	**2.23**	**2.22**	**2.15**	**2.12**	**2.09**	**2.22**

Sources : Datastream, CFG.

Chart 4.22: Stock market valuation in Morocco and in some emerging countries* in the second quarter of 2013



(*) The size of bubbles depends on the market capitalization/ GDP ratio.

Sources: Datastream, CFG, and BAM calculations.

1 PER is the ratio of a company's share price and its per-share earnings.

2 The price/book ratio is calculated through dividing companies' equity market value (market capitalization) by their book value.

3 As of November 2013, MSCI has reclassified the Casablanca Stock Exchange as a "frontier" market. It explained that the conditions of eligibility for the class of emerging financial markets, particularly in terms of liquidity, are no longer met. Thus, 8 values will be adopted for the MSCI Frontier.

(*) Data as at November 27, 2013

5. RECENT INFLATION TRENDS

The latest data on consumer prices in the third quarter and October are in line with forecasts of the previous Monetary Policy Report (MPR). Indeed, inflation, measured by the year-on-year increase in the consumer price index (CPI), fell to 1.5 percent in October 2013 from 1.7 percent in September and 1.9 percent in August, averaging 1.7 percent in the third quarter and 2.1 percent over the first ten months of the year. Excluding volatile food and administered products, core inflation (CPIX) stood at 1.6 percent in October, from 1.8 percent in September and 1.6 percent in August, averaging 1.6 percent in the third quarter and 1.5 percent in the first ten months of the year. Core inflation trends between September and October are attributed to a slowdown from 2.1 percent to 1.6 percent in the inflation of nontradables (CPIXNT), while that of tradables (CPIXT) remained unchanged at 1.5 percent for the third consecutive month. In addition, in a context of declining global commodity prices, particularly food and energy ones, industrial producer prices continued their downward trend that began in February 2013, registering a decrease of 4.5 percent in October after that of 4.3 percent in September.

5.1 Inflation trends

Overall, inflation remained in line with the price stability objective, in a context marked in particular by deflationary pressures in key partner countries. Indeed, after standing at 1.9 percent in August and 1.7 percent in September, inflation, measured by the year-on-year increase in the consumer price index (CPI), again declined to 1.5 percent in October, averaging 2.1 percent over the first ten months of the year. This recent trend is due to a deceleration in core inflation and slower growth in prices of administered products, while the index of volatile food prices remained almost unchanged at 1.1 percent in October as against 1 percent in September, with divergent trends across components. Prices of vegetables and fruits declined further between September and October, while those of fish accelerated over the same period.

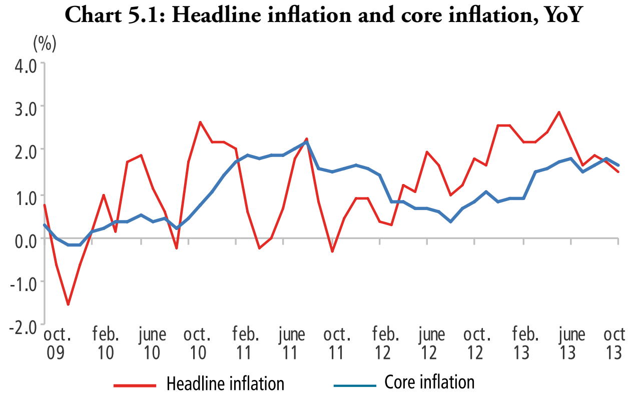
Prices of administered products rose 1.9 percent as against 2.1 percent a month earlier, in conjunction only with a slower increase in "fuels and lubricants" from 6.7 percent to 5.3 percent. These adjustments of fuel internal prices at the pump began to materialize since the

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	Aug. 13	sept. 13	oct. 13	Aug. 13	sept. 13	oct. 13
Headline inflation	**1.0**	**0.0**	**0.1**	**1.9**	**1.7**	**1.5**
Including:						
- Volatile food products excluded from core inflation	5.0	-2.7	0.5	4.1	1.0	1.1
- Fuels and lubricants	0.0	6.4	-1.4	0.3	6.7	5.3
- Administered goods excluding fuels and lubricants	0.0	0.1	0.0	1.3	1.4	1.4
Core inflation	**0.3**	**-0.1**	**0.1**	**1.6**	**1.8**	**1.6**
Including:						
- Food products	0.7	-0.1	0.0	2.0	2.0	1.7
- Clothing and footwear	0.5	0.4	0.3	1.6	1.9	2.1
- Housing. water. gas. electricity and other fuels*	0.4	0.3	0.2	2.7	3.0	3.0
- Furniture. household appliances and common house maintenance	0.1	0.1	0.0	0.3	0.5	0.6
- Health*	0.0	1.3	-0.2	0.8	2.1	1.9
- Transportation*	0.1	0.2	0.2	0.7	1.1	1.5
- Communication	2.1	0.0	0.0	-9.3	-9.3	-9.3
- Entertainment and culture	0.0	0.1	-0.1	0.2	0.3	0.0
- Education	0.1	3.0	0.4	6.2	5.9	3.5
- Restaurants and hotels	0.3	0.1	0.4	3.9	3.8	4.0
- Miscellaneous goods and services	0.3	0.0	0.2	1.4	1.4	1.4

** Excluding administered goods.*
Sources: HCP. and BAM calculations.

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

implementation on August 29, 2013 of the new indexation system of certain liquid fuels (see Box 5.1 in Chapter 5 of the MPR of September 2013). Excluding volatile food and administered products, core inflation stood at 1.6 percent in October, from 1.8 percent in September and 1.6 percent in August, averaging 1.5 percent over the first ten months of the year. The absolute difference between headline inflation and core inflation narrowed from 0.2 percentage points in August to 0.1 in September and October.

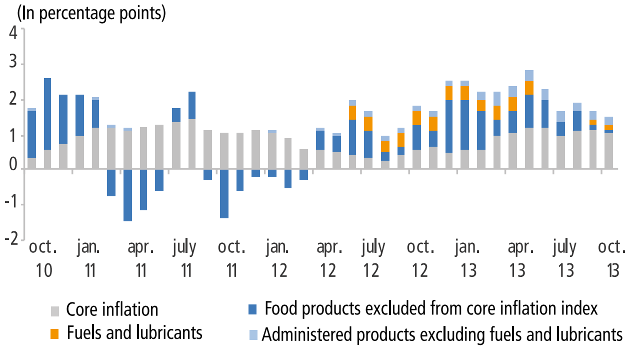
By main components, the recent core inflation trends result from a slower increase in food prices included in core inflation (to 1.7 percent from 2 percent), as well as prices for education services (to 3.5 percent from 5.9 percent) and health (to 1.9 percent from 2.1 percent). These trends more than offset the acceleration in "clothing and footwear" prices (to 2.1 percent from 1.9 percent) and "transport" prices (to 1.5 percent from 1.1 percent).

5.2 Tradable and nontradable goods

The price analysis by tradable (CPIXT) and nontradable (CPIXNT) goods shows that the latter contributed significantly to the decline in the CPIX (Table 5.3, Chart 5.4). Indeed, the year-on-year growth of nontradables' prices decelerated from 2.1 percent in September to 1.6 percent in October. Their contribution to the CPIX fell from 1 percentage point to 0.7 percentage points. This change was mainly due to a slowdown in meat prices, and preliminary and primary education fees, which more than offset the restaurants' price acceleration.

The inflation of tradables remained unchanged at 1.5 percent, year on year,

Chart 5.2: Contribution of the prices of major CPI items to inflation, YoY



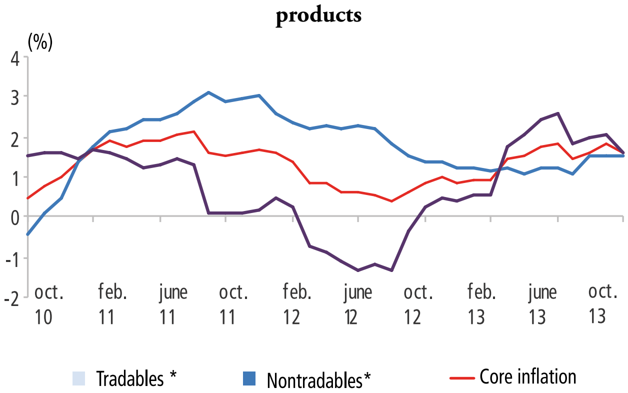
Sources: HCP, and BAM calculations.

Table 5.2: Domestic oil selling prices

	2012	2013			
Products (DH/Liter)	June	16 Aug.	16 Sept.	16 Oct.	16 Nov.
Premium gasoline	12.18	12.18	12.77	12.45	12.02
Diesel 50	8.15	8.15	8.84	8.84	8.54
Industrial fuel (Dh/ Tonne)	666 4	666 4	5328.9	5328.9	5076.6

Source : Ministry of Energy and Mining.

Chart 5.3: YoY change in the prices of tradables*, nontradables*, volatile food products and administered products



** Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

Table 5.3: Change in the price indexes of tradables* and nontradables* included in the CPIX

	Monthly change (%)			YoY change (%)		
	August 13	September 13	October 13	August 13	September 13	October 13
Tradables*	0.5	0.0	0.1	1.5	1.5	1.5
Nontradables*	0.5	0.5	0.2	2.0	2.1	1.6

** Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

between August and October, with a contribution to the CPIX that remained constant at 0.8 percentage points.

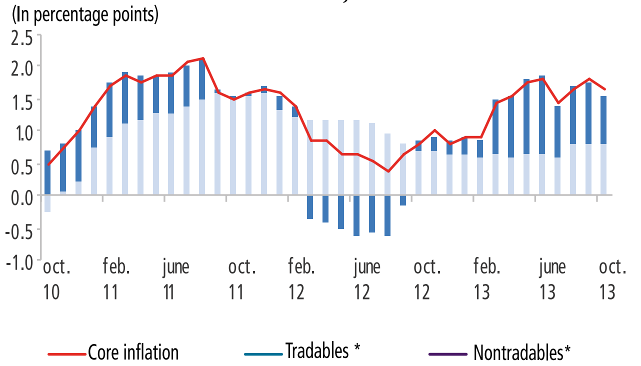
However, in a context of continued deflationary pressures in partner countries (Chart 5.6), the CPIXT trend covers divergent changes across some components. Indeed, the growth of oil prices slowed down between September and October, while those of cars accelerated. Meanwhile, other products, particularly "milk" and "cereal products" recorded identical price increases during the last two months.

5.3 Goods and services

The analysis of the breakdown of the CPI basket into goods and services indicates that slower inflation between August and September resulted from a deceleration of prices of unprocessed goods, while its slowdown in October is due to that of other components, namely prices of processed goods, services, and fuels and lubricants, offsetting the slight acceleration in prices of unprocessed goods.

Indeed, in October, inflation of processed goods fell to 1.4 percent from 1.5 percent in September and that of services to 1.5 percent from 1.8 percent. In addition, prices of fuels and lubricants grew by 5.3 percent, less than the 6.7 percent registered a month earlier. The most important contributions are those of prices of processed goods and services with 0.6 and 0.5 percentage points, while those of unprocessed goods, and fuels and lubricants were limited to 0.3 and 0.1 percentage point.

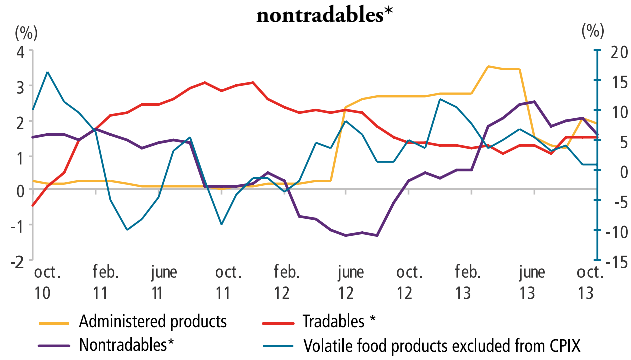
Chart 5.4: Contribution of tradables* and nontradables* to core inflation, YoY



** Excluding volatile food products and administered goods.*

Sources: HCP, and BAM calculations.

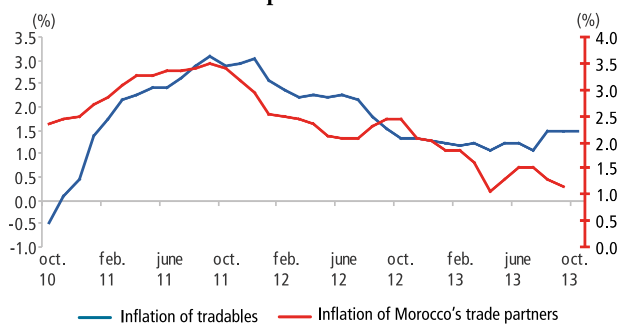
Chart 5.5: YoY change in the prices of tradables* and nontradables*



** Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

Chart 5.6: YoY change in inflation of tradables* and inflation in trade partner countries



** Excluding volatile food and administered products.*

Sources: HCP, IFS, and BAM calculations.

Table 5.4: Price indexes of tradables and nontadables excluding volatile food and administered products

	Monthly contribution to inflation		Yoy contribution to inflation	
	Sept. 13	Oct. 13	Sept. 13	Oct. 13
Products excluded from core inflation index	-0.2	0.0	0.6	0.5
Including:				
Administered products	-0.4	0.1	0.1	0.1
Volatile food products	0.2	0.0	0.4	0.4
Tradables*	0.0	0.0	0.5	0.5
Nontradables*	0.2	0.0	0.6	0.5

** Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

5.4 Industrial producer price index

Industrial producer prices showed a monthly decline of 1.2 percent in October after rising 0.6 percent in September, mainly in conjunction with the decline of 3.7 percent in prices for “oil refining”.

Apart from this branch, producer prices rose 0.1 percent, covering respective increases of 0.2 percent and 1.2 percent in prices for “food industries” and the “paper and cardboard industry”, as well as a 0.5 percent decline in prices for the “metalworking” industry.

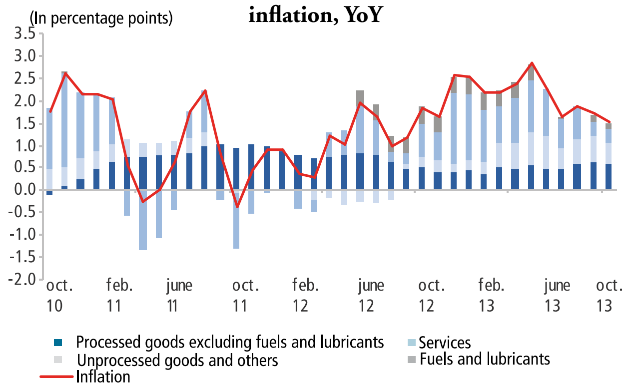
Year on year, producer prices continue their downward trend that began since February 2013, with a decrease of 4.5 percent in October as against 4.3 percent in September. This trend mainly reflects the price change in the “oil refining” branch from -10 percent in September to -10.7 percent in October. Excluding “oil refining”, producer prices showed a decline of 1.1 percent, a rate similar to that of the previous month.

5.5 Inflation expectations

Based on the latest findings of the business survey for October 2013, industrial prices should stagnate again in the next three months. Indeed, 87 percent of corporate managers expect unchanged prices of finished goods, while 7 percent of them predict a decline and 6 percent project an increase.

The same survey forecasts a further moderation in inflation over the next three months. Thus, almost 70 percent of corporate managers expect stagnation of inflation over the next three months, while

Chart 5.7: Contribution of goods and services prices to inflation, YoY



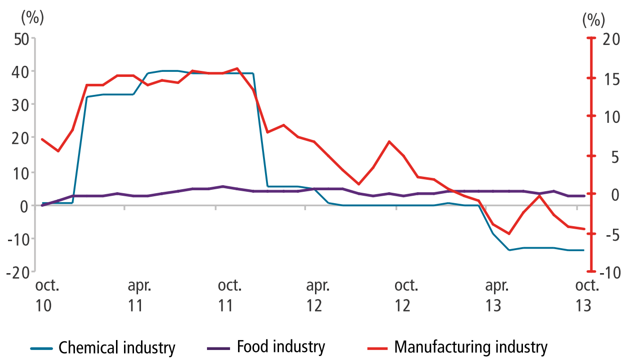
Sources: HCP, and BAM calculations.

Table 5.5: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	August 13	Sept. 13	Oct. 13	August 13	Sept. 13	Oct. 13
Processed goods*	0.4	0.1	0.1	1.4	1.5	1.4
Unprocessed goods and others	3.2	-1.9	0.3	3.3	1.3	1.4
Services	0.3	0.6	0.2	1.7	1.8	1.5
Fuels and lubricants	0.0	6.4	-1.4	0.3	6.7	5.3

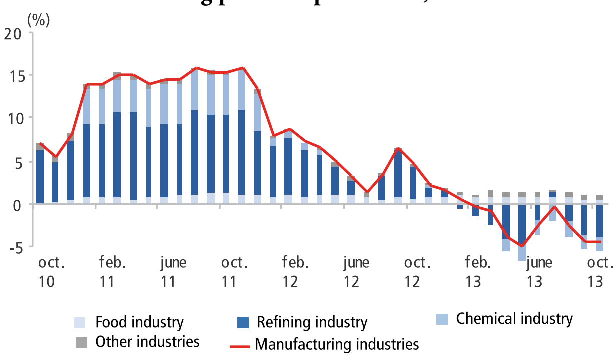
* *Excluding fuels and lubricants.*
Sources: HCP, and BAM calculations.

Chart 5.8: YoY change in industrial producer price indexes



Sources: HCP, and BAM calculations.

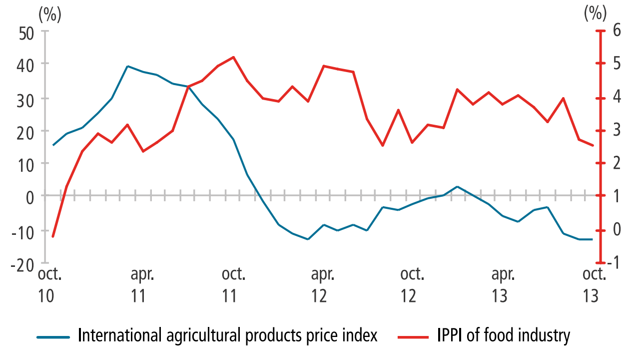
Chart 5.9: Contribution of the main headings to the manufacturing producer price index, YoY



Sources: HCP, and BAM calculations.

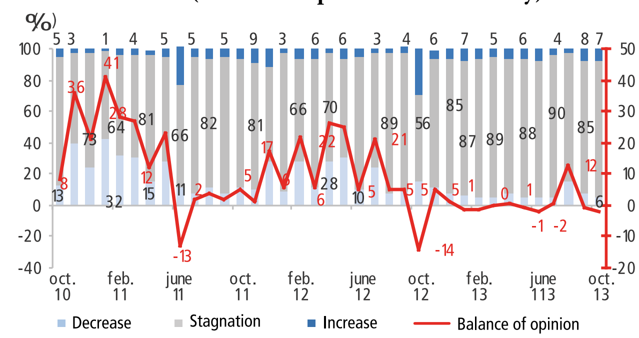
27 percent of them project an acceleration of the general price level over the same period (Chart 5.12).

Chart 5.10: YoY change in domestic food industrial producer prices and world prices of agricultural products



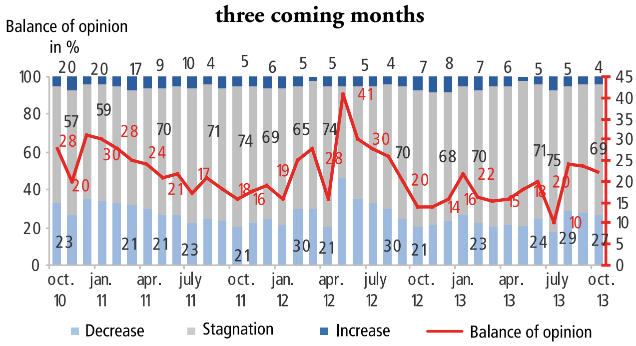
Sources: World Bank, HCP, and BAM calculations.

Chart 5.11: Trend in industrial producer prices in the next three months (balance of opinion of BAM survey)



Source: BAM monthly business survey.

Chart 5.12: Corporate managers' inflation expectations for the three coming months



Source: BAM monthly business survey.

6. INFLATION OUTLOOK

This section presents the inflation trend deemed most probable (central forecast) over the next six quarters, and examines the major risks associated thereto (balance of risks). The baseline forecast scenario depends on the assumptions and developments considered for a series of variables affecting economic activity and inflation. This scenario takes into account the new partial indexation of certain energy prices to international prices. Assuming the non-realization of the major risk factors identified, the inflation trend over the next six quarters remains consistent with the price stability objective, with an average forecast of about 2.3 percent, a level above the average rate predicted in the previous MPR (1.8 percent). In 2013, inflation should be about 2.1 percent. In 2014, it would hover around 2.5 percent on average. In this forecasting exercise, the balance of risks is broadly neutral, due to uncertainties surrounding foreign demand for Morocco and international energy and commodity prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

Global economic activity continues to grow moderately, and the positive growth momentum in developed countries, unlike the weaker economic growth in emerging countries, confirms the trend reversal observed since the second half of the year. Indeed, the major emerging economies are still unable to return to the growth rates achieved over the past two years and appear increasingly vulnerable to international economic downturns. In fact, following signs of a possible gradual reduction of asset purchases by the U.S. Federal Reserve (mortgages and long-term Treasury bonds), emerging countries saw large capital outflows, causing tighter liquidity in the banking market, lower stock prices and a depreciation of major currencies. However, recent indicators on developed countries remain in line with the trends observed in recent quarters and confirm the economic uptrend in the United States, Japan and the United Kingdom. Also, confidence appears to be stabilizing in the euro area and the first signals of recovery, albeit timid, are looming ahead.

The latest economic developments display a heterogeneous profile between advanced economies and emerging economies and within these same groups. Unlike other countries with a similar level of development, like India and Brazil, economic growth in China was not significantly impacted by tighter international financial conditions. Similarly, while momentum continues in the United States and the United Kingdom, sluggish growth persists in the euro area.

Detailed analysis shows that recession continues to ease in the euro area in the third quarter 2013, with a growth of -0.4 percent as against -0.6 percent in the second quarter. This change reflects the positive economic growth in Germany (0.6 percent in the third quarter as against 0.5 percent in the second quarter) and a slower decline for the third consecutive quarter in Spain (-1.2 percent from -1.6 percent) and in Italy (-1.9 percent as against -2.2 percent). France shows modest growth, with a mere 0.2 percent in the third quarter after 0.5 percent in the second quarter.

These changes primarily reflect the uptrend in private consumption, industrial production of capital goods, which suggests a rebound in investment, and foreign trade. However, recent European Commission surveys and consumer confidence and purchasing managers' indexes reveal that despite this relative improvement, the levels registered remain well below long-term trends. Also, despite the growth of the real estate sector, constraints relating to funding and labor market prospects continue to hinder the sustainable recovery of this sector.

As regards the labor market, unemployment in the euro area virtually stagnated between June and October at around 12.1 percent. Like economic growth, this still-very high level conceals significant disparities across member states of the area. In Germany unemployment stood at a lower rate of 5.2 percent in October as opposed to 5.3 percent in June. In contrast, the unemployment rate in France trended around 10.9 percent, while Spain (26.7 percent in October as against 26.4 percent in June) and Italy (12.5 percent as against 12.1 percent) recorded further increases, albeit slower than recent quarters.

Given these developments, inflation in the euro area decreased significantly as of June (1.6 percent) to only 0.9 percent in November. This trend reflects mainly the sharp decline in energy prices and moderate growth in food prices. Services prices also fell, though moderately compared to energy prices.

Despite a disabling environment, the positive economic cycle in the U.S. economy seems to continue, as evidenced by the economic growth achieved in the third quarter of 2013 (1.6 percent) and remains similar to the second quarter of the same year. This performance results from continued increase in consumer and investment spending, which was particularly boosted by the momentum in retail sales, industrial production and construction spending. However, government consumption contributed negatively to growth for the third consecutive quarter, impacted by fiscal adjustments.

In U.S. labor market, recent indicators report marked decline in the jobless rate from 7.6 percent in June to 7.3 percent in October. This change reflects the economic rebound seen in recent quarters. Nevertheless, the Fed's last Monetary Policy Report attributes this fall mainly to the decrease in the number of job seekers because of tighter labor market conditions.

Under these circumstances, inflation declined slightly in the United States between June and October from 1.7 percent to 1.6 percent. Like the euro area, this change was largely due to the contraction of energy prices and the moderate rise in the prices for non-energy goods.

Taking into consideration all these developments, the IMF's World Economic Outlook of October forecasts a growth of around -0.4 percent in 2013 and 1 percent in 2014 in the euro area. For the United States, the IMF projects a growth of 1.6 percent and 2.6 percent in 2013 and 2014, respectively. Compared with rates presented in the MPR of September, growth forecasts were slightly revised upward for the euro area (from -0.6 percent and 0.9 percent in 2013 and 2014 previously) and revised downward for the United States (from 1.7 percent and 2.7 percent previously).

Despite the increasingly stronger confidence in the resilient momentum of the U.S. economy and first signals of a balanced recovery in the euro area, the balance of risks to the growth outlook remains tilted to the downside. Several factors are behind the persistent concerns about future economic trends. First, financial markets remain vulnerable pending the establishment of a true banking union in the euro area, likely to reduce the risk of bank failures through a common budget guarantee. Second, the U.S.

government shutdown was short and did impact only slightly the confidence of market participants. However, a longer shutdown could lead to more significant damage. Third, an excessive reaction of financial markets to the gradual withdrawal of nonconventional monetary policy measures would cause a more pronounced tightening of financial conditions, thus interacting negatively with the real sphere. Fourth, the continued economic slowdown in emerging countries could impede the growth of world trade. Finally, exacerbated geopolitical tensions in the oil-exporting regions would result in surging prices.

Under these conditions, the weighted average growth rates of Morocco's major trading partners (France, Germany, Italy, Spain and the United Kingdom) assumed in this forecasting exercise stand at -0.4 percent in this year, 0.7 percent in 2014 and 1.1 percent in 2015. Compared to those projected in the September MPR (-0.7 percent in 2013 and 0.6 percent in 2014), the projection for 2014 was revised slightly upward. For the record, the growth rate of major trading partners is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

Regarding inflation forecasts, the Fed in its latest Monetary Policy Report projects inflation to range between 0.8 to 1.2 percent in 2013 and between 1.4 to 2 percent in 2014. The ECB, in its Monthly Bulletin of November, expects inflation at 1.5 percent in 2013, 1.4 percent in 2014 and 1.6 percent in 2015. Despite the recent decline in the ECB key refinancing rates, risks to inflation in the euro area remain broadly balanced in the medium term. Indeed, the rise in commodity prices and the possible increase in administered prices and indirect taxes would be offset by a weaker-than-expected economic growth.

Under these conditions, projections of non-energy import prices, included in the forecasting models developed by Bank Al-Maghrib, expect stabilization in 2014 given the favorable starting conditions of the crop year in the major food-exporting countries and mixed prospects for demand from emerging countries.

6.1.2 National environment

Domestic growth prospects for 2014 suggest broadly positive trend in the economic activity, driven mainly by the rebound in nonagricultural activities that could be weakened by the euro area's persistent economic sluggishness. However, the contribution of agricultural value added to overall GDP would be negative, owing to the base effect linked to the good harvest (97 million quintals) of 2013.

Indeed, the starting conditions of the crop year 2013-2014 are less favorable than those of the last year due to the rainfall delay and a cumulative rainfall lower than the same period of last year. Until November 20, 2013, the filling rate of dams reached 63.8 percent as against 68.5 percent a year earlier.

Nevertheless, the Agriculture Department has taken a number of supportive measures to boost crops, by providing adequate fertilizer supplies (1.2 million tonnes) and selected seeds (2 million quintals) and continuing the farming multi-risk insurance program and the localized irrigation equipment program. Against this backdrop, the baseline scenario assumes an average cereal production of 70 million quintals.

Nonagricultural activities could return to stronger growth prospects in 2014 in conjunction with the improvement, albeit fragile, in foreign demand and the good momentum in domestic demand. The latter is estimated to be supported in particular by the good trend in household consumption, boosted by a slight recovery in remittances from Moroccans living abroad and the continued private investment spending, as evidenced by higher imports of capital goods (+5.3 percent at end-October 2013). However, the dissipating effect of the good crop year on rural household income, the slower growth of consumer and equipment loans (2 percent and 0.3 percent, respectively, as at end-September 2013) and the shrinking government investment (-7.8 percent in 2014) leave room for uncertainties about the projected recovery of nonagricultural activities.

Against this background, this forecasting exercise expects nonagricultural GDP to expand by 4.3 percent in 2014. This development, impeded by lower agricultural activities, should bring overall growth to 3 percent.

Latest available data for the labor market in the third quarter point to a year-on-year decline of 0.3 percent in the unemployment rate to 9.1 percent. This change covers unchanged urban unemployment rate at 14 percent and decreasing rural unemployment by 0.5 percent to 3.7 percent as against 4.2 percent a year earlier. Jobs were created mainly in the sectors of agriculture (156,000 jobs) and services (64,000 jobs), while job losses affected particularly the construction sector (-54,000 jobs) and industry (-27,000 jobs).

Moreover, job prospects in the industrial sector suggest stagnation in the current quarter. BAM's quarterly business survey shows that manufacturers broadly expect stagnation of the workforce employed in all industries. Therefore, these conditions should not weigh on wages level, and a minimum wage of 12.24 dirham/hour is assumed in the baseline scenario.

In view of the heightened geopolitical risks in the Middle East, both the World Bank and the IMF revised upward their forecast for oil prices in 2014, in their October updates. They now stand at $105 and $101.35 a barrel, respectively, as against the $99.6 and $95.36 a barrel reported in the last MPR. Under these conditions and taking into account the amount of subsidy costs set in the Finance Bill 2014, totaling 35 billion dirhams, 28 billion of which are earmarked to petroleum products, diesel price at the pump should rise in 2014.

6.2 Inflation outlook and balance of risks

Assuming the non-materialization of the major risks described below, the central forecast for the next six quarters is expected at 2.3 percent, a level above the average rate projected in the last MPR (1.8 percent). Similarly, inflation forecast for 2013 shows an average rate of about 2.1 percent, slightly lower than the rate expected in the previous MPR (2.2 percent). In 2014, inflation is forecast at around 2.5 percent, higher than the rate reported in the previous report (1.7 percent). Finally, in the first quarter of 2015, inflation would reach 2 percent.

These projections are based on assumptions deemed most probable. However, there are several sources of uncertainty stemming from both the future development of exogenous variables and the forecasting models, which may affect the expected inflation rate either upward or downward. The analysis of the balance of risks generates a forecast range, represented as a fan chart. It is a probabilistic assessment of uncertainty areas surrounding the central forecast (Chart 6.1).

The balance of risks in the fan chart of this forecasting exercise is broadly neutral. This trend arises from uncertainties surrounding foreign demand for Morocco as well as energy commodity and commodity prices. The materialization of one or more of these risks cause the inflation rate to deviate from the central forecast, at a value included (with a probability of 90 percent) in the forecast range represented on the fan chart.

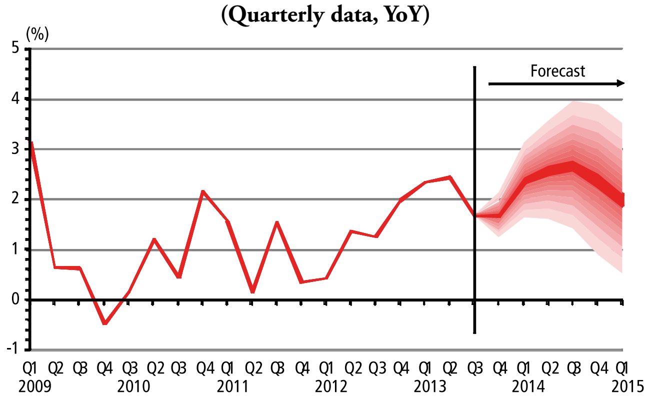
Table 6.1: Inflation outlook for 2013 Q4 –2015 Q1

	2013	2014				2015	Average		FH*
	Q4	Q1	Q2	Q3	Q4	Q1	2013	2014	
Central forecast (%)	1.7	2.4	2.6	2.7	2.4	2.0	2.1	2.5	2.3

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2013 Q4 – 2015 Q1 (Quarterly data, YoY)



(*) This chart represents the confidence interval of inflation forecast based on the baseline scenario (dark red); confidence intervals between 10 percent and 90 percent are also reported. Each addition of intervals with the same color. on both sides of the central forecast. increases by 10 percent the probability that inflation would fall within the range set by these intervals. Therefore. if we consider the range delimited by the fifth interval around the central forecast. this means that we have a 50 percent chance that inflation would fall within this range in the future

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