بنك المغرب
BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 25 / 2012

Document prepared for
the Bank Board
December 18, 2012

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LIST OF ABBREVIATIONS

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 18, 2012

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, December 18, 2012.
2. The Board considered recent economic, monetary and financial trends, as well as inflation forecasts up to the first quarter of 2014.
3. The Board noted that inflation remained moderate, consistently with the assessment made at its September meeting. Headline inflation stood at 1.8 percent in October 2012, up from 1.2 percent in September and 1 percent in August, mainly in connection with the 5 percent increase in volatile food prices. At the same time, core inflation rose from 0.6 percent in September to 0.8 percent in October. The limited decline in world commodity prices in October, particularly energy and food, fed through to industrial producer prices, whose annual growth fell from 6.6 percent in September to 4.7 percent in October.
4. Internationally, economic activity and outlook continued to worsen overall, and unemployment remained elevated. With the exception of the United States where growth has picked up, reaching 2.5 percent in the third quarter, the results of national accounts indicate a contraction in activity in the euro area for the second consecutive quarter, mainly in connection with the downturn in countries hit by the sovereign debt crisis. In this context, the European Central Bank revised downward its growth projections for the euro area to between -0.9 and 0.3 percent in 2013 and between 0.2 and 2.2 percent in 2014. Similarly, the Federal Reserve slightly lowered its growth forecast to a range between 2.3 and 3 percent in 2013 and between 3 and 3.5 percent in 2014. Regarding international commodity prices, the decline observed in October resulted in a moderation of inflationary pressures.
5. At the national level, GDP growth reached 2.6 percent in the first half of 2012, covering a contraction of 9 percent in the agricultural value added and an increase of 4.3 percent in nonagricultural GDP. For the full year, overall growth is expected to remain below 3 percent, unchanged from the forecast presented in September's Monetary Policy Report. External accounts remain impacted by the unfavorable global economic conditions. Indeed, the trade deficit widened by 11.8 percent to the end of November, while transfers of Moroccans living abroad and travel receipts shrank by 4 percent and 2.3 percent, respectively. Revenues under foreign direct investment to the end of October rose 7.8 percent year on year.
6. Due to the receipt of $1.5 billion under the recent Treasury issuance on the international financial market, the net foreign assets of Bank Al-Maghrib represent more than 4 months of goods and services imports. For the year 2013, GDP is expected to expand between 4 and 5 percent, under the assumption of an average cereal production and persistent unfavorable global economic outlook.
7. The analysis of monetary conditions to the end of October 2012 highlights the continued moderation of money creation. Money supply grew at an annual rate of 3.6 percent, down from 4.4 percent a quarter earlier, while credit growth fell from 6.3 to 5.4 percent, reflecting

a slightly slower pace than the long-term trend. Taking into account recent developments, credit growth is expected to be around 7 percent in 2012, after an estimated 8 percent in the Monetary Policy Report of September. Under these circumstances, the money gap is expected to remain negative, suggesting the absence of monetary inflationary pressures.

8. Based on all these elements, inflation up to the next six quarters should remain broadly in line with the price stability objective. Headline inflation would hover around 1.2 percent in 2012, 1.7 percent in 2013 and 1.5 percent in the first quarter of 2014, averaging 1.7 percent over the forecast horizon.

9. In this context where the balance of risks is neutral and the central inflation forecast is permanently consistent with the price stability objective, the Board decided to keep the key rate unchanged at 3 percent.

10. The Board also adopted the Bank's Strategic Plan 2013-2015, and examined and approved the budget for fiscal 2013.

11. The Board considered and approved the strategic allocation of reserves management for the year 2013.

12. After taking note of the Audit Committee report, the Board also reviewed and approved the internal audit program for 2013.

13. The Board agreed on the following schedule for its meetings in 2013:

March 26, 2013

June 18, 2013

September 24, 2013

December 17, 2013

OVERVIEW

Consistently with the analysis and forecast published in the Monetary Policy Report of September 2012, the increase in consumer prices remained subdued. Indeed, year-on-year inflation stood at 1.8 percent in October 2012, from 1.2 percent in September and 1 percent in August. Core inflation stood at 0.8 percent, as against 0.6 percent in September and 0.4 percent in August. This trend covers a slight acceleration in the annual growth of nontradables' prices and a deceleration in that of tradables' prices, in conjunction with a slightly lower inflation in the main partner countries. Moreover, the limited drop in global commodity prices in October, particularly energy and food prices, fed through to industrial producer prices, whose annual increase slowed from 6.6 percent in September to 4.7 percent in October.

Internationally, economic conditions remain broadly marked by a continued weaker activity and prospects, as well as slightly rising tensions in financial markets. Indeed, with the exception of the United States, where growth picked up to 2.5 percent in the third quarter, the results of national accounts indicate a contraction in activity in the euro area for the second consecutive quarter, mainly in connection with the decline of activity in countries hit by the sovereign debt crisis. Meanwhile, the unemployment rate remained high in advanced economies, particularly in the eurozone peripheral countries. Commodity prices fell, particularly energy and food ones, causing international inflationary pressures to ease. Regarding financial conditions, the major stock market indexes depreciated, while sovereign bond yields were up, mainly due to the difficulties resulting from the sovereign debt crisis in the euro area.

Nationally, overall growth stood at 2.6 percent in the first half and should be around the same rate, on average, in the last two quarters of the year. This trend includes a decline in the agricultural value added and a continued growth of around 4 percent in nonagricultural activities. Consequently, the nonagricultural output gap, an indicator used to assess internal inflationary pressures, should be close to zero in the third and fourth quarters of 2012. Throughout the year, overall growth should stand at less than 3 percent, unchanged from the forecast published in the September MPR. For 2013, growth would range between 4 and 5 percent, on the basis of an average cereal production and persistently bleak global economic outlook.

External accounts at end-October 2012 reveal deterioration in the current account balance, as the trade balance deficit worsened by 10 percent from the same period of the previous year. Indeed, overall imports grew by 6.6 percent, driven by respective increases of 14.7 percent and 3.8 percent in the energy bill and other products. Exports grew by 3 percent, with respective rises of 3.4 percent and nearly 3 percent in sales of phosphates and derivatives and other exports. Remittances from Moroccans living abroad and travel receipts contracted by 3.2 percent and 2.5 percent, respectively, as against increases of 9.1 percent and 5.9 percent a year earlier.

End-October 2012 data on monetary conditions continue to show moderate money creation, thus keeping a negative monetary gap and a slower pace of bank lending. Indeed, the annual growth of M3 aggregate was limited to 3.6 percent from 4.4 percent a quarter earlier, while that of bank credit slowed from 6.3 percent to 5.4 percent, a rate slightly below the long-term trend. With regard to lending rates, BAM survey among banks of the third quarter 2012 indicates a 22 basis point increase in the weighted average rate, mainly in connection with higher rates on cash advances and, to a lesser extent, consumer loans. The effective exchange rate of the dirham depreciated by 0.21 percent from one quarter to the next in nominal terms, while it appreciated by 0.9 percent in real terms, due to an inflation differential slightly in favor of partner countries and competitors.

Regarding asset prices, the real estate price index, calculated by Bank Al-Maghrib, shows a 0.7 percent decline in the third quarter of 2012, after a 0.5 percent increase a quarter earlier. However, this index remained virtually unchanged year on year, covering a decline in residential property prices, an increase in land prices and stagnation in commercial property ones.

Based on all these elements, the baseline inflation forecast remains consistent with the price stability objective in the medium term. The average inflation forecast was slightly revised downward to 1.2 percent in 2012 and 1.7 percent in 2013. At the end of the forecast horizon (first quarter of 2014), headline inflation would stand at 1.5 percent, and would average 1.7 percent over the full horizon. Core inflation should remain moderate, not exceeding 2 percent at the end of the forecast horizon.

Finally, the balance of risks surrounding the central forecast is broadly neutral, due to uncertainties about the development of non-energy commodity prices and economic growth in partner countries.

1. AGGREGATE SUPPLY AND DEMAND

Economic growth stood at 2.6 percent in the first half and should maintain this rate in the second half. This trend reflects a continued decline in agricultural value added and a slight deceleration in nonagricultural growth, which should stand at 4 percent in the second half, from 4.4 percent in the previous half. At the same time, domestic demand should continue to support overall growth, albeit to a lesser extent compared to 2011. In the first half, household final consumption rose by 5.7 percent, as against 7.4 percent in 2011, while investment remained at around 3.4 percent. Foreign trade indicators at end-October show a faster increase in imports than exports, suggesting a negative contribution of external demand to growth. Overall, GDP growth forecast for 2012 remains unchanged at less than 3 percent, as published in the latest Monetary Policy Report. In 2013, economic outlook remains dependent on the durability of recession in the main trading partner countries. Under the assumption of an average crop year, national growth should be between 4 percent and 5 percent. Under these conditions, the analysis elements of supply and demand suggest that price pressures remain subdued.

1.1 Output

Based on the latest available data, national growth stood at 2.3 percent in the second quarter of 2012 from 2.8 percent in the first quarter and 5 percent for the whole year of 2011. This change reflects a 9.6 percent decline in agricultural value added and a nonagricultural growth of 4.2 percent, mainly in connection with a slowdown in processing industries and a decline in mining activities.

In the third quarter, economic activity should continue on the lines of the trends registered in the first half, reaching 2.9 percent, covering a 4.3 percent increase in nonagricultural growth and a 7.4 percent decrease in agricultural value added.

Throughout 2012, the forecasts published in the last Monetary Policy Report remained unchanged, as GDP growth should not exceed 3 percent.

By sector, the 2012-2013 crop year seems to make a good start, owing to heavy rainfall in almost all regions since September. Cumulative rainfall was estimated at 90 mm on average at October 29, 2012, up 50 percent compared to the same period of 2011, which should have a positive impact on the vegetation cover and the filling rate of dams. In addition, the State has undertaken some measures to ensure a smooth running of the current crop year. These include in

Table 1.1: YoY growth of quarterly GDP at 1998 chained prices per major sectors

Activity sectors in%	2010		2011				2012			
	QIII	QIV	QI	QII	QIII	QIV	QI	QII	$QIII_E$	QIV_F
Agriculture	-0.2	-3.0	5.9	6.1	6.0	4.3	-8.3	-9.6	-7.4	-6.2
Nonagricultural VA	**4.5**	**2.0**	**5.8**	**4.3**	**5.0**	**5.4**	**4.6**	**4.3**	**4.3**	**3.7**
Extractive industry	30.1	14.7	14.5	2.8	-1.7	8.2	-7.9	-5.4	4.3	2.8
Processing industry	3.8	3.8	3.4	0.8	3.7	4.0	3.5	0.9	0.8	0.8
Electricity and water	9.5	6.9	0.4	5.7	5.3	12.8	12.6	10.8	10.3	9.9
Construction	0.9	-1.4	2.0	1.7	6.1	7.0	5.7	3.5	2.9	2.0
Trade	3.6	-7.0	3.8	4.1	4.7	4.7	2.8	1.7	2.6	2.7
Hotels and restaurants	8.5	6.3	6.3	-2.9	-3.9	-7.0	-4.9	2.3	3.2	3.3
Transportation	6.2	4.4	7.4	6.5	5.9	3.9	1.7	2.4	2.6	2.7
Post and telecommunication	3.4	9.6	13.0	15.5	24.1	23.0	13.4	12.8	10.4	10.2
General government and social security	2.4	2.9	6.5	6.4	5.7	4.5	11.7	11.7	6.4	6.4
Other services*	3.3	1.6	7.0	6.3	5.6	4.3	6.0	5.9	5.9	5.9
Taxes on products net of subsidies	6.5	7.0	3.6	2.2	3.5	1.4	3.0	3.1	4.2	4.9
Nonagricultural GDP	**4.7**	**2.6**	**5.6**	**4.1**	**4.8**	**5.0**	**4.4**	**4.2**	**4.3**	**3.9**
Gross domestic product	**4.0**	**1.9**	**5.6**	**4.5**	**5.0**	**4.9**	**2.8**	**2.3**	**2.9**	**2.3**

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

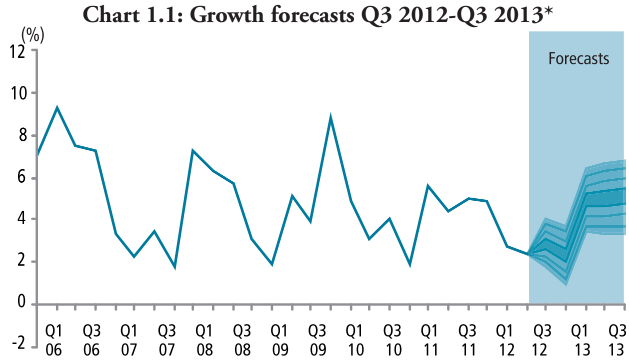
Sources: HCP, and BAM estimates and forecasts particular mobilizing subsidized seeds of cereals, supplying the market with fertilizers and providing agricultural aids to encourage investments in the sector.

Concerning secondary activities, their value added would have increased in the third quarter by 2.8 percent from 2.3 percent a quarter earlier, thus contributing 1.2 percentage points to overall growth. This slight improvement is mainly attributed to the recovery of the mining industry, whose growth would have stood at 4.3 percent year on year, as opposed to a decline of 5.4 percent in the second quarter and 7.9 percent in first quarter. In addition, the foreign demand for fertilizer increases, while international prices continue to be high (Chapter 3).

The processing industry value added, which slowed down significantly in the second quarter, should stabilize in the second half at a growth rate of less than 1 percent. This trend reflects, inter alia, a decline in external demand for Morocco. Indeed, Bank Al-Maghrib's business survey of October 2012 shows a decline in both local and foreign sales, in line with the slowdown in exports of goods at end-October. In addition, despite an improved industrial production compared to the previous month, the capacity utilization rate remains below its average level. Moreover, the level of finished goods inventory is overall considered normal, while the order book is below its historical level.

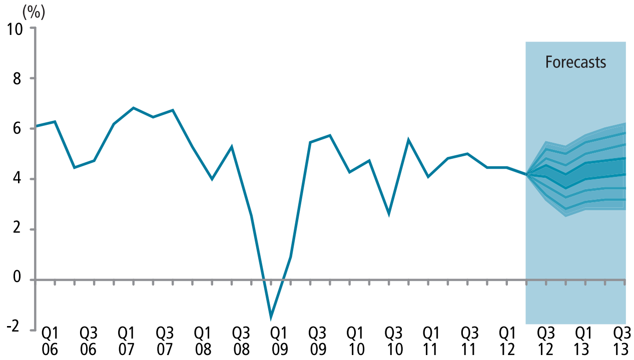
Meanwhile, the "electricity and water" sector should keep its momentum observed since the fourth quarter of 2011, with a growth of its value added estimated at 10.3 percent and 9.9 percent in the third and fourth quarters, respectively, as against 11.7 percent in the first half. Key indicators point to a year-on-year increase of 10.2 percent at end-October in local net production of the National Electricity Office, along with a 7.5 percent increase in sales, covering respective rises of 6.9 percent and 9.8 percent in sales directed at the industrial sector and those intended for domestic use.

Chart 1.1: Growth forecasts Q3 2012-Q3 2013*



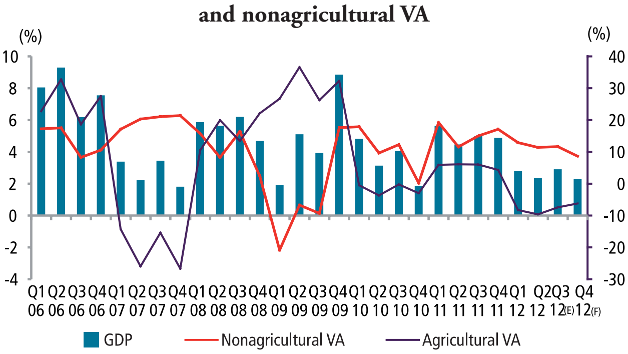
(*) Fan chart based on the standard deviation
Sources: HCP, and BAM forecasts and estimates

Chart 1.2: Nonagricultural growth forecasts Q3 2012-Q3 2013*



(*) Fan chart based on the standard deviation
Sources: HCP, and BAM estimates and forecasts

Chart 1.3: Quarterly change in the GDP and the agricultural and nonagricultural VA



Sources: HCP, and BAM forecasts

After a 5.7 percent increase in its value added in the first quarter, the construction sector registered a slowdown to 3.5 percent in the second quarter, which should continue for the rest of the year. Thus, growth in this sector would be limited to 2.9 percent and 2 percent respectively in the third and fourth quarters. Relevant high-frequency indicators confirm this trend, with a 1 percent decrease in cumulative cement sales at end-October.

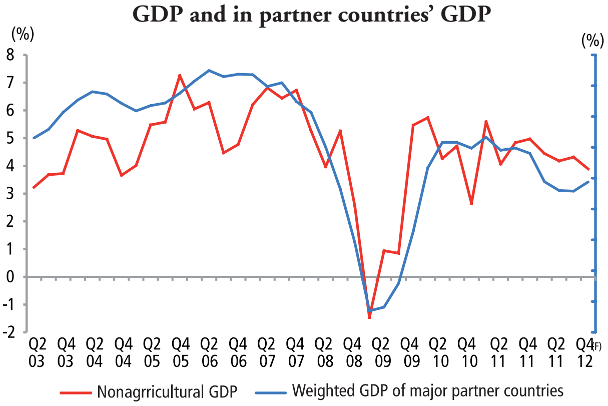
With regard to the tertiary sector, its growth in the third quarter of 2012 should stand at 2.8 percent, a rate similar to that of the first half of the year. Its contribution to growth should reach 2.8 percentage points, supported by the uptrend of the various branches of the sector.

The value added of posts and telecommunications would grow nearly 10.3 percent in the second half. At end-September, the number of mobile phone subscribers grew by 5.9 percent and that of Internet subscribers rose by 34 percent to 3.9 million subscribers. However, the number of fixed phone subscribers fell by 5.8 percent.

Tourism activity saw a positive growth of 2.3 percent in the second quarter after a downward trend over four consecutive quarters. For the rest of the year, it is expected to grow positively by 3.2 percent, driven partly by the materialization of a base effect. The most recent relevant indicators indicate slight improvements. At end-October, tourist arrivals reached 8.1 million visitors, which is a slight increase of 1 percent compared to the same period of 2011. Meanwhile, overnight stays in classified hotels rose by 2.1 percent after a decline of 5.9 percent over the same period of the previous year and the occupancy rate stabilized at 41 percent. In contrast, travel receipts are down 2.5 percent after rising 5.9 percent a year earlier.

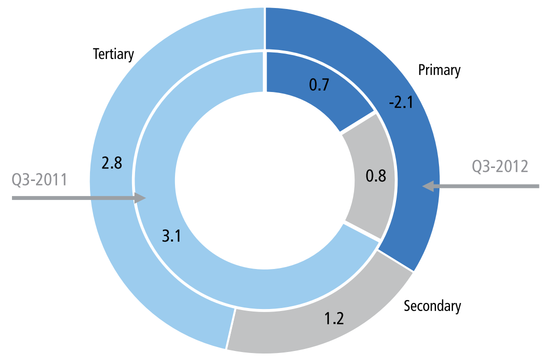
Regarding the trade and transport branches, largely linked to trends in other sectors, their value added should increase

Chart 1.4: YoY quarterly change in domestic nonagricultural GDP and in partner countries' GDP



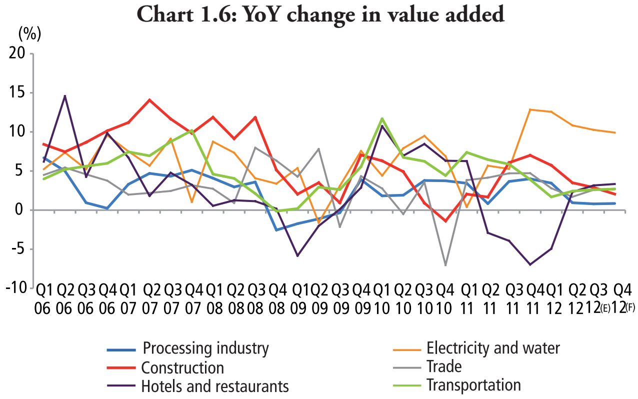
Sources: IMF, HCP and BAM calculations and forecasts

Chart 1.5: Contribution of the primary, secondary and tertiary sectors to overall growth, in percentage points



Sources: HCP, and BAM calculations and forecasts

Chart 1.6: YoY change in value added

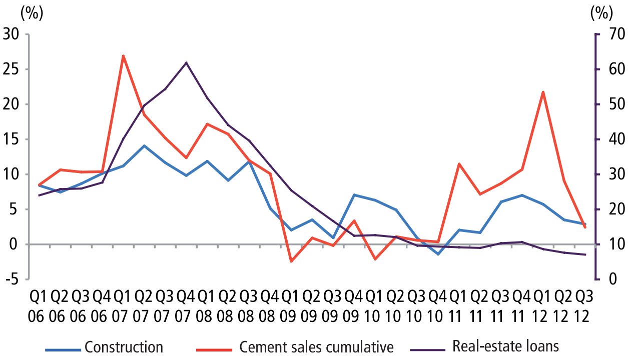


Sources: HCP, and BAM forecasts

at rates slightly higher than those observed in the first half.

For 2013, growth outlook remains highly dependent on the durability of economic recession in our major partner countries. Under the assumption of an average crop year, the economic growth forecast remains within a range of 4 percent to 5 percent, unchanged compared to the last Monetary Policy Report.

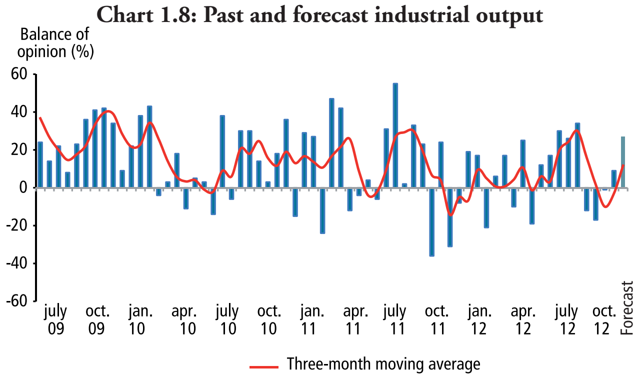
Chart 1.7: YoY change in the construction sector's value added, cement cumulative sales and real-estate loans



Sources: APC, BAM and BAM forecasts

1.2 Consumption

Chart 1.8: Past and forecast industrial output



Source: BAM monthly business survey in the industry

National final consumption recorded a real growth of 4.6 percent in the second quarter of 2012, as against 6.7 percent a quarter earlier. This trend reflects a slowdown in household final consumption from 7 percent to 4.4 percent, and a stable growth of around 5.4 percent in government consumption.

In the rest of the year 2012, national final consumption should grow at a steady pace, albeit under deceleration compared to its level in the previous year. Indeed, key consumption indicators reveal divergent trends. Remittances from Moroccans living abroad and travel receipts declined at end-October 2012 by 3.2 percent and 2.5 percent, respectively, after an increase of 9.1 percent and 5.9 percent over the same period a year before. The household confidence index, published by the HCP, continued its downtrend since the fourth quarter of 2011, to 77.6 points in the third quarter of 2012, down 3.1 percentage points from one quarter to the next and 8.9 percentage points compared to its level a year earlier. Meanwhile, concerns about the labor market persist. In the third quarter of 2012, only 56,000 jobs were created in one year, and the unemployment rate rose to 9.4 percent from 8.1 percent a quarter earlier.

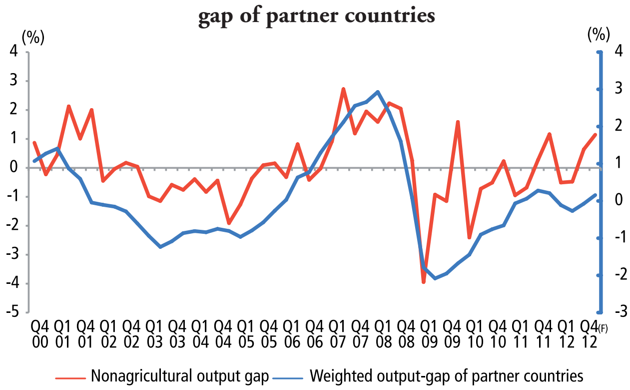
Chart 1.9: Sectoral contribution to overall growth

Sources: HCP, and BAM forecasts and calculations

In contrast, household consumption should continue to benefit from the effects of the salary increase and the continued moderate inflation rates. In addition, imports of finished consumer goods moved up by 6.1 percent at end-October 2012, as against 11 percent a year earlier. Similarly, consumer loans almost stabilized at around 11.1 percent at end-October 2012.

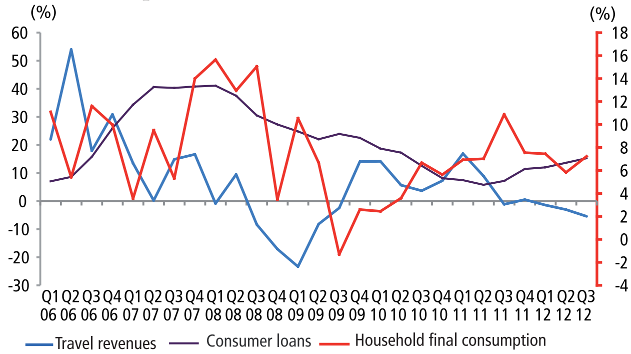
The government consumption should maintain its growth momentum observed in the first half. The latest available data show an 11.7 percent increase in operating expenses at end-October, as against 4.5 percent over the same period a year earlier, driven by an increase of 11.1 percent of the wage bill, and 13.2 percent of expenses of miscellaneous goods and services.

Chart 1.10: Change in nonagricultural output-gap and output-gap of partner countries



Sources: IMF, BAM calculations and forecasts

Chart 1.11: YoY quarterly change in household final consumption, consumer loans and travel revenues



Sources: High Commission for Planning, Foreign Exchange Office and BAM calculations and forecasts

1.3 Investment

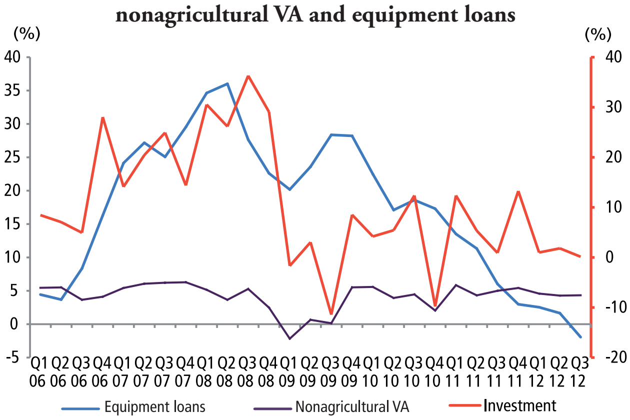
In the second quarter of 2012, investment grew only 0.8 percent, a rate sharply slower than 6.1 percent registered a quarter earlier. Over the next two quarters, investment should continue its slowdown.

Indeed, equipment loans were down nearly 1 percent at end-October as against an increase of 2.8 percent a year earlier. In addition, the results of BAM monthly business survey of the third quarter of 2012 confirm this downward trend, indicating a business climate deemed broadly unfavorable for the first time since the third quarter of 2009. The same results show a decline in capital expenditure in the third quarter of 2012 compared to the previous quarter, with expectations that this contraction would continue over the short term.

Meanwhile, growth in the construction sector, a driver for investment, showed a slowdown in the second quarter, which should continue during this year.

In addition, receipts from investments and private loans grew by 4.6 percent at end-October 2012, after a 0.1 percent decline over the same period a year earlier. Similarly,

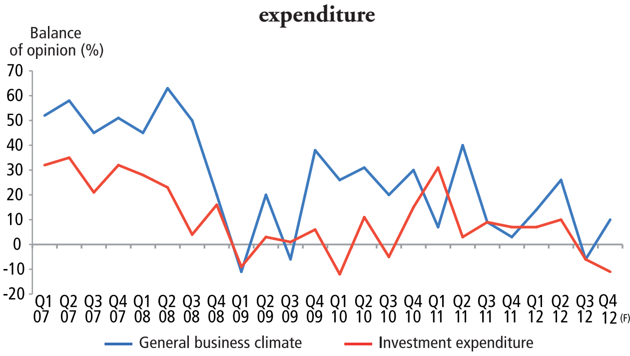
Chart 1.12: YoY quarterly change in total investment, nonagricultural VA and equipment loans



Sources: High Commission for Planning, Foreign Exchange Office and BAM calculations and forecasts imports of finished equipment goods at end-October rose by 9.8 percent, as against 0.6 percent over the same period a year earlier.

Investment expenditure, according to Treasury expenses and revenues, contracted by 2 percent at the end of October 2012, as opposed to a decline of 2.4 percent over the same period a year earlier.

Chart 1.13: Change in general business climate and investment expenditure



Source: BAM monthly business survey in the industry

1.4 Foreign trade

The data available to the end of October 2012 indicate a further widening of the trade deficit, year on year, due to significantly higher imports than exports.

Indeed, the trade balance at end-October posted a deficit of 164.4 billion dirhams, worsening by 10.3 percent from one year to the next, as against 21.4 percent in the previous year. This trend is attributed to an increase of 6.8 percent or 20 billion dirhams of imports, faster than 3.2 percent or 4.6 billion of exports. The import coverage declined slightly to 47.8 percent.

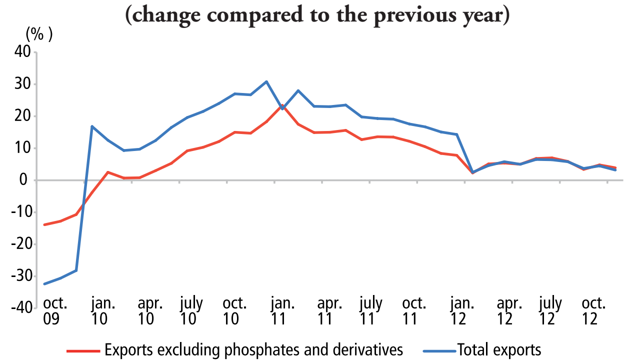
Table 1.2: YoY change in the trade balance in August 2012

(In millions of dirhams)	oct. 2011	oct. 2012*	Amount Montant	Amount %
Total exports	**145 659.2**	**150 286.0**	**+4 626.8**	**+3.2**
Phosphate and derivatives' exports	40 290.5	40 773.2	+482.7	+1.2
Exports excluding phosphates and derivatives	105 368.7	109 512.8	+4 144.1	+3.9
Energy products	3 443.7	6 455.9	+3 012.2	-
Passenger vehicle	743.7	4 396.4	+3 652.7	-
Electricity wires and cables	13 923.0	12 642.2	-1 280.8	-9.2
Hosiery items	6 513.3	6 352.1	-161.2	-2.5
Total imports	**294 634.3**	**314 658.0**	**+20 023.7**	**+6.8**
Energy imports	74 372.3	84 985.9	+10 613.6	+14.3
Non energy imports	220 262.0	229 672.1	+9 410.1	+4.3
Semi-finished goods	63 831.8	62 860.4	- 971.4	-1.5
Food products	30 890.6	33 601.4	+2 710.8	+8.8
Consumer goods	51 069.6	54 169.9	+3 100.3	+6.1
Capital goods	55 738.0	61 195.3	+5 457.3	+9.8
Trade deficit	**148 975.1**	**164 372.0**	**+15 396.9**	**+10.3**

** Provisional data*
Source: Foreign Exchange Office

Export growth was mainly attributable to a 3.9 percent rise of sales excluding phosphates and derivatives, standing at 109.5 billion dirhams. Thus, energy exports nearly doubled, amounting to 6.5 billion, mainly due to the significant increase in volumes of petroleum oil sold to refuel foreign-flag ships. Similarly, sales of passenger cars recorded a significant expansion from 743.7 million to 4.4 billion dirhams. Exports of ready-made clothing, canned fish, residual oil products and fresh fish grew by 1 percent, 28.5 percent, 16.8 percent and 13.2 percent, respectively. In contrast, exports of wires and cables, hosiery and electronic components showed respective decreases of 9.2 percent, 2.5 percent and 14.4 percent.

Chart 1.14: Total exports (change compared to the previous year)



Source: Foreign Exchange Office

Import growth was mainly attributed to a 14.3 percent increase of purchases of petroleum products, which contributed 3.6 percentage points to this growth, while the non-energy bill rose 4.3 percent, which is a contribution of 3.2 percentage points. Thus, purchases

Box 1.2: Fiscal developments at end-October 2012

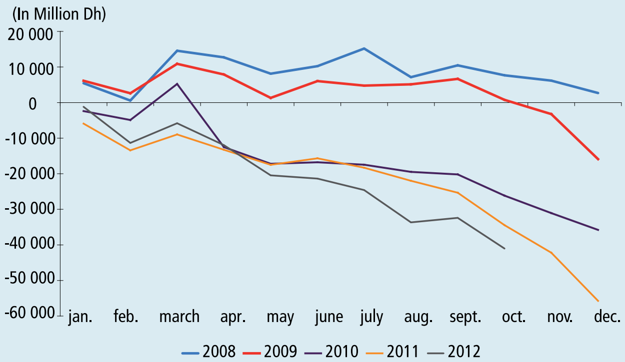
Budget execution at end-October 2012, according to the presentation of the Treasury and External Finance Department (DTFE), shows a deficit (excluding privatization) of 41 billion dirhams compared to 34.4 billion a year earlier. This reflects a stronger change in overall expenditure by 8.5 percent, as against a current revenue growth of 5.7 percent, mainly due to a 5.9 percent increase in tax revenues.

Current revenues, totaling 181.6 billion, were up 5.7 percent, covering an increase of the same rate in tax revenues and 3.1 percent in nontax revenues to 16.4 billion compared to end-October 2011. The increase in tax revenues covers higher receipts from direct and indirect taxes, and revenues from registration and stamp fees, as well as lower customs duties. Direct tax revenues rose by 10.4 percent to 63.1 billion, mainly reflecting a 19.1 percent increase- to 26.7 billion- of income tax receipts and a 5.3 percent rise- to 35 billion- of corporate tax revenues.

Indirect tax revenues reached 82.2 billion dirhams, up 3.9 percent. The VAT revenue grew 4.3 percent to 63.7 billion, reflecting an improvement of 6.2 percent in revenues from import VAT and, to a lesser extent, a 1.6 percent increase of domestic VAT. Domestic consumer tax generated 18.5 billion, up 2.6 percent from one year to the next, covering a 7.1 percent increase in receipts from taxes on manufactured tobacco and virtual stagnation of miscellaneous domestic consumer taxes. Revenues from customs duties, totaling nearly 7.6 billion, continued to decline to 10.7 percent at end-October 2012. Registration and stamp fees rose by 10.2 percent to 9.9 billion.

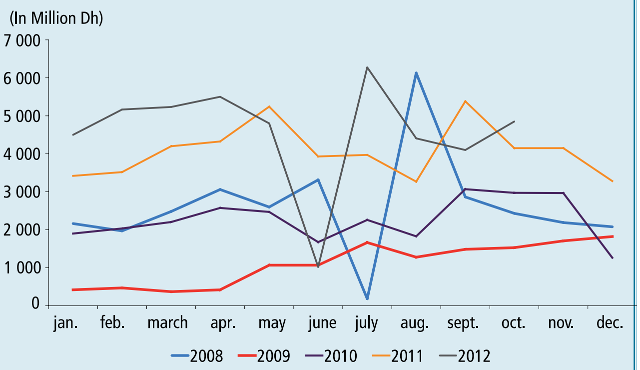
Nontax revenues, excluding privatization, moved up by 3.1 percent, with a total of 16.4 billion dirhams. Receipts from monopoly and holdings stood at 11 billion, up 14.7 percent compared to end-October 2011, coming mostly from the OCP with an amount of 4.1 billion, Maroc Telecom with 2.2 billion, National Land Registry and Cartography Agency with 2 billion and Bank Al-Maghrib with 839 million dirhams.

Chart B1.2.1 : Cumulative fiscal balance at month-end, in millions of dirhamsth



Source : Ministry of Economy and Finance

Chart B1.2.1 : Monthly subsidization expenditure, in millions of dirhamsth



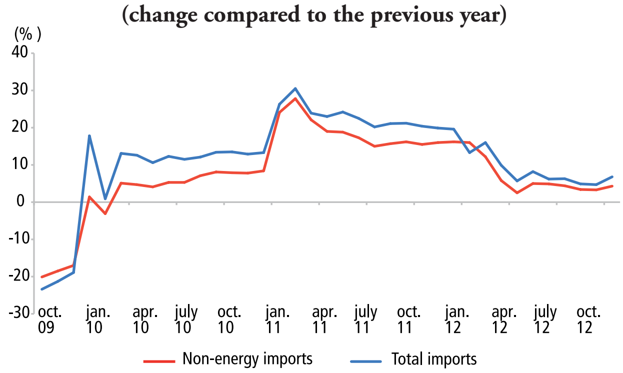
Source : Ministry of Economy and Finance

Overall expenditure amounted to 227.8 billion dirhams, up 8.5 percent. This trend reflects a 10.6 percent increase of current expenditure to 194.7 billion dirhams, due to an 11.7 percent rise of costs of other goods and services to 112.4 billion. Thus, staff costs increased by 11.1 percent to 80.3 billion, while other expenditure under this item reached 32.2 billion, up 13.2 percent. Similarly, debt interest charges rose by 10.1 percent to 17.3 billion. Subsidization costs were up 10.7 percent compared to end-October 2011, to 45.9 billion. In contrast, investment expenditure dropped again by 2 percent to 33.1 billion.

Under these conditions, the current balance showed a deficit of 13.2 billion, from 4.4 billion at end-October 2011. Following the repayment of arrears amounting to 3.8 billion, the stock of payment arrears fell to 21.4 billion from 25.3 billion in December 2011. Given this reduction of arrears and positive balance of Treasury special accounts of 5.3 billion, the cash deficit was 44.9 billion, as against 39.5 billion at the end of the same period a year earlier. Besides privatization revenues of 3.3 billion from the sale of 10 percent of the BCP capital, the Treasury financed its requirements primarily from domestic resources for an amount of 40.8 billion, of which 38.2 billion under a tender procedure. External financing becomes positive, showing at end-October a net flow of 764 million dirhams.

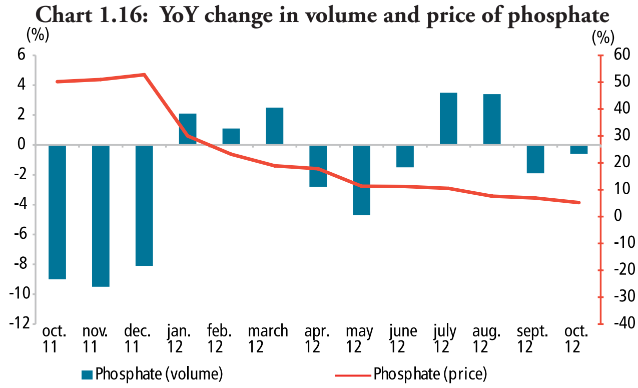
of diesel, fuel, crude oil and petroleum gas, amounting respectively to 30.3 billion, 28.9 billion and 15.9 billion dirhams, increased by 18.7 percent, 13.9 percent and 17.6 percent. Meanwhile, purchases of capital goods, contributing 1.9 percent to import growth, totaled 61.2 billion dirhams, up 9.8 percent, mainly as a result of a 45.6 percent increase in purchases of industrial vehicles, amounting to 6.7 billion dirhams. Food purchases rose by 8.8 percent to 33.6 billion dirhams, mainly owing to respective increases of 11.5 percent and 8.1 percent of wheat and sugar supplies. Imports of consumer goods were up 6.1 percent, totaling 54.2 billion dirhams, mainly in connection with a 19.9 percent growth in purchases of passenger cars. In contrast, imports of raw materials, amounting to 17.8 billion dirhams, fell 4.8 percent, while purchases of semi-finished goods dropped by 1.5 percent to 62.9 billion dirhams.

Chart 1.15: Total imports (change compared to the previous year)



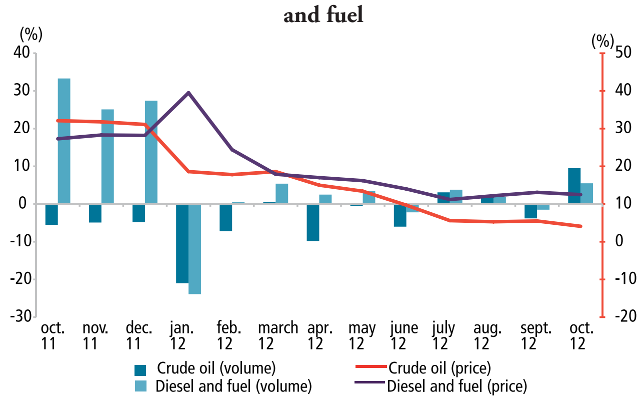
Source: Foreign Exchange Office

Chart 1.16: YoY change in volume and price of phosphate



Source: Foreign Exchange Office

Chart 1.17 : YoY change in volume and price of crude oil, diesel and fuel



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

Reflecting both a weaker international activity, particularly in our major trading partner countries, and a slightly slower domestic demand, nonagricultural output gap would not be significantly different from zero in the third and fourth quarters of 2012, according to estimates by Bank Al-Maghrib. Meanwhile, the BAM monthly business survey for October 2012 shows that albeit slightly up, the overall capacity utilization rate and the non-refining one remain slightly below their historical averages, standing respectively at 72 percent and 70 percent. At the same time, the unemployment rate was up 0.3 percentage points to 9.4 percent compared to the same period of 2011, reflecting an increase of 0.5 percentage points to 14 percent in urban areas, and stabilization in rural areas at 4.2 percent. Over the same period, data on private sector wages confirm that they continue to rise in nominal and real terms. Overall, although data highlight some pressures on production costs, particularly those relating to energy commodity prices, the analysis of all factors does not suggest significant pressure on prices in the coming quarters.

2.1 Pressures on output capacity[1]

According to the latest estimates of Bank Al-Maghrib, nonagricultural output gap continues to fluctuate around zero in the third and fourth quarters of this year. For the coming quarters, the weaker global growth outlook, particularly in our major partner countries, along with the slower domestic demand, should reduce the already-moderate pressures of aggregate demand on prices (Chart 2.1).

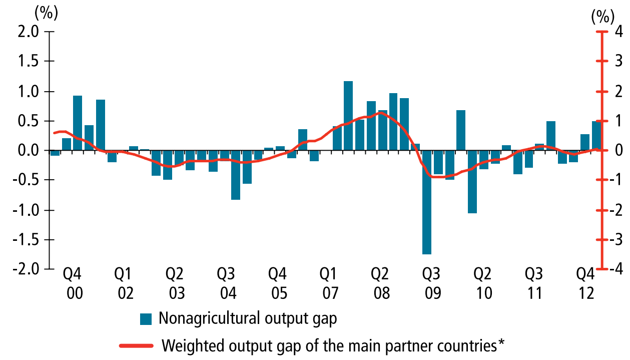
Capacity utilization rate (CUR) moved up from 69 percent to 70 percent in October 2012, but remained slightly below its historical average, as reported by Bank Al-Maghrib monthly industrial business survey.

This change reflects an increase in the CUR in chemicals and related industries, stagnation in mechanical and metallurgical industries as well as electrical and electronic industries and a decrease in other branches (Chart 2.3).

In terms of costs for industrial companies, the results of the same survey show an increase in the unit production cost in the third quarter of 2012, with a balance of opinion of 49 percent, up 44 percentage points from one quarter to the next. Manufacturers attribute this trend to the rising energy commodity prices, with a balance of opinion of 55 percent. Financial costs and labor ones were identified as key factors behind higher costs in

1 Calculated based on the GDP of the 5 first economic partners weighted by their respective share in the total exports of Morocco.

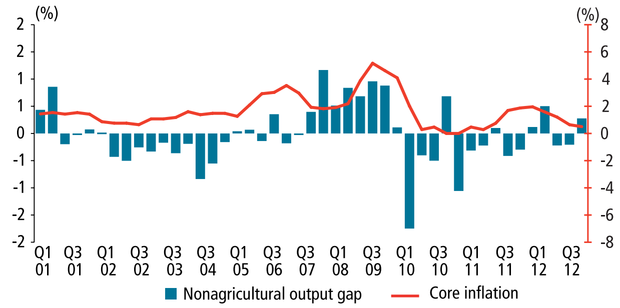
Chart 2.1: Nonagricultural output gap



(*) Calculated on the basis of the GDP of Morocco's top five economic partners weighted by their respective shares in Morocco's total exports.

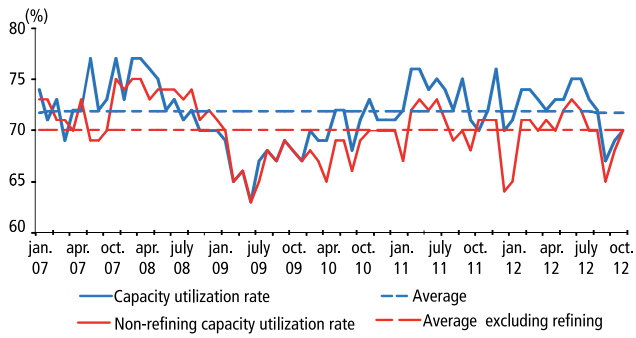
Sources: HCP, and BAM estimates

Chart 2.2: YoY change in nonagricultural output gap and core inflation



Sources: HCP, and BAM estimates

Chart 2.3: Industrial capacity utilization rate



Source: BAM monthly business survey

mechanical and metallurgical industries as well as textile and leather industries, while the increase in energy commodity prices particularly affected chemicals and related industries. Non-energy commodity costs were the main cause of higher costs in other industries (Chart 2.4).

Apparent labor productivity[1] in nonagricultural activities stood at 129.3 percentage points, up 3.3 percent, year on year, in the third quarter as against only 1 percent in the second quarter. This trend is attributable to both an increase of 4.3 percent in nonagricultural GDP, as estimated by BAM, and a 1.6 percent decline in the employment rate.

2.2 Pressures on the labor market

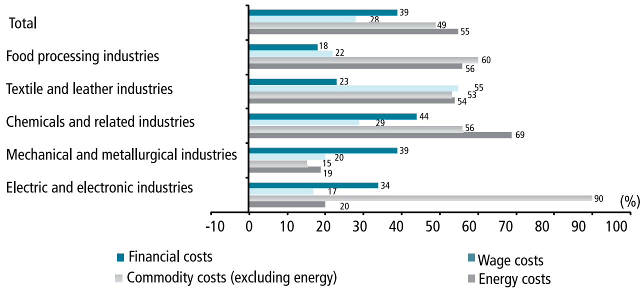
At the end of the third quarter of 2012, the labor force aged 15 and over rose by 0.9 percent to nearly 11.7 million people, reflecting an increase of 1.6 percent in urban areas and 0.2 percent in rural areas. This trend was coupled with a decline of 0.4 percentage points in the labor force participation rate to 48.7 percent (Table 2.1). After declining 0.6 percentage points one quarter earlier, the unemployment rate rose slightly by 0.3 points year on year to 9.4 percent. Urban unemployment stood at 14 percent from 13.5 percent, while the rural one stabilized at 4.2 percent. By age group, the unemployment rate among young people aged 15-24 moved up from 18.2 percent to 20.2 percent, which is the largest increase compared to that registered among other groups (Table 2.1).

Employed labor force increased by 0.5 percent to 10.5 million in the third quarter of 2012, as against an increase of 1.1 percent a quarter earlier. The employment rate fell from 44.6 percent to 44.1 percent, covering a decrease of 0.4 percentage points in both urban areas and rural ones (Table 2.1).

In the labor market, only 56,000 jobs were

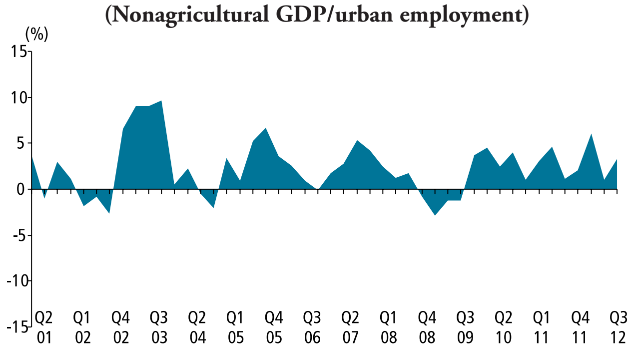
1 In the absence of more accurate data, the apparent labor productivity is measured as the ratio between production and the employed labor force. This indicator should be interpreted with caution, as it does not take into account the efficiency with which labor force is used in production.

Chart 2.4: Change in components of unit production cost per sector (Balances of opinion in %, in third quarter of 2012)



Source: BAM monthly business survey

Chart 2.5: YoY change in apparent labor productivity (Nonagricultural GDP/urban employment)



Sources : HCP, and BAM estimates

Table 2.1: YoY quarterly change in activity and unemployment indicators per place of residence(1)

In million / in %	Q3 - 2011			Q3 - 2012		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (2)	6105	5436	11541	6202	5445	11647
Labor force participation rate (%) (3)	43,3	57,8	49,1	43,1	57,4	48,7
Employed labor force	5280	5212	10492	5332	5216	10548
Employment rate (%) (4)	37,4	55,4	44,6	37	55	44,1
Unemployment						
Unemployed labor force	825	224	1 049	870	229	1099
Unemployment rate (in %) (5)	13,5	4,1	9,1	14	4,2	9,4
By age						
.15 - 24 years	32,4	8,9	18,2	35,2	9,6	20,2
.25 - 34 years	19,2	5	13,2	20,4	4,5	13,7
.35 - 44 years	8,1	1,7	5,5	7,1	2,3	5,1
By degree						
. Non-graduates	6,7	2,6	4,1	7,1	2,4	4,1
. Graduates	18,4	11,3	16,9	18,8	11,5	17,2

(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and above (in millions of persons)
(3) Labor force/total population.
(4) Employed labor force/total population aged 15 years and above.
(5) Unemployed labor force/labor force aged 15 years and above
Source: HCP

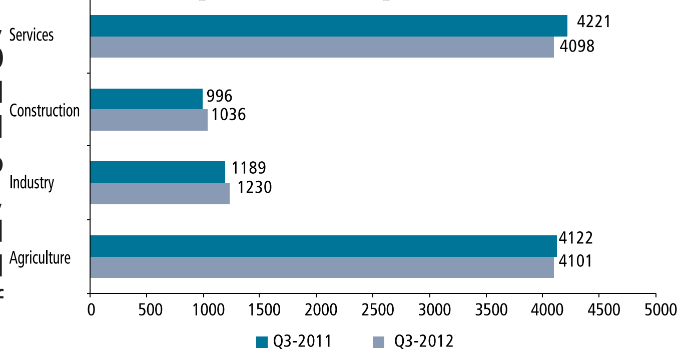
created in the third quarter, as against 112,000 positions in the previous quarter, resulting from the creation of 95,000 paid jobs and the loss of 39,000 unpaid jobs. At the sectoral level, agricultural activities and services were the only job providers with a total of 143,000 jobs, with respective shares of 13 percent and 87 percent. However, the industrial and construction sectors suffered a loss of 81,000 jobs (Chart 2.6).

The latest available data on labor costs show a year-on-year increase of 1.6 percent in the unit labor cost[1] (ULC). Compared with other countries, national ULC grew higher than that of Spain, Slovakia and Italy, with respective differences of 2.1 percent, 1.6 percent and 0.1 percent. However, it grew less rapidly than that of France, Germany, Belgium and the United Kingdom (Chart 2.7).

Meanwhile, the quarterly average wage index, based on CNSS data, recorded a year-on-year increase of 5.2 percent in nominal terms and 3.9 percent in real terms in the third quarter. This trend is confirmed by the BAM business survey of September, which indicates a rise in wages with a balance of opinion of 28 percent.

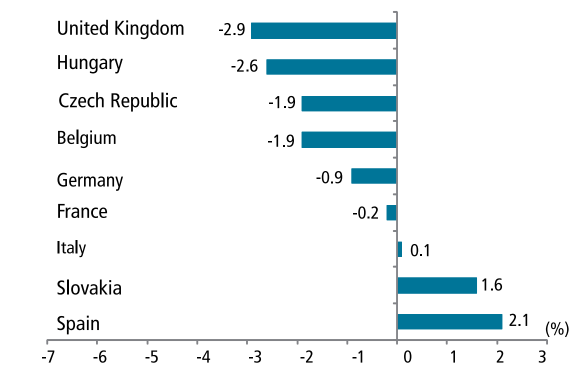
The hourly minimum wage grew by 5 percent in nominal terms to 12.24 DH/hour in the third quarter and by 3 percent in real terms.

Chart 2.6: Employed labor force per sector (in thousands)



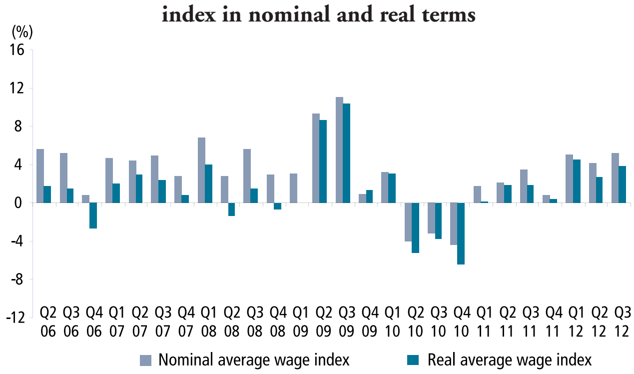
Source: HCP

Chart 2.7: Change in the unit costs of the manufacturing labor force in Morocco compared with other countries, Q2 2011 –Q2 2012 (in %)



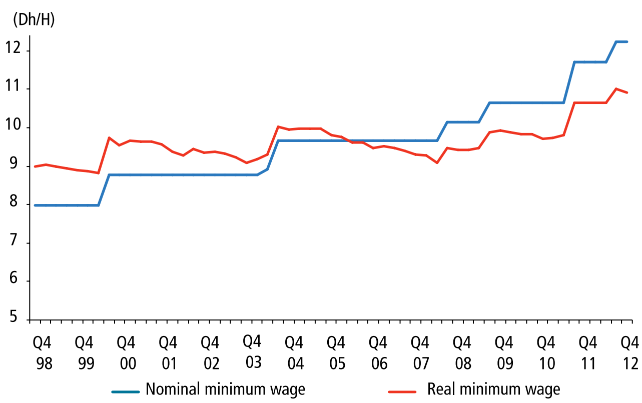
Sources: Datastream, and BAM calculations

Chart 2.8: YoY change in the private sector's average wage index in nominal and real terms



Sources: CNSS, and BAM estimates

Chart 2.9: Minimum wage in real and nominal terms



Sources: Labor Ministry, and BAM calculations

1 The ULC in the manufacturing sector has been replaced since September 2012 by the overall ULC, which is more relevant for the evaluation of national labor costs.

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

In the second half of 2012, the international environment was marked by continuously lower economic activity and prospects, particularly in the euro area, as well as slightly higher tensions in financial markets at the end of the year, primarily due to persistent difficulties resulting from the sovereign debt crisis. Indeed, financial conditions experienced in recent months increased tensions, as evidenced by the decline of major stock market indexes and especially the rise in bond yields, particularly those of the eurozone peripheral countries. This trend is mainly due to the lack of visibility regarding the implementation of bailout programs for Greece and Spain, and the risks associated with possible disagreement on the "fiscal cliff" in the United States. Regarding the real economy, national accounts data for the third quarter of 2012 indicate further lower activity, with the exception of the United States, where growth moved up. Growth in the euro area contracted for the second consecutive quarter, mainly reflecting lower economic activity in the main countries hit by the sovereign debt crisis. With regard to short-term outlook and after downward revisions of growth by the IMF in October 2012 (MPR of September 2012), the OECD and the European Commission also revised down their projections in November. Indeed, the outlook by the OECD and the European Commission in November 2012 show that global growth would remain weak in 2012, before returning to moderate levels in 2013. In addition, unemployment rates in advanced economies, particularly in the eurozone peripheral countries, should remain broadly high, reflecting a continued uncertainty about the durability of recession. In addition, the mitigation of risks to oil supply from the Middle East and the decline in global demand following the weakening economic outlook led in November 2012 to a slight fall in the Brent price as well as prices of agricultural products and base metal prices, which relatively contributed to international moderate inflationary pressures. Regarding the monetary policy, central banks in major advanced economies kept key rates unchanged at their low levels. Overall, all of these elements suggest the absence of significant external inflationary pressures in the coming quarters.

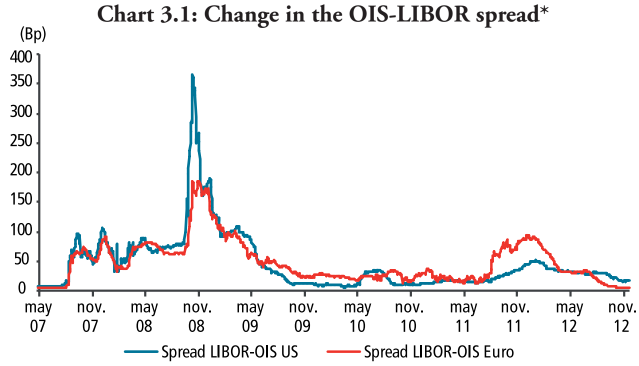
3.1 Global financial conditions and economic activity

After a period of lull, the financial markets began to show some signs of tensions in October and November, particularly on bond and equity compartments. This is mainly due to uncertainties about the implementation by the euro area of bailout programs for Greece and Spain, and fears about a possible disagreement on the "fiscal cliff" in the United States before the December 31, 2012 deadline. The most recent economic indicators reflect slower activity in advanced countries as well as in emerging and developing countries.

3.1.1 Financial conditions

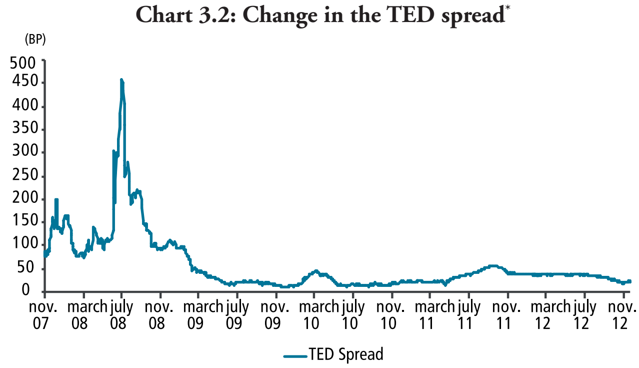
In bond markets, yields of eurozone peripheral countries showed broadly slight increases, while the rest of rates stabilized or decreased. Indeed, the 10-year yields of eurozone peripheral countries rose, between October and November 2012, from 8 percent to 8.5 percent in Portugal and from 5.6 percent to 5.8 percent in

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 TED spread*



** The TED spread represents a credit risk and corresponds to the interest rate gap between three-month U.S. Treasury bills and the three-month interbank rate in U.S. dollars.*
Source: Datastream

Spain, while they fell in Greece from 17.9 percent to 17.7 percent. Yields on 10-year bonds of Germany were down 1.3 percent in November from 1.4 percent in the previous month, while those of France stagnated at 2.1 percent. However, French bonds were not impacted by the downgrade of the sovereign rating by Moody›s (Box 3.1). Meanwhile, the U.S. Treasury bond yields declined slightly to 1.6 percent in November from 1.7 percent a month earlier.

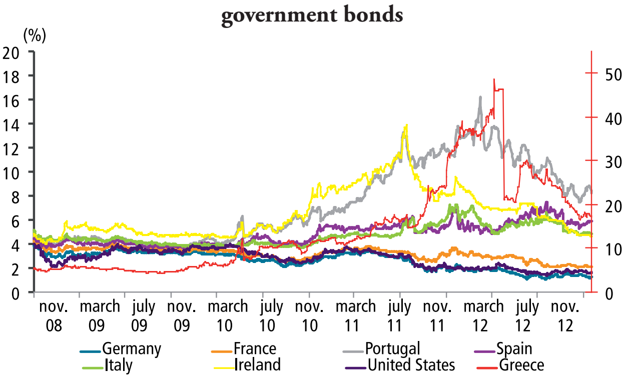
In stock markets, with the exception of the NIKKEI 225, major indexes of advanced economies trended downward. Indeed, decreases ranging from 0.2 percent for the CAC40 to 3.7 percent for the Dow Jones Industrials were registered between October and November 2012. In addition, U.S. markets were more volatile compared to the previous month, as evidenced by the VIX which rose to 17.2 basis points in November from 16.4 points. In contrast, the VSTOXX continued to decrease to 21.4 basis points from 21.8 points. Similarly, stock market indexes of emerging economies were tilted to the downside in November, as the MSCI EM declined by 1 percent, month on month.

In addition, almost all money market indicators continued to improve. Thus, the 3-month Euribor and Libor stood respectively at 0.19 percent and 0.31 percent in November, as against 0.21 percent and 0.33 percent in the previous month. The dollar Libor-OIS spread dropped, from October to November 2012, from 18.6 basis points to 16.3 points, while the euro one was rose to 5.4 points from 5.2 points.

Credit growth slowed down in the United States from 5.9 percent to 5.4 percent between September and October 2012, while in the euro area, it declined again by 0.8 percent between August and September 2012.

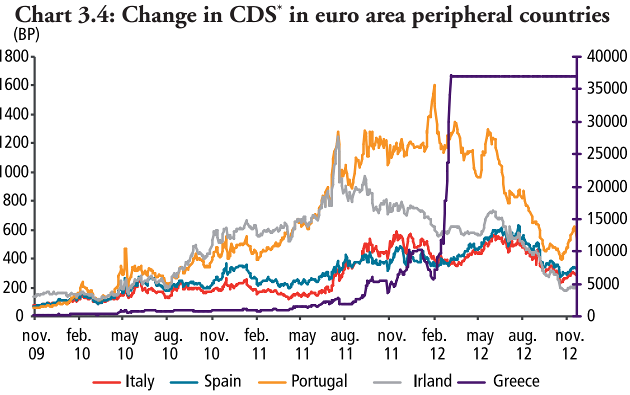
In the international exchange markets, the value of the euro stagnated compared to most other currencies. Thus, the single currency traded at $1.3 in November,

Chart 3.3: Change in the yield of ten-year euro area and U.S. government bonds



Source: Datastream

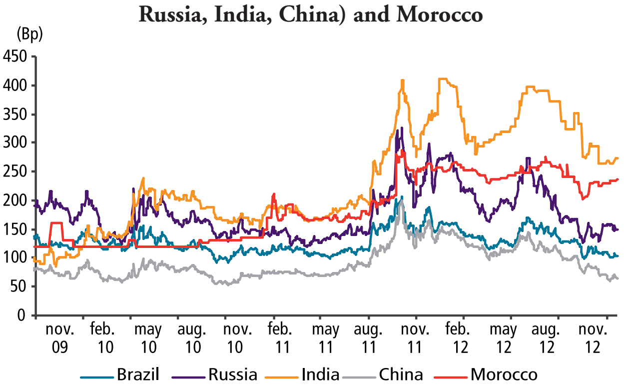
Chart 3.4: Change in CDS* in euro area peripheral countries



* *Credit Default Swaps (CDS) on the sovereign debt of emerging countries correspond to insurance premiums against the default risk of a given sovereign debt.*

Source: Datastream

Chart 3.5: Change in CDS in emerging countries (Brazil, Russia, India, China) and Morocco



Source: Datastream

Box 3.1: Moody's downgrades France's sovereign debt rating

On Tuesday, November 20, Moody›s downgraded France's rating by one notch from AAA to AA1, with a negative outlook. This downgrade occurs after that by Standard & Poor›s, on January 13, 2012, which had lowered France's rating by one notch from AAA to AA+. Moody›s also downgraded the rating of several French public bodies, including the Caisse d'amortissement de la dette sociale - CADES (Social Security Debt Reimbursement Fund) and the Régie autonome des transports parisiens - RATP (Paris public transport system).

The agency explained that the downward adjustment was primarily due to France's structural economic challenges. These include mainly the loss of competitiveness and rigidities in both labor, and goods and services markets. The agency noted the uncertain trends in France's budgetary position, in conjunction with the deteriorating economic prospects, both in the short term (subdued domestic and external demand) and in the longer term (structural rigidities noted above). The decision was also justified by the high exposure of France's economy to the deteriorating economic and financial conditions in European peripheral countries. According to the agency, a further deepening of the debt crisis in the euro area and increased recession in these countries would have a significant negative impact on growth and public finances in France.

However, the agency noted that the country remains among the best rated in the euro area, due to a number of positive points, namely the government›s commitment to reduce public deficit and to implement structural reforms; the quality and diversification of its economy and the recent announcement of the "National Pact for Growth, Competitiveness and Employment".

However, the downgrade of France's rating has not resulted in a significant increase in French long-term rates. Indeed, after the announcement of the decision, 10-year yields remained unchanged and only the euro slightly depreciated. This is explained by the inclusion of these structural weaknesses in the financial market expectatio.

Table B.3.1.1. : France's sovereign rating by Moody's

Moody's-Sovereign credit-France	Before	After
Foreign currency long-term credit	AAA	AA1
Local currency long-term credit	AAA	AA1
Foreign currency unsecured long-term debt	AAA	AA1
Local currency unsecured long-term debt	AAA	AA1
Outlook	Negative	Negative

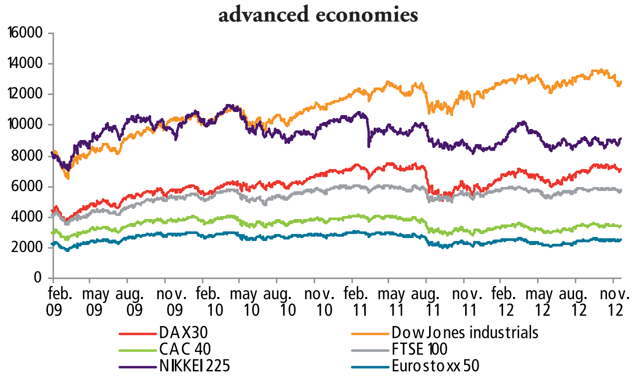
Source : Moody's

the same level as the previous month. Similarly, the euro was flat at 0.8 pound sterling, while it appreciated slightly by 0.2 percent vis-à-vis the Japanese yen.

Regarding monetary policy decisions, the ECB and the Bank of England, at their meetings of November 2012, kept their key rates unchanged at 0.75 percent and 0.5 percent, respectively, while the Fed should maintain, as decided at its last meeting of September 2012, its key rate very low at least until 2015, currently within a range of 0 percent to 0.25 percent.

At the end of 2012, developments on international financial markets will depend on the outcome of discussions among the euro area countries, the IMF

Chart 3.6: Change in the major stock market indexes of advanced economies



Source: Datastream

and the ECB on the release of a new aid package for Greece. They will be also marked by the management by the U.S. Government of the "fiscal cliff", with a deadline of December 31, 2012.

3.1.2 Global economic activity

The latest national accounts figures in the United States for the third quarter of 2012 indicate that growth accelerated to 2.5 percent year on year from 2.1 percent in the previous quarter. This trend is mainly due to the recovery of household consumption and government expenditure.

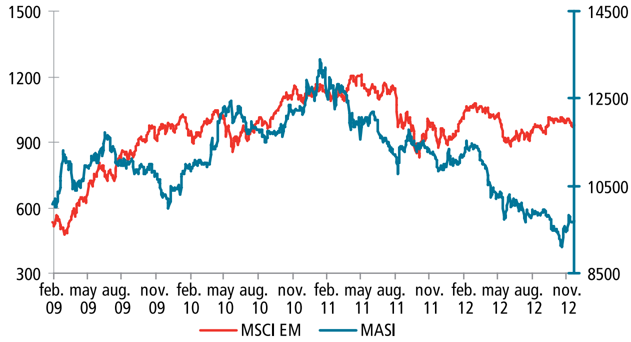
In the euro area, GDP continued to contract for the second consecutive quarter, thus falling 0.6 percent year on year in the third quarter, after a 0.5 percent drop in the previous quarter, a recession caused primarily by that of eurozone peripheral countries. In Morocco›s key partner countries, growth in France remained at 0.1 percent in the third quarter, while it slowed in Germany from 1 percent to 0.9 percent, year on year. In Spain and Italy, GDP contracted by 1.6 percent and 2.4 percent, respectively, as against 1.5 percent and 2.4 percent in the previous quarter. In addition, GDP of the United Kingdom stagnated in the third quarter, year on year, after a contraction of 0.5 percent a quarter earlier.

For Japan, GDP in the third quarter grew only 0.2 percent year on year, after rising 3.4 percent in the previous quarter, affected mainly, regarding exports, by the downturn in China and Europe.

In emerging Asia, the latest national accounts data remain those of the second quarter of 2012, with the exception of China, where growth slowed from 7.6 percent to 7.4 percent in the third quarter, its lowest level since the first quarter of 2009.

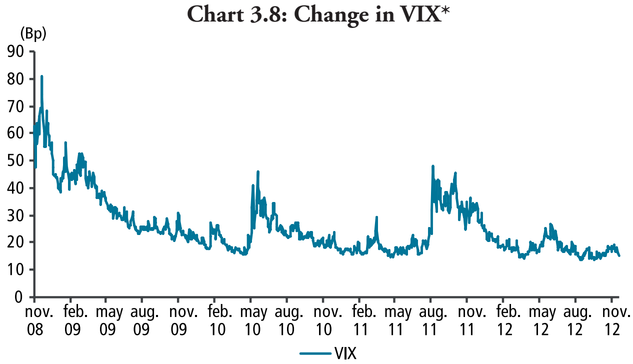
High-frequency indicators also reflect the continued deterioration of global economy, particularly in the euro area. In the United States, the Conference Board

Chart 3.7: Change in the MSCI EM and MASI



Source: Datastream

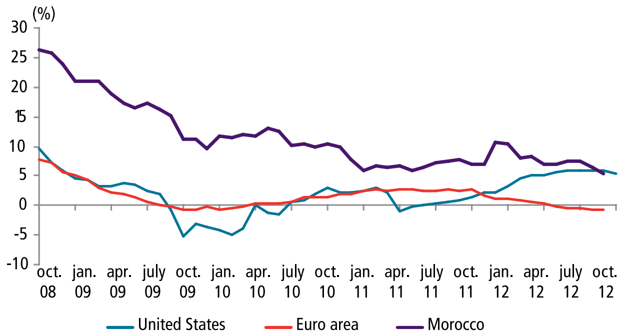
Chart 3.8: Change in VIX*



** VIX is the volatility index of the American financial market. It is calculated by the Chicago Board Options Exchange (CBOE), using the average volatilities of calls and puts on S&P 500. The higher the index, the more nervous markets and the higher pessimism.*

Source: Datastream

Chart 3.9: YoY change in credit in the United States, euro area and Morocco



Source: Datastream

Table 3.1: YoY change in quarterly growth

	2011				2012		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States	1.8	1.9	1.6	2	2.5	2.1	2.5
Euro area	2.4	1.6	1.3	0.6	0.0	-0.5	-0.6
France	2.4	1.8	1.5	1.2	0.2	0.1	0.1
Germany	4.8	3.0	2.7	1.9	1.2	1.0	0.9
Italy	1.3	1.0	0.4	-0.5	-1.4	-2.4	-2.4
Spain	0.5	0.5	0.6	0	-0.7	-1.4	-1.6
China	9.7	9.5	9.1	8.9	8.1	7.6	7.4

Source : Eurostat

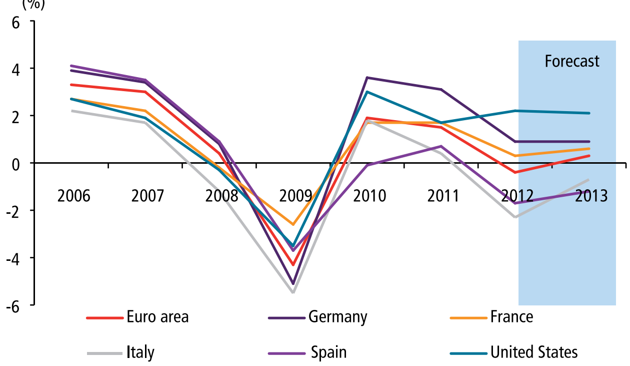
Consumer Confidence Index recorded in September a slight increase of 0.6 percent from one month to the next, thus increasing by 2.9 percent year on year. The ISM manufacturing index grew in October only 0.4 percent from one month to another, remaining down 0.2 percent, year on year.

In the euro area, the composite PMI stood at 45.8 basis points in November, virtually unchanged from one month to another, and remains down 2.6 percent, year on year. Meanwhile, the manufacturing PMI rose 2 percent, month on month, as against a yearly decline of 0.4 percent. Germany's IFO Business Climate Index in November showed a rise of 1.4 percent month on month, and was down 5.1 percent, year on year, while the ZEW Economic Sentiment Index stood at -15.7 points, as opposed to -11.5 points in October.

Just like the IMF economic outlook of October 2012 (MPR of September 2012), recent forecasts by the European Commission and the OECD, dated November 2012, show a downward revision of global growth with a return to a moderate growth in 2013. These revisions are mainly due to the economic downturn in the euro area and uncertainties about the fiscal position in the United States.

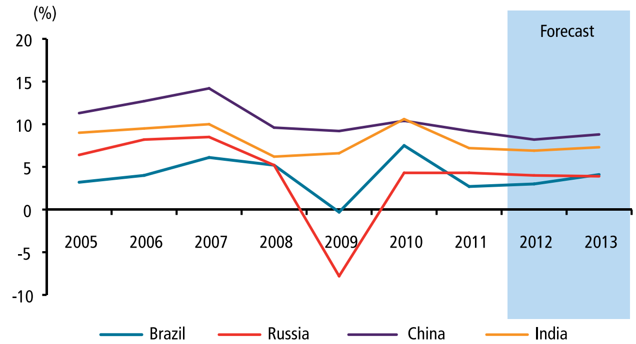
Indeed, according to the European Commission, global growth would stand at 3.3 percent in 2013 from 3.1 percent in 2012. In advanced economies, the Commission expects an increase of about 1.2 percent in 2012 and 1.4 percent in 2013. For emerging and developing countries, growth was revised downward to 5 percent and 5.3 percent respectively in 2012 and 2013, from 5.5 percent and 5.7 percent previously. By country, projected growth in the United States is revised upward to 2.1 percent and 2.3 percent in 2012 and 2013, respectively, while in the euro area, the forecast was revised downward to -0.4 percent in 2012 and 0.1 percent in 2013. In Morocco's partner countries, the Commission expects that GDP would increase by 0.8 percent in Germany in 2012 and 2013, while in France it would stand at 0.2 percent and

Chart 3.10: YoY GDP growth in the world, the euro area and partner countries



Source: IMF

Chart 3.11: GDP growth in emerging countries (Brazil, Russia, India, China)



Source: IMF

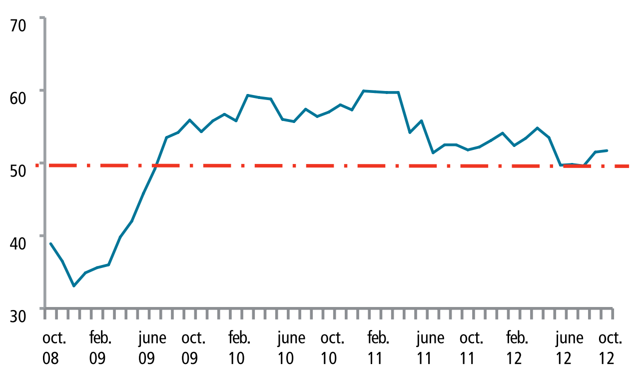
Table 3.2: Global growth outlook

	Forecasts (%)					
	European Commission*		IMF*		OECD*	
	2012	2013	2012	2013	2012	2013
Global GDP	3.1	3.3	3.3	3.6	2.8	4.7
United States	2.1	2.3	2.2	2.1	2.2	2.0
Euro area	-0.4	0.1	-0.4	0.2	-0.4	-0.1
Germany	0.8	0.8	0.9	0.9	0.9	0.6
France	0.2	0.4	0.1	0.4	0.2	0.3
Italy	-2.3	-0.5	-2.3	-0.7	-2.2	-1.0
Spain	-1.4	-1.4	-1.5	-1.3	-1.3	-1.4
United Kingdom	-0.3	0.9	-0.4	1.1	-0.1	0.9
China	7.7	7.7	7.8	8.2	7.5	8.5
India	5.0	5.8	4.9	6.0	4.4	6.5
Brazil	1.5	3.9	1.5	4.0	1.5	4.0
Russia	3.7	3.9	3.7	3.8	3.4	3.8

** IMF October 2012, European Commission et OECD November 2012*

Sources : International Monetary Fund, European Commission and OECD

Chart 3.12: ISM growth in the United States



Sources: Datatstream

0.4 percent. In Italy and Spain, GDP should contract by 2.3 percent and 1.4 percent in 2012, and 0.5 percent and 1.4 percent in 2013 (see Table 3.2).

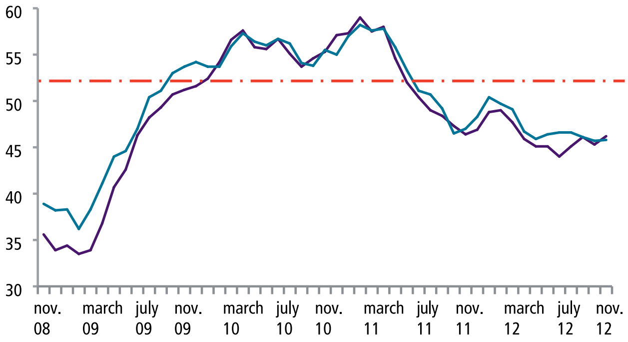
According to forecasts by the OECD, the United States GDP would increase by 2.2 percent and 2 percent respectively in 2012 and 2013, while in the euro area, it should contract by 0.4 percent and 0.1 percent, over the same period. In partner countries, forecasts indicate 0.9 percent and 0.6 percent in Germany, 0.2 percent and 0.3 percent in France, -2.2 percent and -1 percent in Italy, -1.3 percent and -1.4 percent in Spain and -0.1 percent and 0.9 percent in the United Kingdom, in 2012 and 2013, respectively.

3.1.3 Job market

In the labor market of advanced countries, recent data indicate persistently high unemployment rates, albeit with divergent trends across countries. In the United States, the unemployment rate rose slightly in October from 7.8 percent to 7.9 percent. In the euro area and partner countries, the overall trend is upward, with the notable exception of Germany, where it remained low compared to other countries in the area. Thus, the unemployment rate in the euro area increased from 11.6 percent in September to 11.7 percent in October. In partner countries, the unemployment rate rose from 25.8 percent to 26.2 percent in Spain and from 10.8 percent to 11.1 percent in Italy, while it remained unchanged in France and Germany at 10.7 percent and 5.4 percent, respectively, from one month to another.

Regarding forecasts about unemployment in advanced countries, with the exception of the United States, the latest IMF projections of October expect broadly upward trends in 2012 and 2013. Indeed, the unemployment rate in the United States would reach 8.2 percent in 2012 and slow down to 8.1 percent in 2013, while in the euro area, it would increase to 11.2 percent in 2012 and to 11.4 percent in 2013. In partner countries, the unemployment rate in Germany would

Chart 3.13: Composite and manufacturing PMI change in the euro area



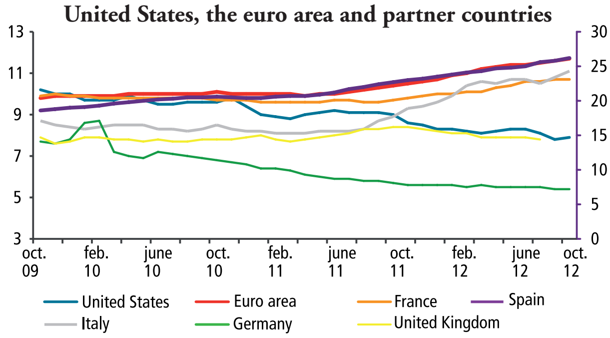
Sources: Datatstream

Table 3.3: Change in unemployment rate in the United States, the euro area and partner countries

	2010	2011	Aug. 2012	Sept. 2012	Oct. 2012
United States	9.6	9.0	8.1	7.8	7.9
Euro area	10.1	10.2	11.5	11.6	11.7
France	9.1	9.6	10.6	10.7	10.7
Italy	8.4	8.4	10.5	10.8	11.1
Germany	7.1	6.0	5.5	5.4	5.4
Spain	20.1	21.7	25.6	25.8	26.2
United Kingdom	7.8	8.0	7.8	7.8	N.A

Source : Eurostat

Chart 3.14: Change in monthly unemployment rate in the United States, the euro area and partner countries



Source: Eurostat

Table 3.4 : Outlook for unemployment rates in main advanced countries

	IMF		OECD		European Commission	
	2012	2013	2012	2013	2012	2013
United States	8.1	8.2	8.1	7.8	8.2	7.9
Euro area	11.2	11.4	11.1	11.9	11.3	11.8
Germany	5.2	5.3	5.3	5.5	5.5	5.6
France	10.1	10.5	9.9	10.7	10.2	10.7
Italy	10.6	11.1	10.6	11.4	10.6	11.5
Spain	24.9	25.1	25	26.9	25.1	26.6
United Kingdom	8.3	8.3	8.0	8.3	7.9	8.0

Source : IMF october 2012, OECD, European Commission November 2012 fall to 5.2 percent in 2012 and rise to 5.3 percent in 2013. In France, it should stand at 10.1 percent and 10.5 percent, respectively, in 2012 and 2013 and at 10.6 percent and 11.1 percent in Italy. The labor market in Spain is not expected to improve in the short term, with an unemployment rate which should remain at around 25 percent in 2012 and 2013.

November 2012 projections by the European Commission and the OECD remain broadly consistent with those of the IMF. They expect that the U.S. unemployment rate would be respectively 8.2 percent and 8.1 percent in 2012, and 7.9 percent and 7.8 percent in 2013. For the euro area, the European Commission expects that the unemployment rate would reach 11.3 percent and 11.8 percent, respectively, in 2012 and 2013, while the OECD projects 11.1 percent and 11.9 percent. For partner countries, particularly Germany, the two organizations forecast respective unemployment rates of 5.5 percent and 5.6 percent in 2012 and 2013. For France, the Commission expects an unemployment rate of 10.2 percent and 10.7 percent, whereas the OECD predicts 9.9 percent and 10.7 percent respectively over the same period. For Spain, the European Commission and the OECD project an unemployment rate around 25 percent in 2012, and 26.6 percent and 26.9 percent, respectively, in 2013.

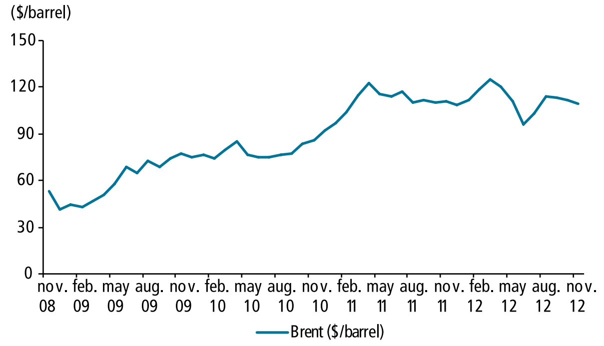
3.2 Commodity prices and inflation

The decrease in global demand following the economic slowdown led to some decline in commodity prices in November. Global inflation showed a slight drop, which covers divergent trends across countries and regions.

3.2.1 Energy commodity prices

The deteriorating economic outlook and the mitigation of supply risks from the Middle East contributed to the decline in the Brent price in November. Thus, the average monthly price stood at $109.3 a barrel, down 2.3 percent month on month and 1.7 percent, year on year. Regarding forecasts for oil prices, the IMF, in its last report of October, revised up its estimates

Chart 3.15: World price of brent oil in dollar



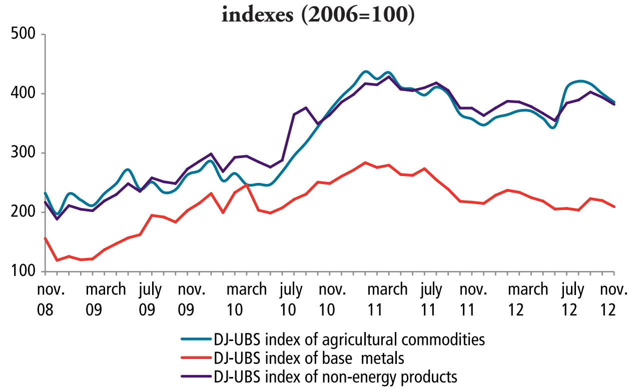
Source: Datastream

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

	Q4:12	Q1:13	Q2:13	Q3:13	2013	2014	2015
Oil	110.74	109.63	108.27	106.94	107.64	103.03	98.93

**Data as at September 12, 2012.*
Source : Bloomberg

Chart 3.16: Change in the DJ-UBS non-energy commodity indexes (2006=100)



Source: Datastream

Table 3.6: Futures prices of wheat, corn and sugar

	Q1:13	Q2:13	Q3:13	2013	2014	2015
Wheat (cents/bu)	862.60	861.10	861.00	863.50	844.90	810.40
Corn (cents/bu)	749.20	742.10	655.30	693.00	620.60	590.00
Sugar (11cents/bl)	19.15	19.19	19.44	19.43	19.86	19.96

Data as at 12 September 2012
Source : Bloomberg

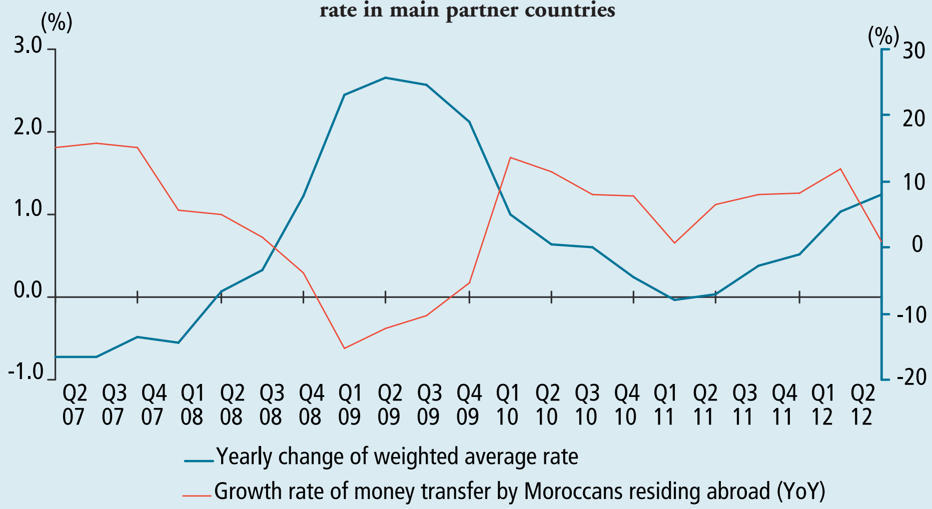
Box 3.2: Trend and impact of labor market conditions in partner countries

Labor market conditions continue to deteriorate in the major advanced economies and worsened markedlyduring the current sovereign debt crisis, especially in Morocco's main partner countries. The unemployment rate in the euro area remained above 11 percent in the third quarter of 2012, its highest level in a decade. In partner countries, mainly France and Italy, the unemployment rate remains above 10 percent over the same period, while it exceeded 25 percent in Spain.

Several factors are behind high unemployment rates in partner countries, mainly economic recession and persistently rigid labor markets in these countries. Against this backdrop, the authorities have taken several measures to ease tensions in this market and promote job creation. Indeed, they have implemented active employment policies and tax reforms to reduce labor taxes and direct them towards other more vulnerable sectors. In addition, they have lowered the minimum wage and reduced employer contributions in corporations.

Given the high concentration of Moroccans living abroad in these countries, Morocco has been greatly affected by the situation of their labor markets. Indeed, due to higher unemployment rates during the 2008 crisis, remittances from Moroccans living abroad were down 3.5 percent in 2008 and 5.3 percent in 2009. After a recovery of 8.3 percent and 7.8 percent in 2010 and 2011, respectively, the impact of the sovereign debt crisis began to be felt as of the first half of 2012, mainly regarding transfers coming from Spain and Italy. These findings are supported by the strong negative correlation found between the yearly change in remittances from Moroccans living abroad and that of the unemployment rate in the main countries of residence of Moroccans living abroad, namely France, Spain and Italy (Chart B3.2.1). Similarly, the results of causality tests confirm empirically significant impact of unemployment rates in the countries of residence on remittances from Moroccans living abroad.

Chart B 3.2.1: Money transfer of Moroccans residing abroad and weighted unemployment rate in main partner countries



Source: Foreign Exchange Office and Eurostat

to $106.2 per barrel in 2012 and to 105.1 dollars per barrel for 2013, which are upward adjustments of 4.2 percent for 2012 and 6.5 percent for 2013.

Despite the uncertainties that continue to weigh on global economic activity, the OPEC expects a slight increase in global demand for crude oil by almost 0.8 million barrels per day (bpd) in its monthly report of November, which should reach 89.57 million bpd in 2013, as against 89.60 bpd previously expected. Meanwhile, the IEA revised downward its forecasts, mainly due to the weakening economic outlook. It now expects an oil consumption of 89.6 million bpd in 2012 and 90.4 bpd in 2013, which is respectively 80,000 and 70,000 barrels less than what was expected in October.

In addition, coal prices declined markedly in October by 7.4 percent month on month and nearly 30 percent year on year, due to lower global demand. Natural gas price rose 4.5 percent from one month to another, while remaining slightly up 1.4 percent compared to the level recorded in October 2011.

3.2.2 Nonenergy commodity prices

Although remaining 1.7 percent higher than its level of November 2011, the

Dow Jones-UBS non-energy commodity index was down 3 percent from one month to another, thus reflecting a decline of the index of industrial metal prices by 4.7 percent, month on month, and 3.5 percent, year on year. This trend is mainly due to the slowdown of the global economy and concerns about U.S. and Chinese growth. By product, the prices of nickel, copper and tin recorded respective drops of 6.1 percent, 4.9 percent and 3.6 percent, month on month.

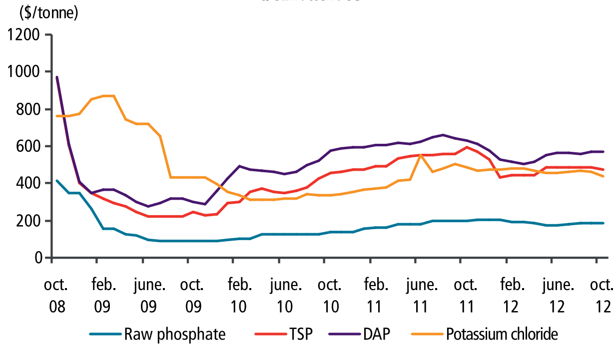
In the same context, prices of agricultural commodities were down in November, as evidenced by a monthly decrease of 3.6 percent of the relevant index, in connection with the weakness of global imports. However, they registered a net increase of nearly 8 percent from one year to another. By product, the price of coffee, soybean and sugar showed respective declines of 6.8 percent, 5 percent and 4.3 percent, month on month.

In the market of phosphate and derivatives, prices showed divergent monthly changes across products, between September and October 2012. After stagnating at $485 per tonne for five consecutive months, the price of TSP in October dropped by 2.3 percent. Likewise, Potassium Chloride prices fell by 5.2 percent month on month, while that of Urea rose by nearly 3 percent. The prices of DAP and crude phosphate remained unchanged at respectively $573 and $185 per tonne, from one month to another. Year on year, the prices recorded declines of 20 percent for TSP, 15.7 percent for Urea, 9.6 percent for Potassium Chloride, 9.2 percent for DAP and 6.9 percent for crude phosphate.

3.2.3 Inflation in the world

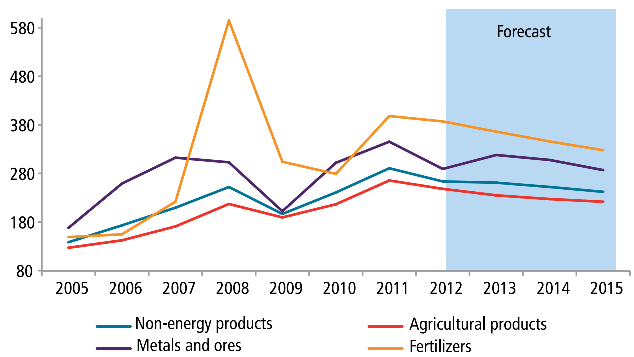
The most recent data show that inflation did not change significantly between September and October, with a slight decline from 3.4 percent to 3.3 percent in the world and a slight increase from 1.8 percent to 1.9 percent in advanced countries. Inflation rose to 2.2 percent in the United States from 2 percent in the previous month, while estimates by the

Chart 3.17: Change in the world prices of phosphate and derivatives



Source: World Bank

Chart 3.18: Outlook for commodity price indexes



Source: World Bank

Table 3.7: Recent trend in world inflation, YoY

	Oct. 2011	Aug. 2012	Sept. 2012	Oct. 2012	Forcasts 2012	Forcasts 2013
United States	3.5	1.7	2.0	2.2	2.1	2.0
Euro area	3.0	2.6	2.6	2.5(P)	2.5	1.8
Germany	2.9	2.2	2.1	2.1	2.1	1.9
France	2.5	2.4	2.2	2.1	2.3	1.7
Spain	3.0	2.7	3.5	3.5	2.5	2.1
Italy	3.8	3.3	3.4	3.8	3.3	2.0
Japan	-0.2	-0.5	-0.3	-0.4	-0.2	-0.1
China	5.5	2.0	1.9	1.7	3.0	3.0

(P) : Prévision du FMI
Sources : IMF. Eurostat

Statistical Office of the European Union expect a slight decline in the euro area to 2.5 percent from 2.6 percent in September. In Morocco's main partner countries, inflation stagnated in Germany and Spain at 2.1 percent and 3.5 percent, respectively, while it fell slightly to 2.1 percent from 2.2 percent in September. However, it rose in Italy and the United Kingdom to 3.8 percent and 2.7 percent, respectively, from 3.4 percent and 2.2 percent a month earlier. Regarding emerging markets, inflation in China was down to 1.7 percent in October from 1.9 percent in the previous month, while it moved slightly up in Brazil from 5.3 percent to 5.4 percent.

With regard to the global economic outlook, the IMF projected in October a moderate inflation in advanced economies in 2012 and 2013. Indeed, it should stand at 1.4 percent in 2012 and 1.3 percent in 2013. In emerging and developing countries, the IMF predicted that inflation would reach 6.1 percent in 2012 and 5.8 percent in 2013.

3.3 Morocco's import unit price index

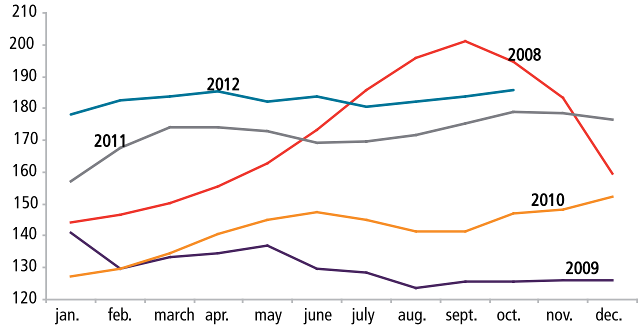
The non-energy import price index (IPI) registered in October 2012 an increase of 1.1 percent, close to the one recorded in September. Thus, the IPI of semi-finished goods moved up 4.2 percent, as against 9.9 percent a month earlier, particularly in connection with the 13.6 percent increase in the average import unit price of wires and bars.

Similarly, the mining IPI rose by 0.8 percent, as against a 3.8 percent decline in September. This trend is mainly due to the 4.2 percent increase in the average import unit price of iron and steel.

The food IPI rose by 0.9 percent, as against 1.3 percent a month earlier, due particularly to a 2.3 percent increase in the average import unit price of wheat.

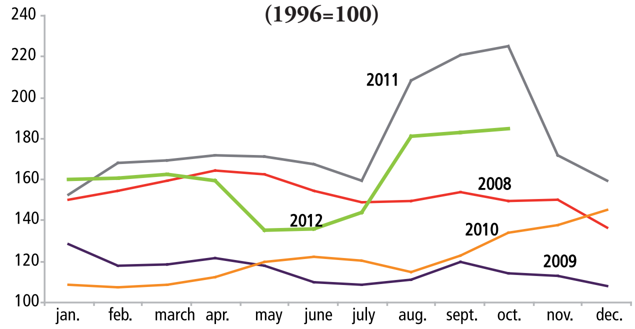
The yea-on-year change rate of the non-energy IPI stood at 3.9 percent, as against 21.6 percent a year earlier. Thus, the IPI of semi-finished goods moved up 11.6 percent, mainly in connection with a 50.2

Chart 3.19: Nonenergy import price index (1996=100)



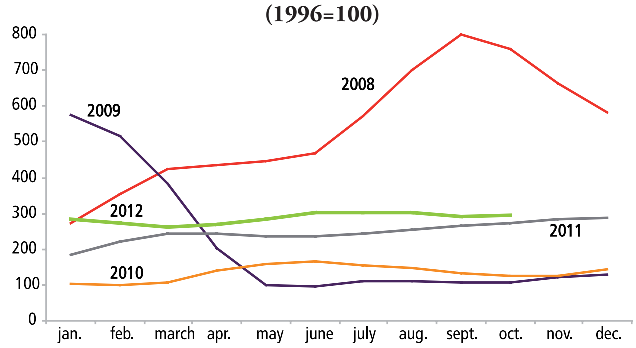
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.20: Food products' import price index (1996=100)



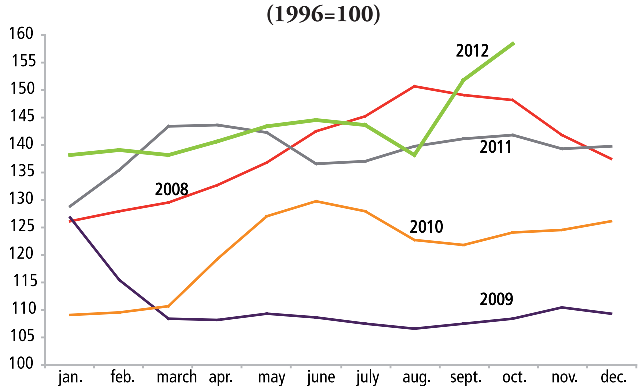
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.21: Mining products' import price index (1996=100)



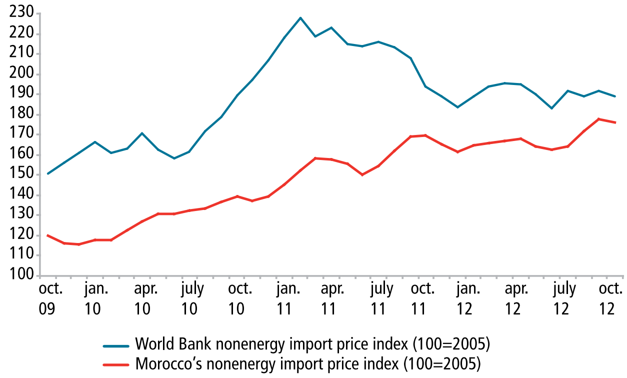
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.22: Semi-finished products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations percent increase in the average import unit price of wires and bars. Similarly, the mining IPI rose nearly 8 percent, primarily due to a 17.7 percent increase in the average import unit price of iron and steel. However, the food IPI shrank by 17.9 percent, mainly due to respective declines of 29.3 percent and 16 percent of the average import unit price of wheat and that of sugar.

Chart 3.23: Change in world commodity price index and domestic nonenergy import price index (2005=100)



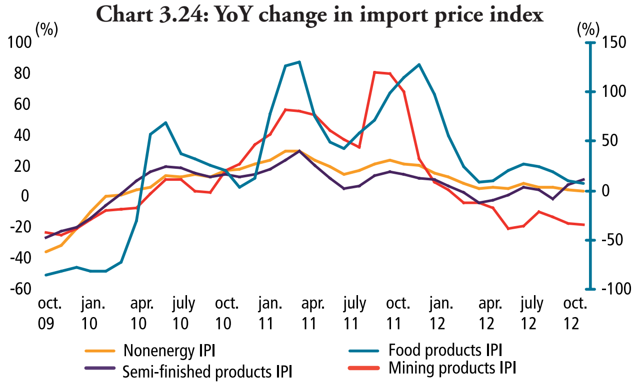
Sources: Foreign Exchange Office, World Bank and BAM calculations

Table 3. 8 : Change in import price index (IPI)

	Monthly change (%)			Annual change (%)		
	Aug. 12	Sept. 12	Oct. 12	Aug. 12	Sept. 12	Oct. 12
Nonenergy IPI	0.9	1.0	1.1	6.0	4.9	3.9
Food IPI	25.8	1.3	0.9	-13.3	-17.1	-17.9
Semi-finished products IPI	-3.7	9.9	4.2	-1.0	7.5	11.6
Mining IPI	0.6	-3.8	0.8	19.6	9.5	8.0

Indexes calculated on the basis of unit prices in Dirhams

Chart 3.24: YoY change in import price index



Sources: Foreign Exchange Office, and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

The latest data for October 2012 confirm the continued slowdown in the annual growth of monetary aggregates and credit, while the money gap remained negative. Indeed, the moderation of money creation continues to reflect lower net foreign assets and slow bank lending. Indeed, the annual growth of credit slowed down from 6.3 percent in the third quarter to 5.4 percent in October, thus standing at a level slightly below its long-term trend and reflecting a generalized slowdown of its main components. As to lending rates, Bank Al-Maghrib's survey among banks for the third quarter of 2012 shows an increase of 22 basis points in the weighted average rate, mainly due to higher rates on cash advances and consumer loans. The dirham's effective exchange rate depreciated by 0.21 percent from one quarter to another, in nominal terms, while in real terms, it appreciated by 0.9 percent, as the inflation rate in Morocco was slightly higher than in the major trading partner and competitor countries. Meanwhile, after rising 0.5 percent in the second quarter, the real estate price index fell by 0.7 percent in the third quarter, due to lower prices of all the categories. Year on year, these prices remained virtually stable, whereas they increased by 1.9 percent in the previous quarter. Overall, recent developments of monetary conditions and asset prices, especially real-estate ones, indicate the absence of monetary inflationary pressures in the medium term.

4.1 Monetary conditions

4.1.1 Interest rates

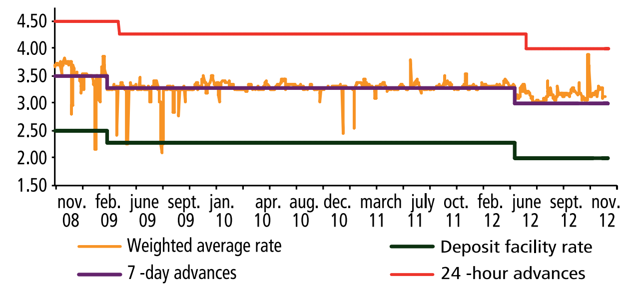
In a context marked by a broadly neutral trend of risks and an inflation central forecast in line with the price stability objective, the Board of Bank Al-Maghrib decided, at its last meeting on September 25, 2012, to keep the key rate unchanged at 3 percent. Against this backdrop, the weighted average rate on the interbank market stood at 3.20 percent on average between October and November 2012, up 5 basis points from the third quarter.

Meanwhile, the rates on short, medium and long-term primary market Treasury bonds recorded in October increases of up to 20 basis points compared to last issuances. In the secondary market, the same trend pattern was observed regarding various maturity rates.

Concerning deposit rates, the weighted average rate of 6 and 12-month deposits rose by 2 basis points between the third quarter and October 2012, to 3.73 percent. This increase reflects respective increases of 6 and 3 basis points in the 6-month and one-year deposit rates.

As to lending rates, the findings of BAM survey among banks for the third quarter of 2012 show an increase of 22 basis points

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



Source :BAM

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

	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct.12
21 days	-	-	3.28	-	-	-	-	-
24 days	-	-	-	-	-	-	-	3.71
43 days	-	-	-	-	-	-	3.48	-
44 days	-	-	-	-	-	-	3.59	-
13 weeks	3.31	3.30	3.30	3.34	3.42	3.21	3.31	3.39
26 weeks	-	-	3.33	3.33	3.55	3.39	3.42	-
52 weeks	3.46	3.45	3.46	3.49	3.65	3.53	3.74	3.82
2 years	3.63	3.61	3.61	3.71	3.88	3.71	3.93	4.13
5 years	3.85	3.84	3.85	3.91	4.05	4.00	4.32	4.48
10 years	4.13	4.12	4.13	4.20	4.32	4.29	4.51	-
15 years	4.32	4.33	4.34	4.45	4.46	4.52	4.74	-
20 years	4.41	4.42	-	-	-	-	5.01	-

Source : BAM

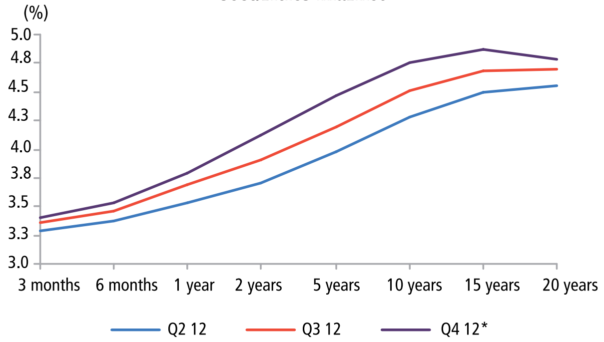
in the weighted average rate of bank loans, thus amounting to 6.35 percent. This increase concerned mainly rates on cash loans and, to a lesser extent, rates on consumer loans.

4.1.2 Money. credit and liquid investments

M3 growth

Moderation of money creation continued in October 2012 and resulted in further negative money surplus, indicating the absence of monetary inflationary pressures in the medium term.

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



**Observation of the fourth quarter of 2012 corresponds to the arithmetic average of data from October 1 to November 23. 2012*
Source : BAM

Table 4.2: Rates on time deposits

	2011				2012			oct. 12
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
6 months	3.28	3.34	3.33	3.35	3.49	3.43	3.49	3.55
12 months	3.79	3.72	3.78	3.74	3.84	3.83	3.83	3.86
Weighted average	3.60	3.55	3.63	3.59	3.68	3.69	3.71	3.73

Source : BAM

Box 4.1: Liquidity and monetary policy implementation

During the third quarter of 2012, bank liquidity deficit widened significantly by nearly 10.8 billion dirhams compared to the end of the previous quarter (from 62.4 billion to 73.2 billion dirhams), due to the combined restrictive effect of all autonomous factors (-18.3 billion dirhams), partially offset by a structural liquidity injection of 6 billion dirhams resulting from the decrease in the required reserve ratio from 6 percent to 4.33 percent.

Indeed, foreign exchange transactions led to a liquidity drain of 7.3 billion dirhams, owing to the continued faster pace of foreign currency purchases by commercial banks from Bank Al-Maghrib (18 billion dirhams), partially offset by the foreign banknotes reflow, which reached 10.7 billion dirhams.

Similarly, Treasury operations (excluding interventions on the money market) contributed to tightening bank treasuries for nearly 5.2 billion dirhams due to the difference between:

• On the hand, bank subscriptions to T-bills' auctions (25.9 billion dirhams) and the collection of tax revenues as well as receipts from the sale of State shares in the BCP (3.3 billion dirhams) and the second portion of OCP dividends (2 billion dirhams),
• on the other hand, the repayment of domestic debt maturities to the banking system (20.5 billion dirhams), and settlement of civil servants' salaries (16 billion dirhams) and subsidization expenses (10.6 billion dirhams).

In addition, net withdrawals of currency in circulation reached 5 billion dirhams during summer time.

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

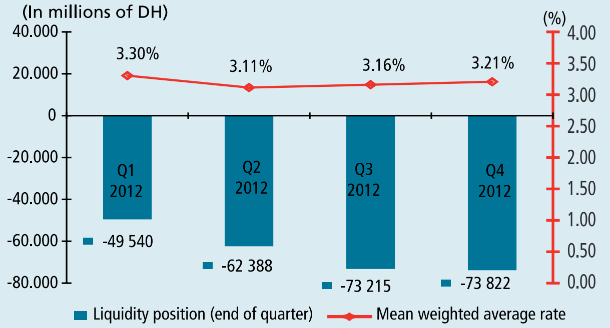


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market

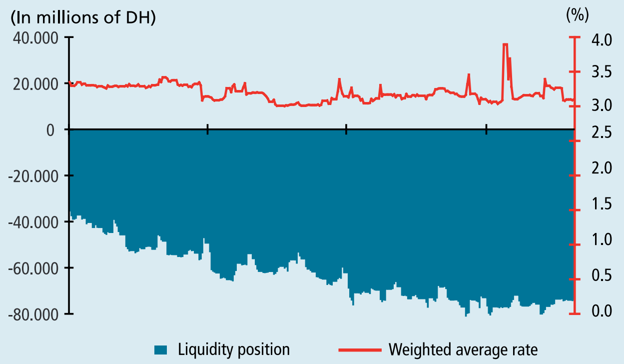


Chart B 4.1.3: Change in reserve requirements

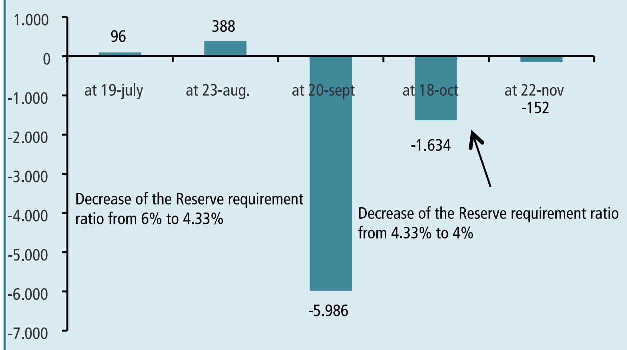
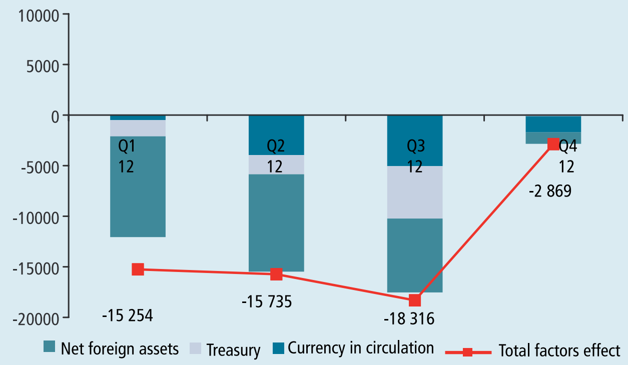


Chart B 4.1.4: Change in liquidity factors' effect



During the last quarter[1] of 2012 , the bank liquidity shortage remained almost at the same level registered at the end of the previous quarter (73.8 billion dirhams), as the restrictive impact of autonomous factors (2.9 billion dirhams) was offset by the structural liquidity injection (1.6 billion dirhams) following the decrease of the required reserve ratio from 4.33 percent to 4 percent.

Treasury operations (excluding interventions on the money market) had no impact on bank liquidity: the restrictive effect related to bank subscriptions to T-bills' auctions (23.8 billion dirhams) and collection of tax revenues, including the third installment of corporate tax was completely offset by the repayment of domestic debt maturities to the banking system (20.2 billion dirhams), settlement of subsidization expenses (8.4 billion dirhams) and payment of civil servants' salaries (5.3 billion dirhams).

In addition, the net outflow of currency in circulation reached 1.7 billion dirhams during Eid Al-Adha.

Similarly, foreign assets operations caused a liquidity drain of 1.1 billion dirhams from the difference between currency purchases by commercial banks, which totaled 5.8 billion dirhams, and foreign banknotes sales that reached 4.7 billion dirhams.

Outstanding money market Treasury investments increased due to the improvement of these revenues from 922 million dirhams in the third quarter to 2.1 billion dirhams on daily average during the last quarter of 2012.

To fill the shortage in bank liquidity, Bank Al-Maghrib intervened primarily through 7-day advances with an average daily amount of 57.5 billion dirhams, as against 56.9 billion dirhams in the previous quarter. In addition, the Bank provided liquidity by maintaining all outstanding long-term refinancing operations at 15 billion dirhams.

In addition, the Bank intervened secondarily through twelve 24-hour advances with an average amount of 3.1 billion dirhams, in response to the specific needs of commercial banks.

Money market weighted average rate was up 3.21 percent on average during this quarter, as against 3.16 percent in the third quarter of 2012.

Similarly, its volatility increased sharply to 20 basis points, as opposed to only 6 basis points in the previous quarter.

Chart B 4.1.5: BAM interventions on the money market

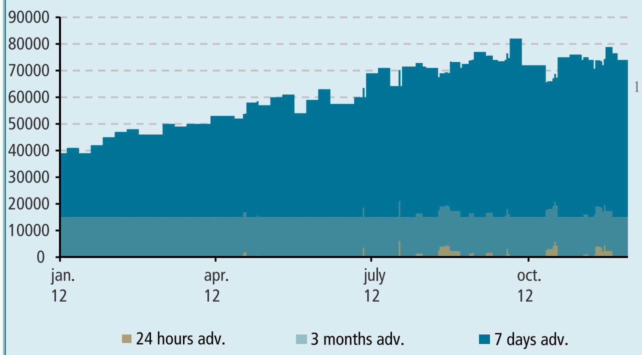
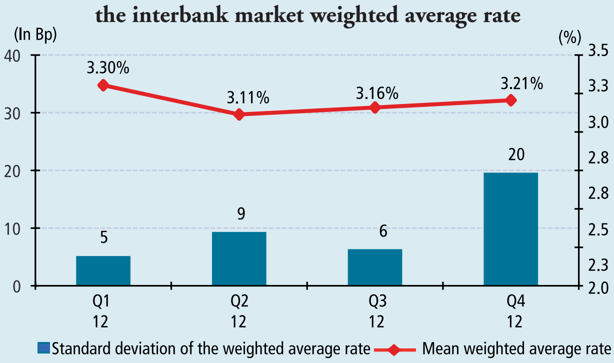


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



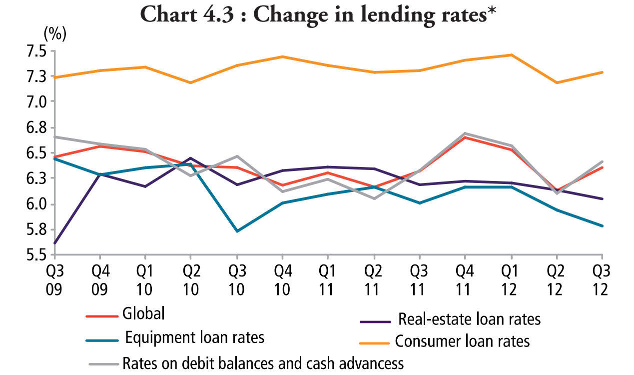
1 Q4 2012 : le fourth quarter of 2012 only includes the period from Octobre 1 to November 27, 2012

The M3 annual growth declined to 3.6 percent in October 2012, from 4.4 percent in the third quarter and 4.8 percent in the second quarter. This deceleration, which continues to reflect mainly lower net foreign assets and slower bank credit, covers divergent trends across the main components.

Indeed, after a monthly decline of 3.3 percent, the annual growth of bank money was limited to 3.8 percent in October, after 6.3 percent in the third quarter, reflecting both the contraction of demand deposits with banks and those with Morocco's General Treasury. Similarly, and despite a 4.9 percent monthly increase, the year-on-year growth of securities of money market UCITS slowed to 14.9 percent from 17.1 percent in the previous quarter, mainly due to a base effect. Time deposits showed an annual decrease of 5.7 percent, after that of 3.8 percent a quarter earlier, thus continuing the downtrend that began in November 2011. However, after a slower trend observed as of the fourth quarter of 2011, currency in circulation moved up 6.4 percent in October, as against 3.8 percent in the second quarter, largely as a result of the massive outflow recorded during Eid Al-Adha. Demand deposits and foreign currency deposits increased by 8.7 percent and 23 percent, respectively, as against 8.2 percent and 20.9 percent in the previous quarter.

By economic unit, the structure of deposits included in M3 aggregate shows a 6.9 percent year-on-year decline of those held by nonfinancial private corporations, thus contributing negatively to the growth of deposits. Similarly, assets of financial companies continued their downward trend observed over several quarters. In contrast, the annual growth of household deposits accelerated slightly from 5.3 percent in the third quarter to 5.6 percent in October, thus remaining the main contributors to the

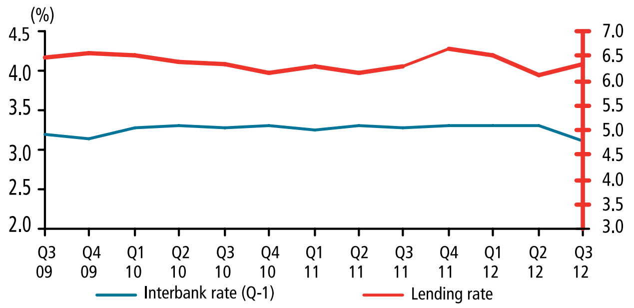
Chart 4.3 : Change in lending rates*



** 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)*

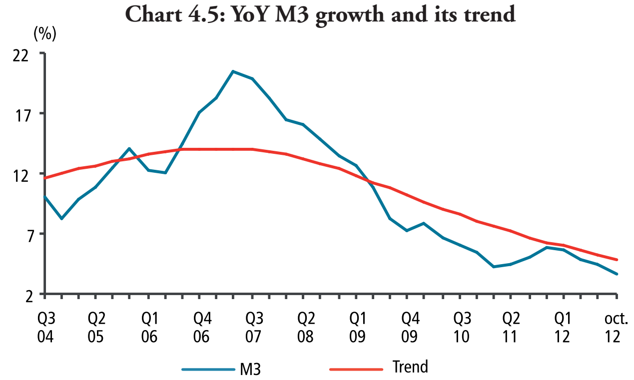
Source: BAM quarterly survey among banks

Chart 4.4: Change in interbank rate and lending rates



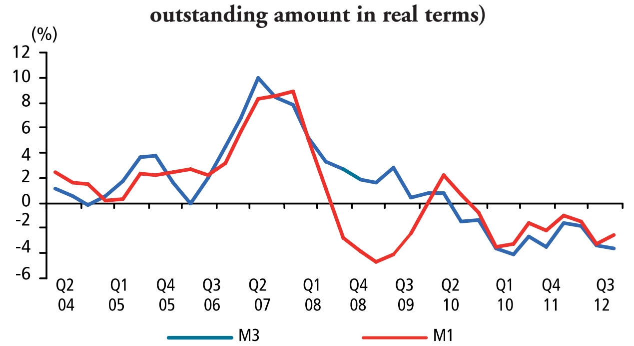
Source: BAM

Chart 4.5: YoY M3 growth and its trend



Source: BAM

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



Source: BAM

growth of deposits. The public sector assets, despite a decline of 10.4 percent month on month, rose 7.3 percent year on year, compared to 5 percent in the third quarter.

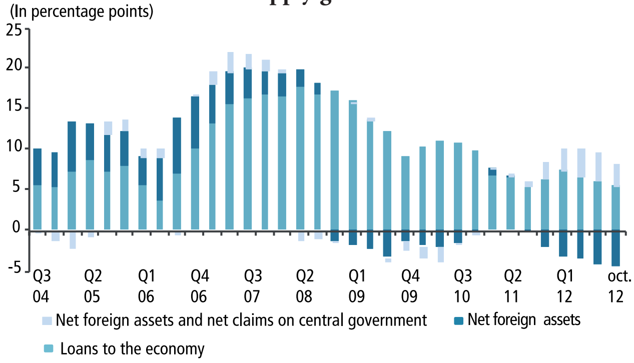
Credit

The latest available data show a slowdown in the annual growth of bank lending, which was 5.4 percent in October 2012, from 6.3 percent on average in the third quarter, thus standing at a level slightly below its long-term trend.

The analysis of bank credit by economic purpose indicates that this slowdown affected almost all of its categories. Indeed, the annual growth of cash advances, which declined by 2.5 percent from one month to the next, decelerated to 10.4 percent in October, from 11.2 percent in the third quarter, mainly as a result of the significant increase in lending rates on this loan category. At the same time, equipment loans contracted again by 1 percent year on year. However, this decline remains less important than that of 1.9 percent registered in the previous quarter. In addition, the annual growth of real-estate loans stood at 5.8 percent, from 7.1 percent a quarter earlier, reflecting both a deceleration in the growth of housing loans and a decrease in loans to property developers. The annual growth of consumer loans, although stagnating month on month, slowed to 11.1 percent in October, from 15.3 percent in the third quarter. Various claims on customers rose by 2.1 percent, year on year, as against 4.5 percent in the previous quarter. The annual growth of nonperforming loans rose to 8.6 percent from 7.8 percent in the third quarter.

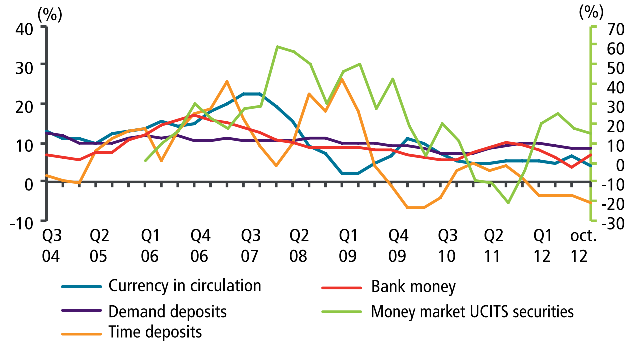
The breakdown of credit by institutional unit covers a slowdown in the annual growth of loans to the private sector

Chart 4.7: Contribution of the major components to money supply growth



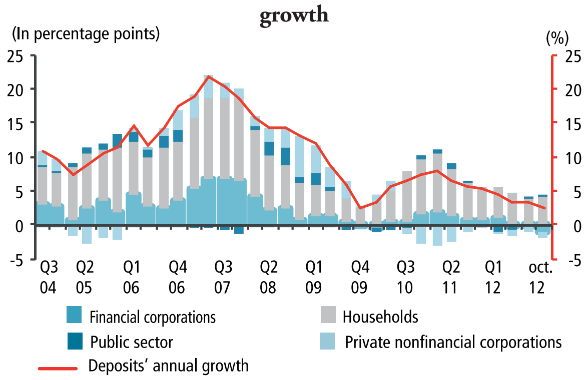
Source : BAM

Chart 4.8: YoY change in the major M3 components



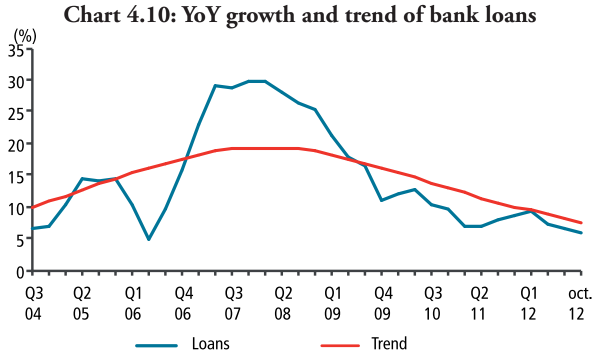
Source : BAM

Chart 4.9: Institutional sectors' contribution to total deposits' growth



Source : BAM

Chart 4.10: YoY growth and trend of bank loans



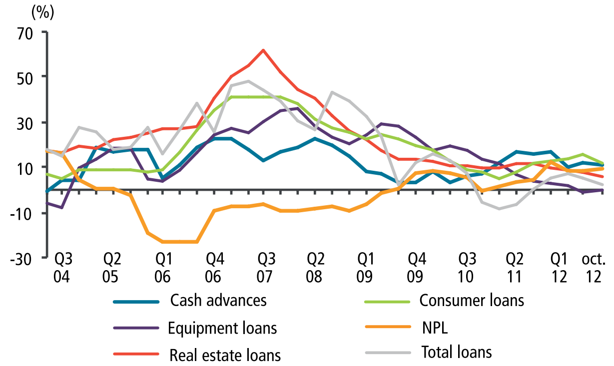
Source : BAM

and an acceleration of that of loans to the public sector. Indeed, loans to the private sector showed a monthly decrease of 0.8 percent and their annual growth slowed from 6.4 percent in the third quarter to 4.6 percent in October. This trend is mainly due to slower growth of loans to households and nonfinancial corporations. The latter recorded an annual growth of 2.8 percent in October as opposed to 5.5 percent in the previous quarter and thus their contribution to the bank credit growth fell to 1.4 percentage points from 2.7 points. Loans to households slowed between October and the third quarter from 8.3 percent to 7.6 percent, year on year, thus contributing 2.5 percentage points to the bank credit growth, as against 2.8 points and reflecting mainly the decline from 8.6 percent to 3 percent in the annual growth of loans to individual corporations. Similarly, although registering a monthly increase of 0.5 percent, the annual growth of loans to other financial corporations slowed to 0.5 percent in October from 1.2 percent on average over the last three months. In contrast, loans to the public sector expanded by 33.9 percent, year on year, as against 17.7 percent in the third quarter of 2012, thus contributing 1.6 points to overall credit change.

Other sources of money creation

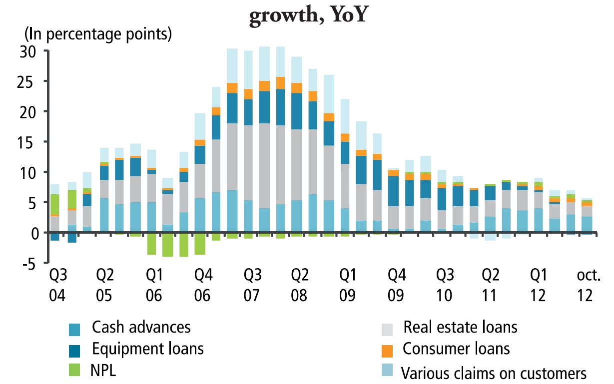
After showing an annual contraction of 22.1 percent in the third quarter, net foreign assets declined by 23.9 percent in October, thus continuing their downward trend observed since August 2011. This trend, which covers a decline of 21.9 percent of net foreign assets of Bank Al-Maghrib and a more than 100 percent of those of other depository institutions, is mainly attributed to the widening trade deficit and, to a lesser extent, lower travel receipts and transfers from Moroccans living abroad.

Chart 4.11: YoY growth of major bank loan categories



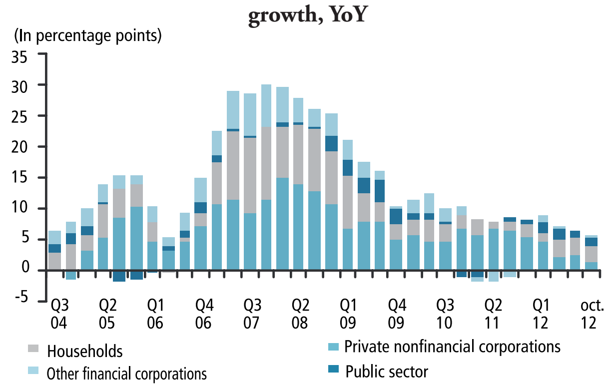
Source : BAM

Chart 4.12: Contribution of the various loan categories to credit growth, YoY



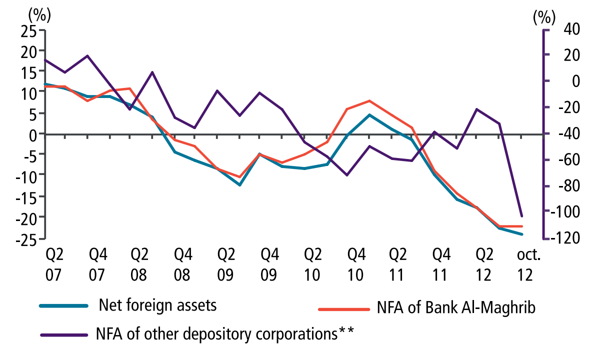
Source : BAM

Chart 4.13: Contribution of institutional sectors to credit growth, YoY



Source : BAM

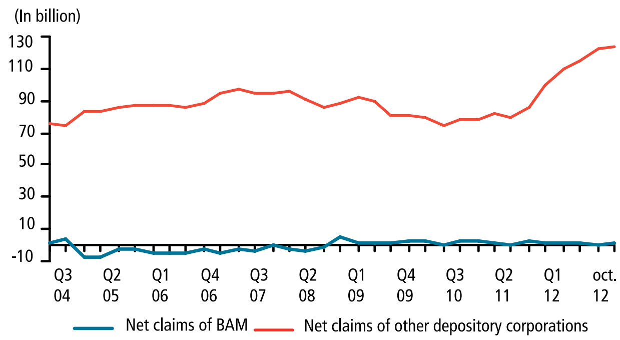
Chart 4.14: Annual growth of net foreign assets



Source : BAM

Net claims on central government rose by 29.8 percent in October, as against 40.9 percent in the previous quarter, covering slower growth in net claims of other depository institutions, while remaining high, and accelerated growth of claims of Bank Al-Maghrib.

Chart 4.15: Quarterly change in the outstanding amount of net claims on the central government



Source : BAM

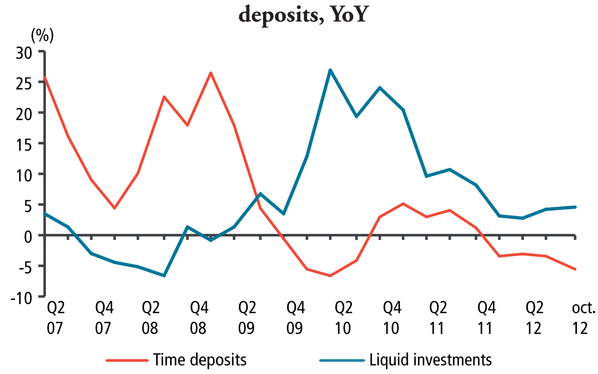
Liquid investments

In October 2012, liquid investment aggregates increased by 4.5 percent, year on year, as against 4.3 percent in the previous quarter, mainly reflecting an accelerated annual growth of the LI1 aggregate.

Indeed, despite a monthly decline of 2.9 percent, securities included in the LI1 aggregate increased by 7.8 percent in October, as against 6.7 percent in the third quarter, mainly in connection with the increase in marketable Treasury bonds. Similarly, the annual growth of bond UCITS securities included in the LI2 aggregate slowed from 4.9 percent in the previous quarter to 3.3 percent in October, mainly as a result of the depreciation of asset values, driven by higher Treasury bill rates.

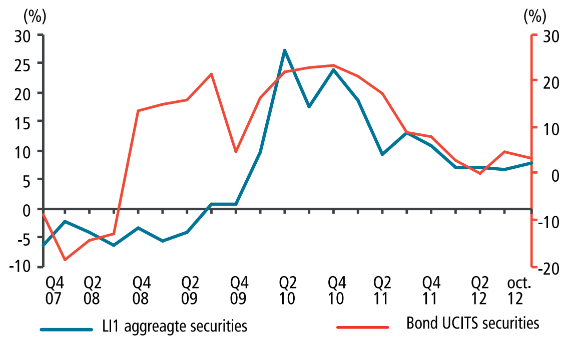
Securities of equity and diversified UCITS, which make up the LI3 aggregate, recorded a year-on-year decline of 12.6 percent, after 13.7 percent in the previous quarter, mainly reflecting the stock trends on the Casablanca Stock Exchange.

Chart 4.16: Annual change in liquid investments and time deposits, YoY



Source : BAM

Chart 4.17: YoY change in LI1 and LI2 aggregates

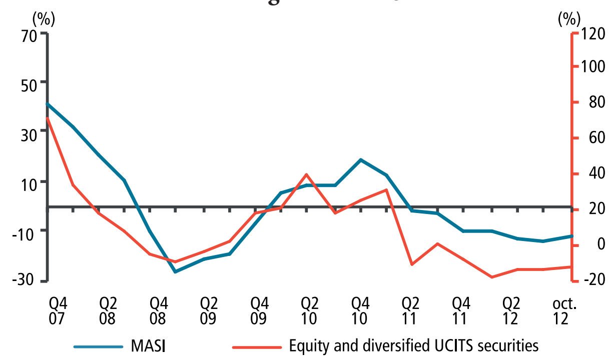


Source : BAM

Exchange rate

During the third quarter of 2012 and compared with the previous quarter, the national currency appreciated 0.45 percent against the euro. However, it depreciated 1.94 percent, 1.85 percent and 3.77 percent vis-à-vis the U.S. dollar, the pound sterling and the Japanese yen, respectively. In October and November, the dirham registered an average decrease of 0.56 percent against the euro and respective

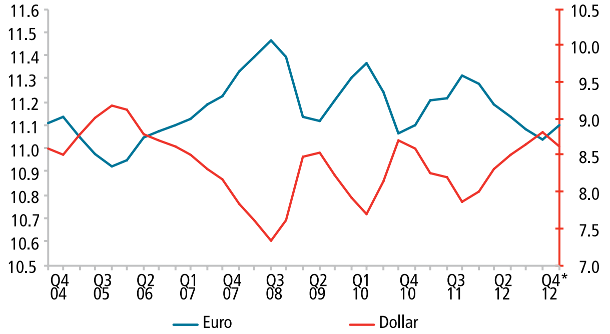
Chart 4.18: YoY growth of LI3 and MASI



Source : BAM and Casablanca stock exchange increases of 2.47 percent, 1.08 percent and 4.20 percent against the dollar, the pound sterling and the Japanese yen.

The nominal effective exchange rate of the dirham, calculated on the basis of bilateral exchange rates with Morocco's major trading partners and competitors, depreciated 0.21 percent in the third quarter. In real terms, the national currency appreciated 0.90 percent due to an inflation differential slightly in favor of major trading partners and competitors.

Chart 4.19: Exchange rate of the dirham



**Observation of the third quarter of 2012 corresponds to the arithmetic average of data from July 1 to August 31. 2012*

Source : BAM

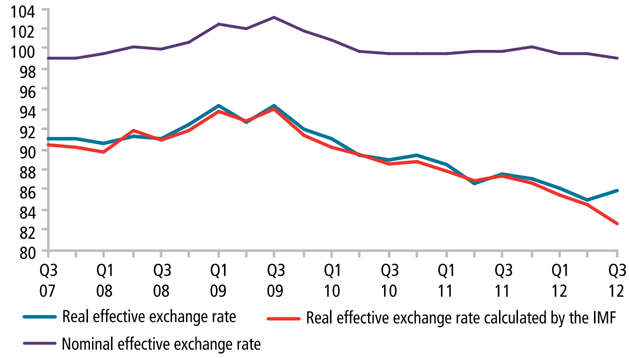
4.2. Asset prices

4.2.1 Real estate assets

In the third quarter of 2012, the decline in the prices of all real estate categories reflects a 0.7 percent quarterly drop in the real estate prices index, as against a 0.5 percent increase in the second quarter. However, year on year, it remained virtually unchanged, covering a 0.4 percent decrease in residential property prices, a 1.6 percent increase in land property prices and stagnation in commercial property ones. The largest decreases were observed in the regions of Doukkala-Abda, Rabat-Salé-Zemmour-Zaer and Souss-Massa-Draa, while increases were recorded in the regions of Chaouia-Ouardigha, Gharb-Chrarda-Beni Hssen, Fes-Boulmane and Marrakech-Tensift-El Haouz.

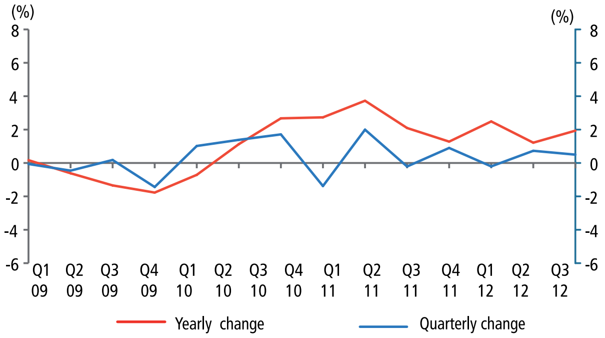
Property transactions, registered at the ANCFCC, fixed 35 days after the end of the third quarter, fell nearly 20 percent from one quarter to another and 11.8 percent year on year, thus standing at 22,443 transactions. This trend largely reflects a downward adjustment after a period of annual growth of nearly 12 percent on average in the fourth quarter of 2009 and the second quarter of 2012. However, the number of sales recorded remains higher than the average of 19,800 for the period 2006-2012.

Chart 4.20: Real and nominal effective exchange rate (2000=100)



Sources: IMF and BAM calculations

Chart 4.21: Real estate price index (REPI)



By structure, residential properties continue to represent nearly 70 percent of all property sales during the third quarter, with a predominance of apartments. Urban land account for approximately 24 percent of the domestic market, while the share of commercial property transactions stands at around 6 percent.

At the same time, housing loans, averaging 146.4 billion dirhams in the third quarter, grew 10.2 percent, year on year, a rate almost similar to 10.4 percent registered in the previous quarter.

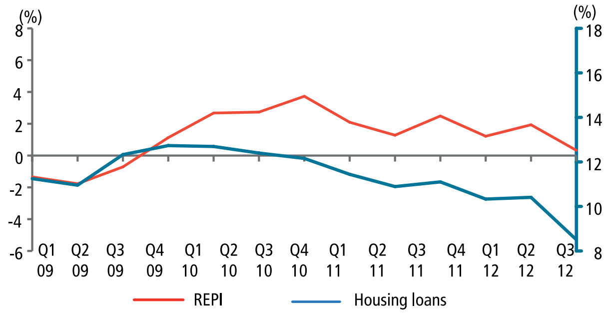
4.2.2 Share prices

In the third quarter of 2012, the MASI index continued its downward trend to a lower level of 5.8 percent compared to the previous quarter, and 14.1 percent compared to December 2011. In contrast, between October and November, it appreciated 1.5 percent, bringing its underperformance since the beginning of the year to 12.5 percent. More particularly, the share prices of real estate companies showed a monthly increase of 4 percent in November, as opposed to a decline of 2.6 percent in the previous month and nearly 7 percent in the second quarter. Also, their decline since the beginning of the year was slightly reduced to 9.6 percent.

Regarding other sectoral indexes, the share values index of finance companies and other financial activities rose by 4.8 percent since the beginning of the year. Conversely, other indexes recorded declines ranging from 0.4 percent for the agri-food sector to 37.1 percent for the oil and gas one.

The decline in prices between the second and third quarters led to a 5.8 percent contraction of the market capitalization, which stood at 444.8 billion dirhams. However, in October and November, it

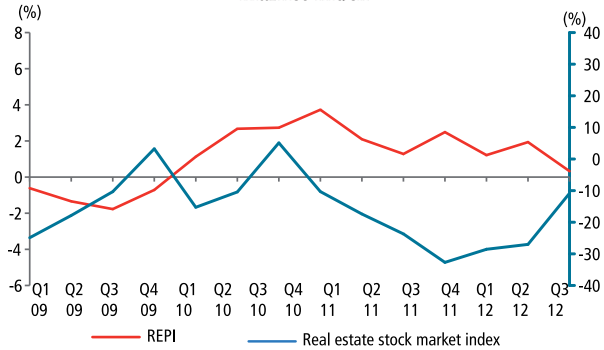
Chart 4.22: YoY change in the REPI and housing loans*



** Housing loans do not include loans to real estate developers*

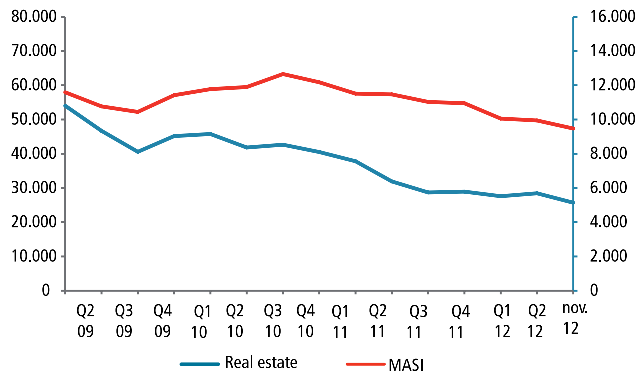
Sources: BAM and ANCFCC

Chart 4.23: YoY change in the REPI and the real estate stock market index



Sources: BAM, ANCFCC, and the Casablanca stock exchange

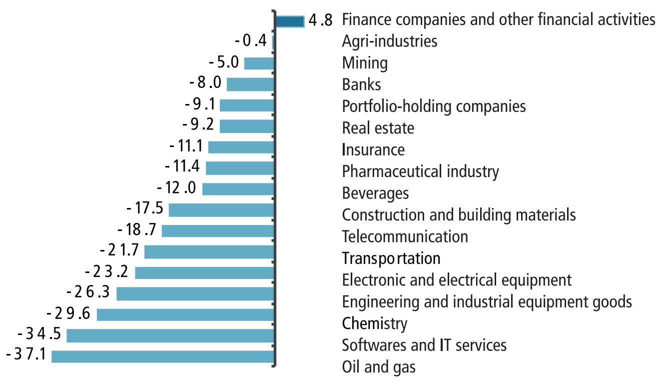
Chart 4.24: Stock market indexes*



** Data as at November 26, 2012*

Source: Casablanca stock exchange

Chart 4.25: Performance, since the beginning of the year, of sectoral indexes at end November 2012, in %



** Data as at November 26, 2012*

Source: Casablanca stock exchange

recovered by 1.6 percent and 1.3 percent, respectively, but remained down 10.4 percent compared to its level at end-December 2011.

In this context, the PER[1] of the Casablanca stock market stood at 15.6 in November, as against 14.9 in the third quarter, relatively higher compared to other markets of comparable size. The price-to-book ratio[2] was 2.6 at the end of the month and remained at a level higher than those reached in most sampled markets.

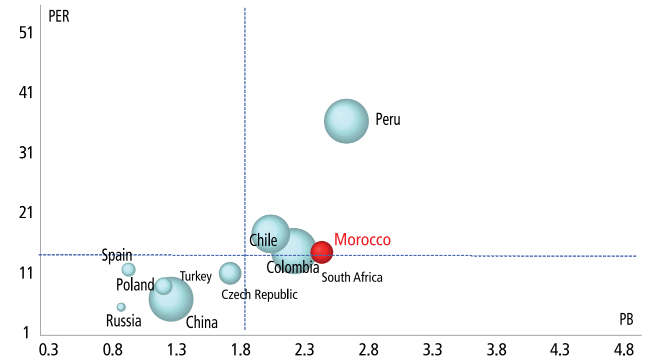
The overall volume of transactions in the third quarter amounted to 10.6 billion dirhams, as against 11 billion in the previous quarter. In October and November, it was around 6.8 billion, of which more than half is performed on the equity segment. Thus, the aggregate volume of transactions since the beginning of the year totaled only 44 billion dirhams, while it had reached nearly 84 billion over the same period of the previous year.

Table 4.3: Equity market valuation

PER	Q1 :11	Q2 :11	Q3 :11	Q4:11	Q1:12	Q2:12	Q3:12	Nov. 12
				PER				
Argentina	13.6	11.2	9.8	8.5	9.0	7.2	7.1	6.7
China	13.0	11.3	8.4	7.5	9.0	7.1	7.1	7.6
Mexico	15.1	13.4	12.5	13.5	17.7	16.6	18.4	18.6
Turkey	11.5	11.8	10.2	10.1	11.2	9.5	11.2	11.1
Morocco	**16.6**	**16.1**	**16.9**	**16.3**	**15.1**	**14.2**	**14.9**	**15.6**
				PB				
Argentina	2.6	2.4	2.2	1.8	1.82	1.3	1.27	1.16
China	1.7	1.8	1.4	1.3	1.6	1.32	1.32	1.49
Mexico	2.6	2.5	2.4	2.5	2.7	2.63	2.76	3.04
Turkey	1.7	1.7	1.5	1.5	1.62	1.52	1.79	1.92
Morocco	**3.5**	**3.4**	**3.9**	**3.1**	**3.1**	**2.9**	**2.5**	**2.6**

Sources : Datastream, CFG

Chart 4.26: Stock market valuation in Morocco and in some emerging countries (*) in the third quarter of 2012



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

Sources: Datastream, CFG, and BAM calculations

1 *PER : Price Earnings Ratio 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*

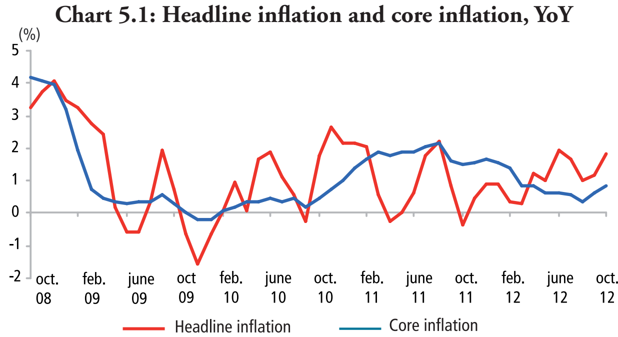
5. RECENT INFLATION TRENDS

Data on consumer prices in the third quarter and in October 2012 show a trend in line with the analyses and forecasts made in the previous Monetary Policy Report (MPR). Thus, headline inflation, measured by the year-on-year increase in the consumer price index (CPI), rose from 1 percent in August to 1.2 percent in September and 1.8 percent in October, averaging 1.3 percent in the third quarter and 1.2 percent in the first ten months of the year. Excluding volatile food and regulated products, core inflation (CPIX) stood at 0.8 percent, from 0.6 percent in September and 0.4 percent in August, thus averaging 0.8 percent between January and October 2012. Its absolute deviation from headline inflation widened again from 0.5 percentage points between August and September to 1 point in October, due to a 5 percent increase of excluded volatile food prices, as against 1.4 percent. At the same time, recent developments in core inflation cover a slightly slower growth of prices of tradables (CPIXT) and an accelerated growth of prices of nontradables (CPIXNT). Thus, in connection with a slightly lower inflation in key partner countries, the prices of tradables grew by 1.3 percent in October as opposed to 1.5 percent in September, while those of nontradables (CPIXNT) showed a positive growth of 0.3 percent for the first time since February 2012. Industrial producer prices continue to reflect trends in world commodity prices, registering a year-on-year change of 4.7 percent in October as against 6.6 percent in September and 3.5 percent in August.

5.1 Inflation trends

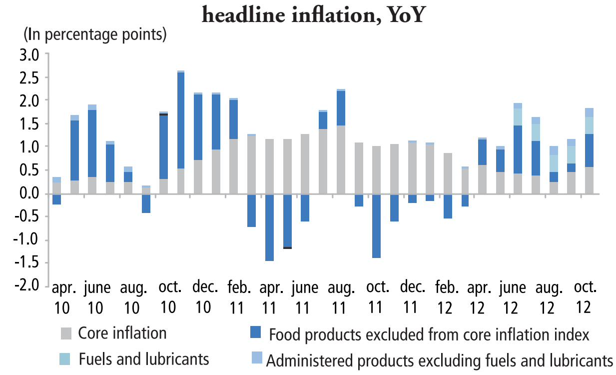
Headline inflation, measured by the increase of CPI, rose again from 1 percent in August to 1.2 percent in September and 1.8 percent in October, averaging 1.2 percent over the first ten months of the year. This recent inflation trend is mainly due to the sharp increase of 5 percent in "volatile food" prices, compared to 1.4 percent, due to a base effect, as core inflation showed a limited growth. Regulated products' prices grew at an unchanged pace (Table 5.1). Regarding volatile food prices, the largest increases concerned mainly "fresh vegetables' with 16.9 percent, "chicken and rabbit", "eggs" and "unprocessed cereals" with 4.7 percent, 13.8 percent and 11.8 percent, respectively. Excluding these products and regulated goods and services, core inflation (CPIX) amounted to 0.8 percent in October from 0.6 percent in September and 0.4 percent in August, bringing its average to 0.8 percent in the first ten months of the year. This increase in the CPIX is due to the partial dissipation of the effects of the one-off decline in prices of "telephony and fax services", totaling -18.5 percent in

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations

Chart 5.2: Contribution of the main components' prices to headline inflation, YoY



Sources: HCP, and BAM calculations

September, as against -30 percent in August 2012. It is also due to higher prices of "rents actually paid by tenants" from 0.5 percent in September to 0.7 percent in October and "pre-school and primary education" fees from 4.9 percent to 8.2 percent. The prices of other CPIX components showed changes similar to those observed in the previous month, especially regarding the headings of "food included in the CPIX", "restaurants and hotels" and "furniture, household appliances and routine household maintenance" (Table 5.1).

Moreover, the absolute gap between headline inflation and core inflation widened again to 1 percentage point, from 0.6 points in August and 0.5 in September 2012, owing to rising excluded food prices.

5.2 Tradable and nontradable goods

Price analysis by tradable and nontradable goods shows that the core inflation trend continues to be impacted to a large extent by the price momentum of nontradables.

Indeed, after successive declines during the last seven months, prices of nontradables rose annually in October 2012 to 0.3 percent from -0.4 percent in September and from -1.3 percent in August, bringing its average to -0.6 percent since the beginning of the year. This trend mainly reflects slower decline in the prices of "telephony and fax" services, due to the dissipation of the base effect due to their decline in September of last year, as well as rising rent prices and pre-scholl and primary school fees. Similarly, the inflation of tradables continues its slower trend that started since June 2012, from 1.5 percent to 1.3 percent between September and October 2012, averaging 2 percent over the ten first months of the year, as against 2.4 percent during the same period of last year. By component, the main price changes affected the "cereal products" with

Table 5.1: Inflation and its components

	Monthly change (%)			YoY change (%)		
	Aug. 12	Sept. 12	Oct. 12	Aug. 12	Sept. 12	Oct. 12
Headline inflation	**0,7**	**0,2**	**0,3**	**1,0**	**1,2**	**1,8**
Including:						
- Volatile food products excluded from core inflation	3,9	0,3	0,4	1,4	1,4	5,0
- Fuels and lubricants	0,0	0,0	0,0	16,8	16,8	16,8
- Administered goods excluding fuels and lubricants	0,1	0,0	0,0	1,0	1,0	1,0
Core inflation	**0,1**	**-0,3**	**0,3**	**0,4**	**0,6**	**0,8**
Including:						
- Food products	0,3	-0,1	0,3	1,8	1,6	1,6
- Clothing and footwear	0,5	0,0	0,1	2,0	1,6	1,2
- Housing. water. gas. electricity and other fuels*	0,0	0,0	0,2	1,0	0,9	1,0
- Furniture. household appliances and common house maintenance	0,0	-0,1	-0,1	-0,1	-0,3	-0,3
- Health*	0,0	0,0	0,0	2,3	2,3	2,3
- Transportation*	0,3	-0,2	-0,3	1,3	1,0	0,4
- Communication	0,0	0,0	0,0	-26,5	-16,0	-16,0
- Entertainment and culture	0,1	0,0	0,2	0,9	0,9	0,7
- Education	0,0	3,3	2,8	3,0	3,6	6,1
- Restaurants and hotels	0,0	0,2	0,3	1,4	1,3	1,4
- Miscellaneous goods and services	0,0	0,0	0,2	1,6	0,5	0,6

** Excluding administered goods*

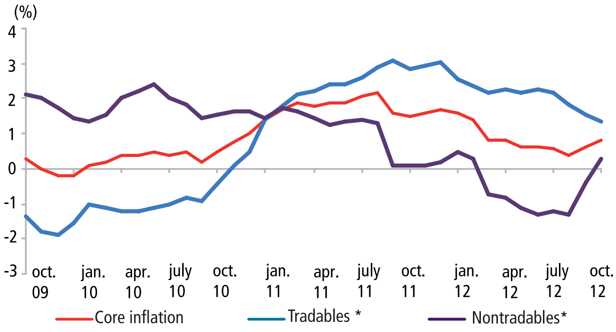
Sources: HCP, and BAM calculations

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	Apr. 2012	May 2012	June 2012	July 2012	Aug. 2012	Sept. 2012	Oct. 2012
Premium gasoline	10,18	10,18	12,18	12,18	12,18	12,18	12,18
Diesel 50	7,15	7,15	8,15	8,15	8,15	8,15	8,15
Industrial fuel (Dh/Ton)	3 678	3 678	4 666	4 666	4 666	4 666	4 666

Source : Ministry of Energy and Mining

Chart 5.3: YoY change in price indexes of tradables* and nontradables*



** Excluding volatile food products and administered goods*

Sources: HCP, and BAM calculations

1 percent as opposed to 1.1 percent, "oils" with 4.9 percent as against 5.7 percent and "passenger cars" with 0.4 percent versus 0.2 percent. Contributions of tradables and nontradables prices to core inflation stood respectively 0.7 and 0.1 percentage points in October, as against 0.8 and -0.2 points, respectively, in September 2012.

5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that the recent momentum in inflation was affected largely by dynamic unprocessed goods and, to a lesser extent, service prices.

Indeed, prices of unprocessed goods rose by 3.2 percent as against 1 percent in September, contributing 0.7 percentage points to inflation. Service prices continued their ongoing upward trend since June, from 0.3 percent in September to 0.7 percent in October, contributing 0.2 percentage point to the increase of the overall index. Prices of processed goods, excluding fuels and lubricants, maintained the same annual growth rate recorded a month earlier; that is, 1.2 percent, while it continued to decline since July. The contribution of this category of goods to overall inflation stood at 0.5 percentage points in October, while it was negative between February and August (Table 5.5).

5.4 Industrial producer price index

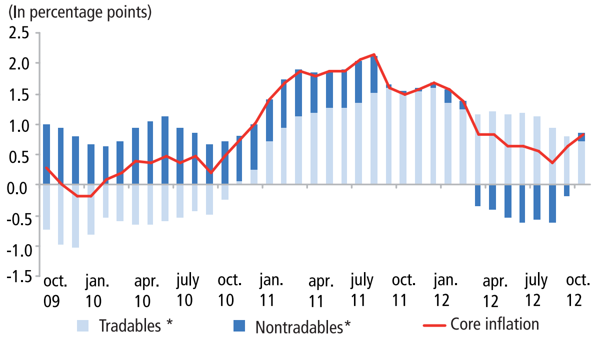
Industrial producer prices continued to reflect recent trends in global commodity prices, particularly energy ones. Thus, after having registered a monthly increase of 3.3 percent in August and 2.5 percent in September, the producer price index recorded a monthly decline of 1.0 percent in October 2012. This trend is largely due to the prices of the coking and refining industry, which fell 3.0 percent after

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

	Monthly change (%)			YoY change (%)		
	Aug. 12	Sept. 12	Oct. 12	Aug. 12	Sept. 12	Oct. 12
Tradables*	0,1	0,0	0,1	1,8	1,5	1,3
Nontradables*	0,3	0,4	0,7	-1,3	-0,4	0,3

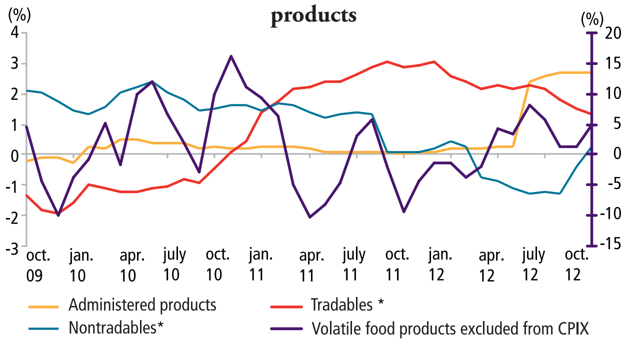
** Excluding volatile food and administered products*
Sources: HCP, and BAM calculations

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



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

Chart 5.5: 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 5.4: Contribution of tradables* and nontradables* prices to headline inflation

	Monthly contribution to inflation		YoY contribution to inflation	
	Sept. 12	Oct. 12	Sept. 12	Oct. 12
Products excluded from core inflation index Including:	0,1	0,1	0,7	1,2
Administered products	0,0	0,0	0,5	0,5
Volatile food products	0,0	0,1	0,2	0,7
Tradables*	0,0	0,0	0,5	0,5
Nontradables*	0,1	0,2	-0,1	0,1

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

rising 6.3 percent in September and 10.4 percent in August, with a contribution of -1.1 percentage point to the decline in the overall index. Excluding coking and refining, the producer price index did not change significantly, standing at 0.1 percent in October, as opposed to 0.4 percent in September, driven by a 0.3 percent increase of prices in "food industries", which more than offset the 0.1 percent decrease of the production costs in the "metal work" branch.

Year on year, growth of the overall index was limited to 4.7 percent in October from 6.6 percent in September, in conjunction with a slower growth of prices of the coking and refining industry from 16.5 percent to 11.2 percent. The non-refining index stood at 1.5 percent, as against 1.7 percent a month earlier.

5.5 Inflation expectations

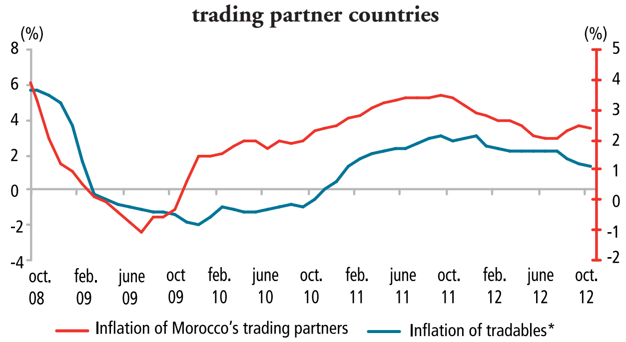
Based on the results of BAM business survey in October 2012, industrial producer prices are set to decline over the next three months1. Indeed, the percentage of corporate managers expecting a decline rose significantly from 4 percent in September to 29 percent in October, its highest level since October 2009, while 15 percent of respondents anticipate an increase, with a balance of opinion of -14 percent (Chart 5.11).

Meanwhile, the percentage of corporate managers expecting stagnation declined from 88 percent in September to 56 percent in October, its lowest level since January 2010.

In addition, the survey results show that inflation would continue to moderate over the next three months. Thus, the

1 *The expectations horizon of BAM business survey for October 2012 includes November, December 2012 and January 2013.*

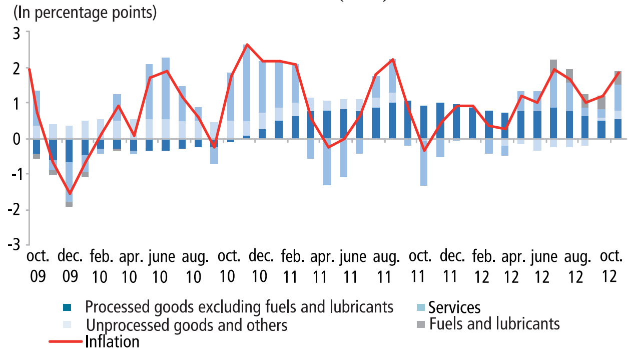
Chart 5.6: YoY change in inflation of tradables* and inflation in trading partner countries



** Excluding volatile food and administered products*

Sources: HCP, IFS, and BAM calculations

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



Sources: HCP, and BAM calculations

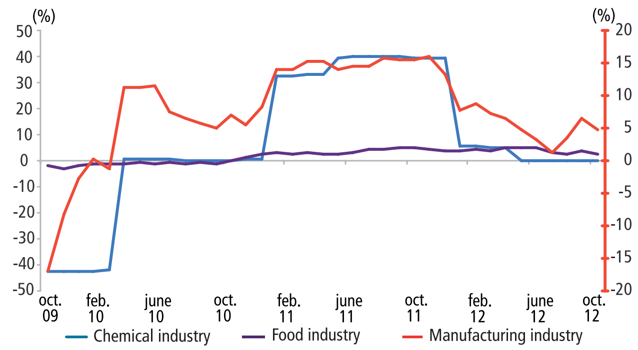
Table 5.5: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	Aug. 12	Sept. 12	Oct. 12	Aug. 12	Sept. 12	Oct. 12
Processed goods*	0,1	0,0	0,2	1,5	1,2	1,2
Unprocessed goods and others	2,8	0,0	0,2	0,9	1,0	3,2
Services	0,1	0,5	0,5	-0,8	0,3	0,7
Fuels and lubricants	0,0	0,0	0,0	16,8	16,8	16,8

** Excluding fuels and lubricants*

Sources: HCP. and BAM calculations

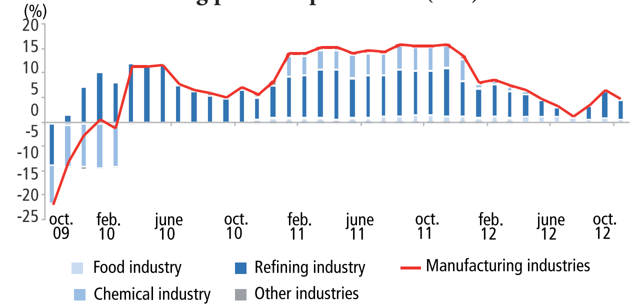
Chart 5.8: YoY change in industrial producer price indexes



Sources: HCP. and BAM calculations

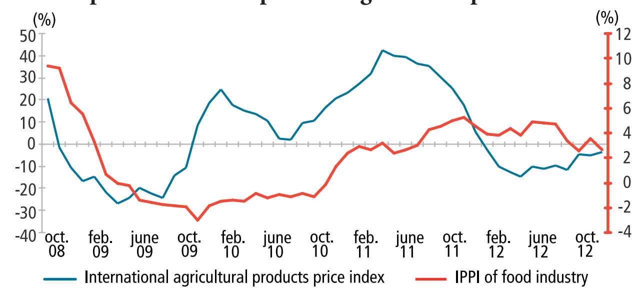
percentage of corporate managers anticipating an increase fell to 21 percent in October, while it averaged 29 percent during the last three months. Meanwhile, the percentage of corporate managers expecting stagnation moved to 72 percent, a higher percentage compared to the 66 percent registered during the last three months (Chart 5.12).

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



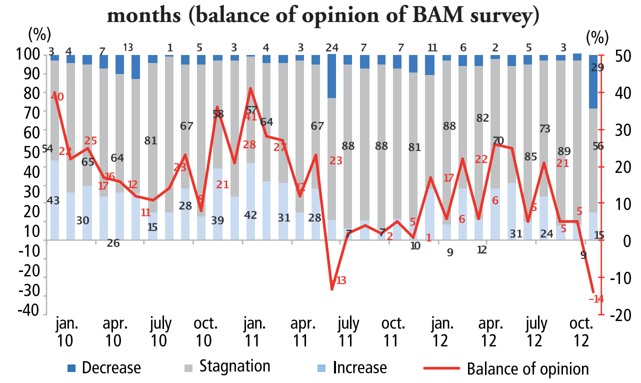
Sources: HCP. and BAM calculations

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



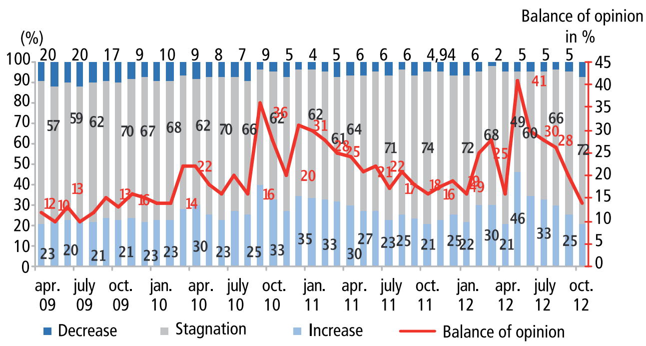
Sources: World Bank. HCP. and BAM calculations

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 trends envisaged for a series of variables affecting economic activity and inflation. Assuming the non-realization of the major risk factors identified, the inflation trend over the coming six quarters remains consistent with the price stability objective, with an average forecast of 1.7 percent, a level slightly lower than expected in the last Monetary Policy Report (2 percent). Over the year 2012, inflation should be around 1.2 percent. For 2013, average inflation rate is expected to stand at 1.7 percent. Assuming that fuel prices at the pump would stabilize at their current level, set at 8.15 DH per liter, the balance of risks to this forecast exercise is broadly at equilibrium, due to uncertainties surrounding the change in non-energy commodity prices and growth in partner countries.

6.1 Baseline scenario assumptions

6.1.1 International environment

In line with the analysis published in the September MPR , global economic growth remains hampered by the crisis intensity in Europe despite the good momentum of the U.S. economy that has consolidated for several quarters. Emerging markets continue to be affected by both the slowdown in international trade and domestic pressures, including mainly the declining government investment, rising interest rates and weaker confidence of corporate managers.

The continued recession in the euro area during the third quarter is due to weak private consumption owing to the still sluggish consumer spending. Similarly, industrial activity indicators, excluding construction, generally point to a decline in investment. Meanwhile, the construction sector suffers from persistent funding constraints and further adjustments in this market in several countries of the area. It is worth noting that despite an unfavorable international situation, net exports registered a positive, albeit moderate,ngrowth.

The good performance of the U.S. economy is due to the combination of several favorable factors. Indeed, household spending and government expenditure significantly contributed to growth in the third quarter. Also, private residential investment showed a good momentum in connection withfa rebound in real-estate developers' confidence following risingehome prices. However, the unfavorable trend of the trade balance and the households' real disposable income tempered change in activity.

In addition, accommodatiing policies enacted by the ECB through Outright Monetary Transactions (OMT) and by the Fed to launch a new series of mortgage repurchases had a positive impact on financial markets. However, uncertainties surrounding the ability of governments to restore fiscal sustainability and viability of financial institutions in the eurozone peripheral countries continue to exacerbate weaknesses in the international financial sphere.

With respect to the labor market, the latest available statistics show persistently high unemployment in the euro area and a slight decline in the United States.tThis indicator rose slightly in the euro area to 11.6 percent in September from 11.5 percent in August, while it decreased by 0.3 percent in the United States from 8.1 percent to 7.8 percent. In key partner countries, the unemployment rate stagnated at 5.4 percent in Germany between August and September, while it increased slightly in France (from 10.7 percent in August to 10.8 percent in September), Italy (from 10.6 percent in August to 10.8 percent in September) and Spain (from 25.5 percent in August to 25.8 percent in September).

All of these developments weighed on activity in the euro area, which underwent a recession of 0.6 percent over the third quarter, as against -0.5 percent a quarter earlier. This contraction is mainly due to slower growth in Germany (0.9 percent as against 1 percent in the second quarter), sluggish growth in France (0.1 percent in the second and third quarters) and continued recession in Italy

(-2.4 percent in the third quarter), in Spain (-1.6 percent) and in eurozone peripheral countries, particularly Greece (-7.2 percent) and Portugal (-3.4 percent). The U.S. economy registered a growth rate of 2.5 percent, slightly up from 2.1 percent in the second quarter of 2012.

Regarding the outlook, the International Monetary Fund, in its October report, projects for 2012 respective growth rates of 2.2 percent and -0.4 percent for the United States and the euro area. For the year 2013, these rates stand at 2.1 percent and 0.2 percent, respectively. Compared to the figures reported in the MPR of September, projections about the U.S. economy were not radjusted significantly, while those for the euro area were significantly revised downward in 2013 (a difference of -0.5 percent).

Downside risks to the economic activity rose in recent months. In the short term, sworries about the worsening of the sovereign debt crisisy in the euro area, the sustainability of U.S. public finances and the increase in oil prices are the main sources of concern.

In the medium term, the ballooning of central banks' balance sheets, following multiple asset purchase transactions, could increase money creation and fuel inflationary pressures. In addition, high levels of sovereign debt could lead to higher tax rates and interest rates that the increase in risk premiums would entail. Ultimately, growth prospects would deteriorate significantly if these risks materialized.

Under these conditions, the weighted growth rates of major trading partners (Germany, Spain, France, Italy and the United Kingdom) assumed in this forecast exercise are -0.7 percent for this year, -0.3 percent for 2013 and 1.1 percent for 2014. Compared to those projected in the September MPR (-0.5 percent in 2012 and 0.2 percent in 2013), these assumptions were revised downward in line with the further recession in the euro area. It should be noted that this growth rate is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

With regard to price trends in the euro area, inflation stabilized at 2.6 percent in August and September before declining moderately in October to 2.5 percent (Eurostat flash estimate), in connection with the falling prices of energy and non-energy industrial goods. The ECB expects, in its latest bulletin of November, inflation rates of 2.5 percent for 2012, 1.9 percent for 2013 and 1.7 percent for 2014.cCompared to the figures reported in the last MPR, a slight upward revision was made (2.3 percent and 1.7 percent for 2012 and 2013).

Risks to inflation trends in the euro area remain broadly balanced. Indeed, the possible increase in indirect taxes due to the need for fiscal adjustments is offset by the projection ofa weaker-than-expected economic growth.

With regard to the three-month Euribor, the baseline scenario of this forecast assumes an average rate of 0.19 percent for the last quarter of the year. This rate should stagnate in the first half of 2013 before increasing gradually to 0.24 percent, on average, in the second half of the year. In the first quarter of 2014, an average rate of 0.31 percent is expected.

Finally, estimates of non-energy import prices, included in forecast models developed by Bank Al-Maghrib, project a decline in the fourth quarter of 2012. This trend should continue through 2013.

6.1.2 National environment

After a sharp slowdown in economic activity in 2012, growth prospects of the national economy point to a renewed dynamism in 2013. The latter would be driven by a recovery of agricultural activities and an uptrend of the nonagricultural component. Indeed, the favorable performance of this component is due to the continued dynamic domestic demand and the positive pattern of foreign demand prompted by the slight upturn in activity in the euro area.

The 2012-2013 crop year started in favorable conditions, with a cumulative rainfall up 50 percent at end-October 2012 compared to the same period of the previous year. These conditions should have positive effects on the vegetation cover and the filling rate of farm dams. Similarly, the current crop year should benefit from support measures undertaken as part of the Green Morocco Plan, particularly supplying the market with fertilizers, providing subsidized cereal seeds and pursuing the national water saving program. Under these conditions, the baseline scenario assumes an average cereal production of 68 million quintals. Regarding the 2013-2014 crop year, and given the lack of forecasts, the assumption of an average cereal production is maintained.

Nonagricultural activity is expected to show a positive trend in 2013, mainly driven by the consolidation of domestic demand components. In this respect, household final consumption should return to stronger growth rates, in connection with improved income, inflation-control and continued growth of consumer loans. In particular, the expected improvement of the crop year wouldetrigger a rebound in rural household consumption. With regard to public investment, the State would continue to support economic activity, with planned capital expenditures of 47.5 billion dirhams or nearly 5.2 percent of GDP, according to forecasts by the Finance Act 2013.

Under these conditions, the nonagricultural value added should continue its favorable momentum during 2013. Overall, Bank Al-Maghrib projects an overall growth rate between 4 percent and 5 percent.

In addition, the latest data on the labor market for the third quarter of 2012 indicate an increase in the national unemployment rate, which stood at 9.4 percent, compared to 9.1 percent in the previous year. By place of residence, the urban unemployment rate worsened by 0.5 percent, from 13.5 percent to 14 percent, while a virtual stagnation is registered in the rural unemployment rate, which rose slightly from 4.1 percent to 4.2 percent over the same period.

Regarding the latest employment trends, 56,000 jobs were created. They were generated mainly by services and agriculture, with the creation of 124,000 and 19,000 new jobs, respectively. In contrast, the sectors of "industry including crafts" and construction suffered losses of 41,000 and 40,000 jobs, respectively.

Concerning employment prospects in the industrial sector, BAM's quarterly business survey shows a virtual stagnation of the workforce employed in all industries for the current quarter. Indeed, these prospects should not weigh on future change in salaries and no increase in the minimum wage is anticipated within the framework of the baseline scenario. Therefore, a minimum wage of 12.24 dirham/hour is assumed over the forecast horizon.

Finally, in a context marked by a mixed recovery of global demand coupled with increased risks of geopolitical tensions in the Middle East, the IMF, in its October report, revised upward its price per barrel forecasts from $101.8 to $106.18 in 2012 and from $94.16 to $105.10 in 2013. In the same vein, the World Bank expects oil prices to stand ate $105.8 in 2013 and $106.5 in 2014. As such, subsidy expenses planmed under the Finance Act 2013, based on an average price of $105 a barrel and standing at 40 billion dirhams (4.4 percent of GDP), should continue to exert pressure on the fiscal deficit. However, the central scenario of this forecast exercise assumes the diesel pump price to remain at 8.15 dirhams per liter.

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 to stand at 1.7 percent, a level slightly below the average projected in the last MPR, which stood at 2 percent. Inflation forecast for 2012 showed an average rate of around 1.2 percent, a level similar to that provided in the previous exercise (1.4 percent). In 2013, inflation should stand at 1.7 percent as against 1.9 percent expected in the last MPR. Finally, in the first quarter of 2014, the inflation rate should stand around 1.5 percent (Table 6.1).

These projections are based on assumptions deemed most probable. However, there are several sources of uncertainty stemming from both the future development of the exogenous variables as well as forecasting models, which may affect the inflation rate 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 projection (Chart 6.1).

Overall, the fan chart of this forecast exercise is broadly balanced, involving an equal probability that inflation would deviate from the central forecast. This trend arises from uncertainties surrounding non-energy commodity prices and foreign demand for Morocco. The materialization of one or more of these risks could cause the inflation rate to deviate from the central forecast, at a value within the forecast range represented on the fan chart (with a probability of 90 percent).

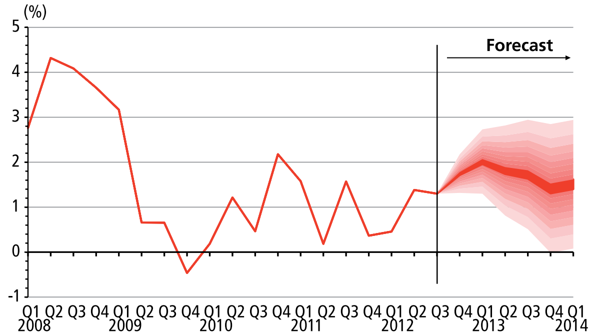
Table 6.1: Inflation outlook for 2012 Q4 –2014 Q1

	2012	2013				2014	Average		HP*
	Q4	Q1	Q2	Q3	Q4	Q1	2012	2013	
Central forecast (%)	1,7	2,0	1,8	1,7	1,4	1,5	1,2	1,7	1,7

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2012 Q4 – 2014 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 headline inflation would fall within the range delimited 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 headline inflation would fall within this range in the future.

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277. Avenue Mohammed V - B.P. 445 - Rabat

Phone: (212) 5 37 57 41 04 /05 37 57 41 05
Fax: (212) 5 37 57 41 11
E mail: deri@bkam.ma

www.bkam.ma