BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 21 / 2011

Document prepared for
the Bank Board
December 20, 2011

Monetary Policy Report

Document prepared for
the Bank Board

December 20, 2011

بنك المغرب

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

TABLE OF CONTENTS

LIST OF CHARTS

LIST OF TABLES

LIST OF BOXES

بنك المغرب

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 20, 2011

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, December 20, 2011.

2. The Board considered recent economic, monetary and financial trends, as well as inflation forecasts up to the first quarter of 2013.

3. The Board noted that inflation remained moderate, in line with the assessment made at its September meeting. Year-on-year headline inflation reached 0.5 percent in November, from -0.4 percent in October and 0.8 percent in September. Meanwhile, core inflation, which reflects the underlying trend in prices, was at 1.6 percent in November, compared with 1.5 percent in October and 1.6 percent in September. Industrial producer prices continued to grow rapidly on a year-on-year basis, reaching 15.4 percent in October, after 15.5 percent in September and 15.9 percent in August, because of the still high commodity prices in international markets.

4. Internationally, growth forecasts were revised downward in most countries, and the risks of recession in our main partner countries have increased significantly. Indeed, national accounts results of the third quarter 2011 and the latest indicators of labor and credit markets report further deterioration of economic activity, which would be more pronounced in the euro area. The latter's lack of progress in public finance has led to a crisis of confidence, coupled with the downgrading of the sovereign ratings of several countries and many financial institutions. These developments suggest easing external inflationary pressures in the coming quarters and lower foreign demand to Morocco.

5. Nationally, despite the broadly positive trend in external accounts indicators to the end of November, particularly receipts from transfers of Moroccans living abroad, some signs are emerging of the spreading impact of economic slowdown in partner countries. This is mostly reflected in the gradual deceleration, for several months now, in the growth rate of travel revenues and exports excluding phosphate and derivatives. Under these circumstances, overall and nonagricultural GDP growth for the full year 2011 was slightly revised downward, now ranging between 4 and 5 percent instead of 4.5 to 5.5 percent previously. In 2012, overall growth is also forecast in the range of 4 to 5 percent. Altogether, unless conditions in our major trading partners worsen further, nonagricultural output gap would be close to zero in the coming quarters, indicating the absence of demand-led inflationary pressures.

6. Analysis of monetary developments to the end of October 2011 shows increases in money supply and credit, which expanded at a year-on-year rate of 5.3 percent and 7 percent, respectively, compared with 5.1 percent and 7.5 percent in the third quarter. At the same time, money gap remained negative, suggesting again the absence of inflationary pressures. For the full year, bank credit is expected to grow between 7 and 8 percent, a level close to its long-term trend.

7. Based on all these elements, the central inflation forecast seems consistent with the price stability objective. At the end of the forecast horizon (first quarter of 2013), headline inflation is projected at 2.1 percent. The average forecast for 2012 would be at 1.5 percent, while that of 2011 was revised down from 1.3 percent to 1 percent. Core inflation should remain subdued, not exceeding 2 percent at the end of the forecast horizon.

8. In this context where the central inflation forecast is permanently consistent with the price stability objective and the balance of risks is tilted to the downside, in conjunction with international developments, the Board decided to keep the key rate unchanged at 3.25 percent.

9. The Board also discussed the three-year budget projections and approved the budget of fiscal 2012.

10. The Board agreed on the following schedule for its meetings in 2012:

March 27, 2012

June 19, 2012

September 25, 2012

December 18, 2012

OVERVIEW

In line with the analyses and forecasts published in the September 2011 Monetary Policy Report (MPR), the change in consumer prices remained moderate. This trend is due to the continued fall in the prices of foodstuffs, after the one-off rise registered in August, and to the significant decrease in the prices of some services. Year-on-year inflation was even negative in October, at -0.4 percent compared to 0.8 percent in September and 2.2 percent in August, bringing its average to 1.6 percent in the third quarter and 0.9 percent over the first ten months of 2011.

Core inflation, reflecting the underlying trend of prices, was at 1.5 percent in October, down from 1.6 percent in September and 2.2 percent in August. This trend reflects a slowdown in the growth rate of nontradable prices to 0.1 percent in September and October, tradables having registered a higher rate of 2.9 percent in October, in connection with the still-relatively high commodities and consumer prices worldwide.

At the same time, fluctuations in world commodity prices continue to stimulate manufacturing producer prices, the annual year-on-year hike of which reached 15.4 percent in October, slightly down compared to 15.5 percent and 15.9 percent in September and August, respectively.

At the international level, financial conditions were marked by new tensions in the last quarter of 2011, mainly in connection with the impact of the sovereign debt crisis in the euro area, which was intensified by the deteriorating economic situation and weakening confidence in advanced economies. National accounts for the third quarter of 2011 and the latest high-frequency indicators confirm the slowdown of growth in these economies and, to a lesser extent, in emerging Asian countries. They also show that unemployment will stay high in industrialized countries. In turn, the projections of the different national and international financial institutions show important downward revisions of 2011 and 2012 growth forecasts as well as the increase of uncertainties surrounding the normalization of financial conditions and recession risks especially in the euro area. Against this background, global commodity prices trended downwards overall in November, staying above their levels a year ago, while inflationary pressures ebbed more markedly in advanced economies.

At the national level, indicators of foreign transactions in November remain positive all in all, with yet some signs indicating the spread of the effects of the economic situation in partner countries. Travel receipts slowed to 4.5 percent year on year and, to a lesser extent, the growth rate of nonphosphate exports dropped to 8.9 percent. In parallel, nonenergy imports went up 15.6 percent. As to transfers from Moroccans residing abroad, they go on increasing, with a 7.9 percent rise.

Against this backdrop, nonagricultural output gap, which is relevant for the assessment of inflationary pressures, would have been close to zero in the third and fourth quarters of the year. Growth estimates for the year 2011 as a whole, for both overall and nonagricultural GDP, were slightly revised downwards, to a level between 4 and 5 percent, compared to 4.5 and 5.5 percent earlier. In 2012, overall growth would also stand in the same range, between 4 percent and 5 percent.

Regarding monetary conditions, data do not indicate significant changes in the year-on-year growth rate of money supply, at 5.3 percent at end-October 2011 compared to 5.1 percent in the third quarter, indicating that the monetary gap would stay negative. Meanwhile, credit growth edged down from 7.5 percent to 7 percent, mainly reflecting a slowdown in the growth rate of cash advances and equipment loans. As to lending rates, Bank Al-Maghrib's survey of banks for the third quarter of 2011 show a 16-basis point rise in the average weighted rate of credit, pushed up essentially by the increase of rates on cash advances and consumer loans. As to the index of real-estate prices, it gained 0.8 percent year on year in the third quarter, compared to 2.2 percent in the second quarter. This trend masks an increase of 2.1 percent in the prices of residential and commercial property and a dip of 1.7 percent in land property.

Based on all these elements, inflation over the next six quarters should remain broadly in line with the price stability goal. At the end of the forecast horizon, the first quarter of 2013, headline inflation is projected at 2.1 percent whereas it would average 1.4 percent over the same horizon.

Compared with the previous forecast (MPR of September 2011), headline inflation during the year 2011 was revised down from 1.3 percent to 1.0 percent, following the one-time fall in the prices of some services, as well as the higher-than-expected downward adjustment of volatile foodstuffs in September and October. In 2012, headline inflation is expected at 1.5 percent on average. The balance of risks surrounding the central forecast is tilted to the downside, in connection with the difficulties observed in the international environment.

1. AGGREGATE SUPPLY AND DEMAND

Between the first and second quarter of 2011, national growth slowed down from 5 percent to 4.2 percent, mainly as a result of the deceleration from 4.8 percent to 4.2 percent in the growth rate of nonagricultural value added. In addition to the decrease of net foreign demand, this trend is due to the decline in the growth pace of households consumption from 6.3 percent to 5.4 percent, the impact of which was only partially offset by the accelerating growth of public consumption and the gross fixed capital formation. During the second half-year, growth is not expected to vary significantly compared to the first six months, ranging between 4 percent and 5 percent on average for overall and nonagricultural GDP alike. Domestic demand is due to rise at rates similar to those registered since the beginning of the year, whereas the contribution of foreign demand should remain negative. Taking account of the adverse effects of the development of global activity, especially in Europe, prospects for national growth in the very short-term were thus slightly revised down. As a result, overall and nonagricultural GDP are now forecast to stand between 4 percent and 5 percent compared to 4.5 percent and 5.5 percent, previously. Beyond this horizon, forecasts of weak performances in the different partner countries, as well as risk factors surrounding them, should significantly impede the momentum of national economic growth, directly through exports and indirectly through domestic demand components. As to pressures on prices, analyses indicate that they would remain subdued during the coming quarters.

1.1 Output

In the first half of 2011, national growth was at 4.6 percent, masking a 4.2 percent rise in the agricultural value added and a 4.6 percent increase in the nonagricultural one. The latter reflects a positive growth in all branches except "hotels and restaurants" and "fishing", which were down 3.7 percent and 1.9 percent, respectively, in the second quarter.

In the second half of 2011, and in case the increased risks to the continued rise in partner countries' GDP do not materialize, the analysis of the recent trend shows that national growth would range between 4 percent and 5 percent (see Chart 1.1), with an increase close to 4 percent in the agricultural value added and standing between 4 percent and 5 percent in nonagricultural value added (see Chart 1.2). The value added of the secondary sector is projected to go up at a stable rate of about 3.4 percent in the second half-year, contributing 0.8 percentage point to overall growth. This trend would result from a slight rise in all branches, except extractive industries the growth of which would remain weak compared to the levels of 2010 and the first quarter of 2011. The growth of OCP's market production did not exceed 5.7 percent at end-September 2011, compared to 60.6 percent in the same period of the year before, whereas exports of phosphates

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

Activity sectors, in%	2009		2010				2011			
	QIII	QIV	QI	QII	QIII	QIV	QI	QII	$QIII_E$	QIV_F
Agriculture	26.3	32.3	0.6	-3.4	0.0	-3.6	3.7	4.6	3.8	3.9
Nonagricultural VA	**0.1**	**5.5**	**6.0**	**4.4**	**4.3**	**2.3**	**4.8**	**4.2**	**4.5**	**4.7**
Extractive industry	-21.9	14.0	74.7	51.3	23.3	18.8	13.7	2.3	2.1	2.3
Processing industry	-0.3	3.9	1.8	1.7	3.2	4.5	2.7	2.3	3.2	3.2
Electricity and water	3.1	7.6	5.1	8.7	9.3	5.6	2.3	6.2	5.4	4.0
Construction	0.9	7.1	5.9	3.7	1.4	-0.3	2.5	3.0	3.3	4.2
Trade	-2.1	4.3	2.8	-0.5	3.6	-7.0	3.8	4.1	4.3	5.2
Hotels and restaurants	0.1	2.9	8.8	8.0	8.7	6.8	7.5	-3.7	-1.9	-1.0
Transportation	2.6	5.5	11.7	6.7	6.2	4.4	5.5	4.3	4.6	4.8
Post and telecommunication	3.9	1.1	2.1	2.6	3.4	9.6	7.7	10.5	6.9	6.7
General government and social security	9.7	8.8	4.4	3.2	2.3	1.7	6.2	7.4	7.6	7.7
Other services*	2.7	3.8	5.0	4.1	4.2	2.7	4.8	4.8	4.8	4.9
Taxes on products net of subsidies	6.5	5.1	6.8	6.6	6.5	7.0	7.9	3.6	4.7	4.9
Nonagricultural GDP	0.9	5.5	6.1	4.7	4.6	2.9	5.2	4.1	4.6	4.8
Gross domestic product	**3.9**	**8.9**	**5.4**	**3.6**	**3.9**	**2.0**	**5.0**	**4.2**	**4.4**	**4.6**

(*) 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 and derivatives were up 34.2 percent as against 86.7 percent.

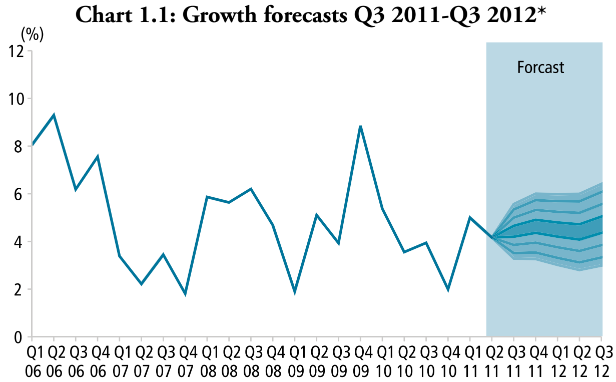
As to activity in processing industries, many indicators suggest a relative improvement, the October business survey of Bank Al-Maghrib having shown an increase in industrial output and sales (see Chart 1.6). Similarly, capacity utilization rate reached 74 percent, higher than the relatively low level registered in August and September. Despite these improvements, stocks of finished goods are still considered higher than their normal level and overall orders lower than usual. On the very short run, professionals expect a rise of economic activity on the whole, with output and sales continuing to rise.

Moreover, sales of high- and medium-voltage electricity in the third quarter improved slightly. All in all, the value added of the "electricity and water" branch would have registered a favorable trend in the third quarter of 2011, with a growth of about 5 percent, as demonstrated by the 5.1 percent rise, at end-September, in the net production of the National Electricity Office (ONE), the 7.5 percent increase in total sales and the 23.9 percent hike in net electricity exports.

The branch of building and public works apparently continues its gradual upturn, the sector's indicators having preserved their uptrend overall. Sales of cement gained 8.7 percent at end-September compared with 0.6 percent a year ago, whereas real-estate loans posted a hike of 11.1 percent at the end of October 2011, concealing a rise of 11.3 percent in housing loans and 9.7 percent in loans to real-estate developers (see Chart 1.7). However, indicators of employment in this sector worsened anew, with a net loss of 6,000 job posts in the third quarter, mainly in the rural area. Overall, activities in building and public works are projected to rise at around 3 percent in the third quarter of 2011 and 4 percent in the fourth one.

Concerning services, the value added of the tertiary sector is forecast to grow at

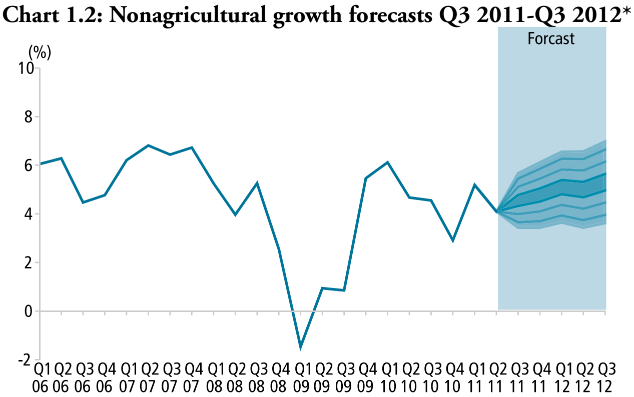
Chart 1.1: Growth forecasts Q3 2011-Q3 2012*



(*) Fan chart based on the standard deviation

Sources: HCP, and BAM forecasts and estimates

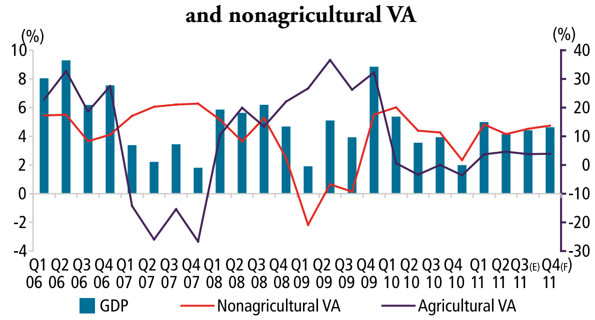
Chart 1.2: Nonagricultural growth forecasts Q3 2011-Q3 2012*



(*) Fan chart based on the standard deviation

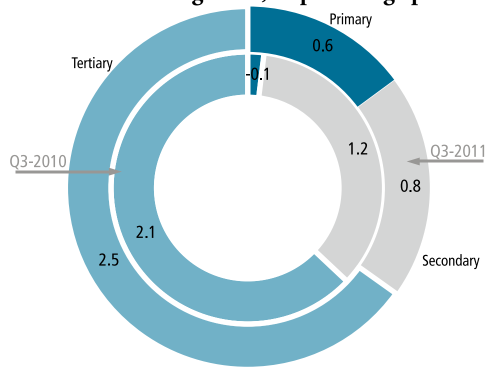
Sources: HCP, and BAM estimates and forecasts

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



Sources: HCP, and BAM forecasts

Chart 1.4: Contribution of the primary, secondary and tertiary sectors to overall growth, in percentage points



Sources: HCP, and BAM calculations and forecasts

5.2 percent in the second half-year of 2011, a level close to that of the first six months. This trend would result from the good performance of all branches, except "hotels and restaurants".

The branch of post and telecommunication is expected to grow at 6.8 percent in the third quarter of 2011, as demonstrated by the rapid growth, at end-September, of the number of mobile phones and the significant rise in internet subscribers. Transportation value added is due to move up steadily in the third quarter of 2011, on the back of the good trend in the other branches. In the same line, trade is expected to grow at around 4 percent in the third quarter of 2011.

The value added of the "hotels and restaurants" branch is forecast to fall again, though at a lower rate than that registered in the first half-year (see Table 1.1). The latest available indicators show a decline of 4 percent in tourist arrivals during the third quarter of 2011, overnight stays and travel receipts having also decreased by 5 percent and 2 percent, respectively.

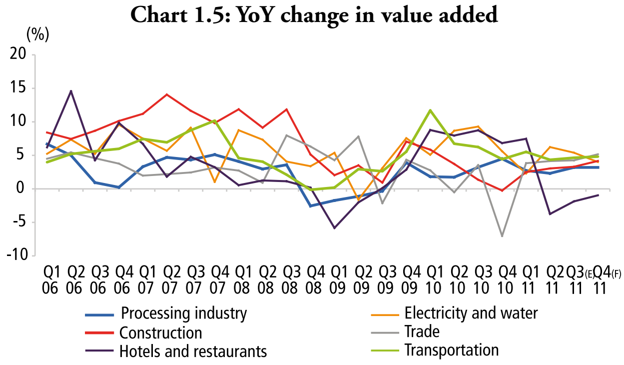
For the year as a whole, growth forecasts, made in the last MPR (see the MPR of September 2011) were slightly revised down, indicating a rise between 4 percent and 5 percent in both nonagricultural and overall GDP.

1.2 Consumption

In the second quarter of 2011, national domestic final consumption increased at a rate similar to that of the first quarter, standing at 5.2 percent as against 5.4 percent. This change masks a slowdown of growth in households consumption, from 6.3 percent to 5.4 percent, and a rise in public consumption from 2.1 percent to 4.4 percent.

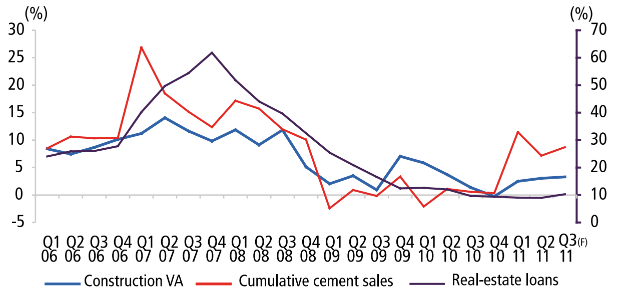
During the next quarters and in case of non-materialization of risks surrounding some determinants, especially those depending on the development of income

Chart 1.5: YoY change in value added



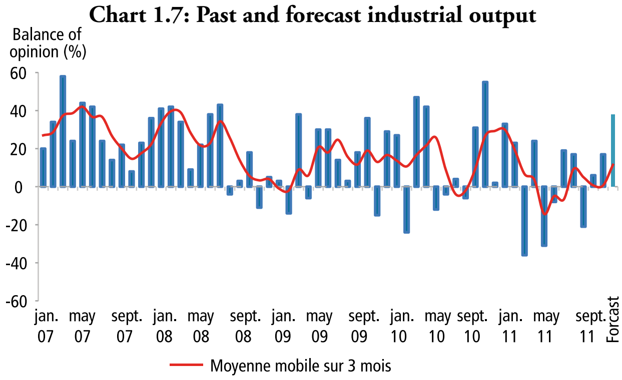
Sources: HCP, and BAM forecasts

Chart 1.6: YoY change in the construction sector's value added, cement cumulative sales and real-estate loans



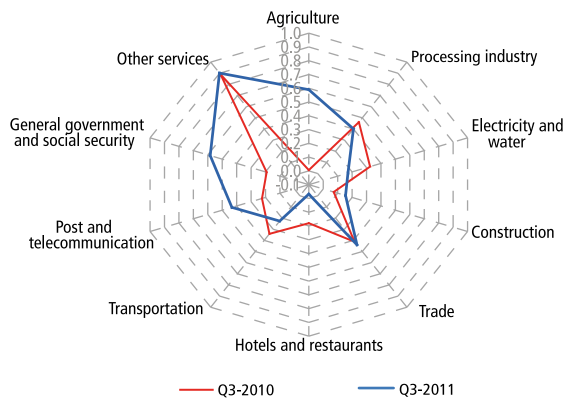
Sources: APC, BAM and BAM forecasts

Chart 1.7: Past and forecast industrial output



Source: BAM monthly business survey in the industry

Chart 1.8: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations in main partners, national consumption should keep its momentum.

Against a backdrop of subdued inflationary tensions, the main coincident and advanced indicators of household consumption continue to post an overall favorable trend, especially the index of private sector wages, up 5.3 percent in real terms, and that of households› confidence, 7.9 points higher year on year at the end of the third quarter of 2011. This quarter was also marked by the net creation of 120,000 new paid posts, compared with the same period of the previous year, after a net loss of 83,000 posts in the second quarter.

Additionally, at the end of October 2011, transfers of Moroccan migrants increased by 8.8 percent (see Chart 1.10) and imports of finished consumer goods by 10.3 percent. At the end of the same month, consumer loans were up 11.2 percent.

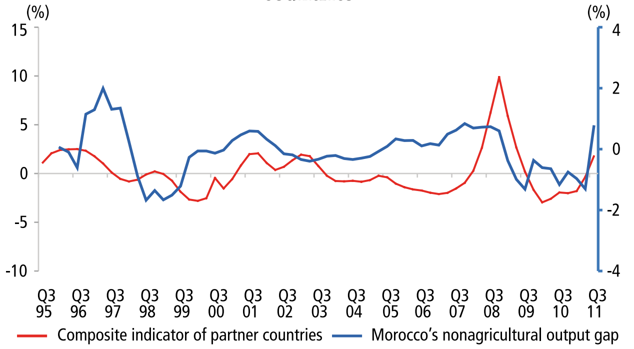
As concerns public consumption, the available data show an increase of 4.5 percent in the Treasury›s operating expenses, pushed up by a rise of 11.4 percent in the wage bill, while expenses for other goods and services were down 9.8 percent at end-October.

1.3 Investment

After falling by 8.6 percent in the fourth quarter of 2010, investment would have significantly revived in 2011, as can be seen from the increase of the gross fixed capital formation, up from 3.8 percent to 4.4 percent between the first and second quarter.

Based on recent data, investment is not expected to slow down during the second half-year. The quarterly results of the monthly business survey made by Bank Al-Maghrib indicate that 94 percent of polled businesses consider that the social climate is "calm" and that capital expenditure has trended up. Business climate is judged favorable on

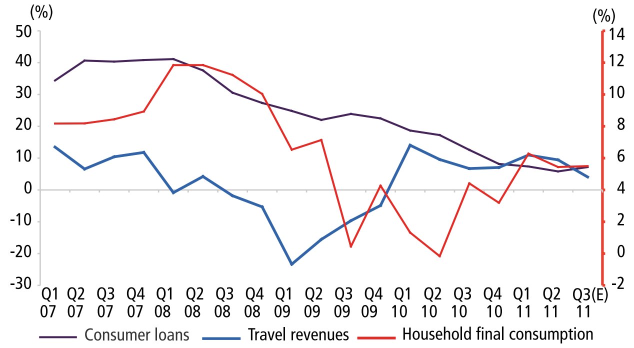
Chart 1.9: Weighted composite leading indicator of partner countries*



**The weighted composite indicator of partner countries is based on the cyclical component of the OECD composite leading indicators in Morocco's main partner countries (France, Spain, Germany and Italy), weighted by the share of these countries in Morocco's exports.*

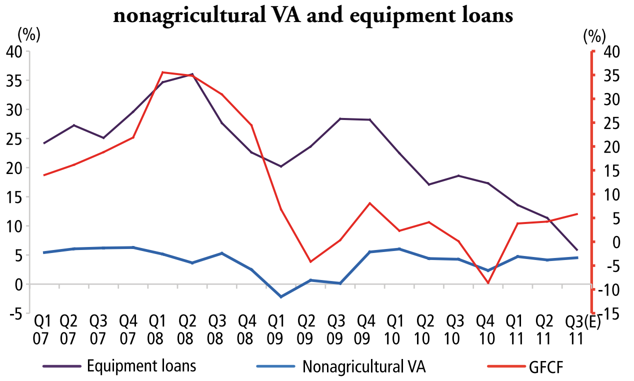
Sources: OECD, and BAM calculations

Chart 1.10: YoY quarterly change in household final consumption, consumer loans and travel revenues



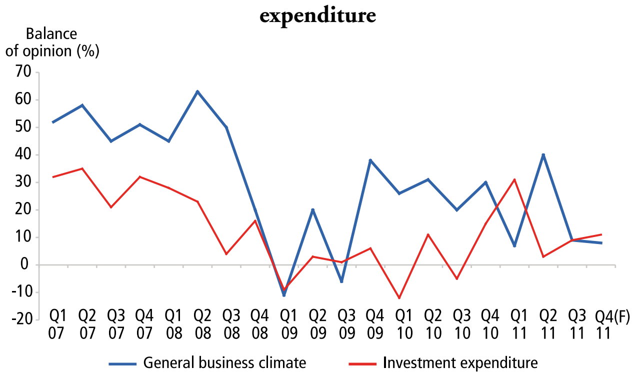
Sources: HCP, and BAM forecasts and calculations

Chart 1.11: YoY quarterly change in total investment, nonagricultural VA and equipment loans



Sources: HCP, and BAM forecasts and calculations

Chart 1.12: Change in general business climate and investment expenditure



Source: BAM monthly business survey in the industry the whole, except for chemical and para-chemical industries (see Chart 1.11). At the very short term, industrials foresee a continued increase of investment.

On the other hand, equipment loans were up 2.8 percent and imports of finished industrial capital goods went up 2.9 percent at end-October 2011, with a 10.5 percent rise in imports of "machines and miscellaneous goods" (see Charts 1.12).

Moreover, it is worth-mentioning that the 2012 Doing Business Report has underlined the progress made by Morocco as regards business regulation, making the country the one with the most remarkable improvement in 2011. As a result, Morocco gained 21 positions in this ranking compared with the previous year, standing at the 94th rank now.

As concerns public administration, the Treasury's capital expenditure however fell by 2.4 percent at the end of October, resulting in a realization rate of 70.2 percent compared to the 2011 Finance Act.

1.4 Foreign trade

Data available at the end of November 2011 show a continued rise in exports. However, the trade deficit worsened further year on year, in connection with the higher increase of imports.

In fact, at the end of the eleven first months of the year, the trade balance posted a deficit of 166.5 billion dirhams, up 24.1 percent compared to the same period of the previous year, as against a decrease of 0.7 percent a year ago. This trend is due to the rise of 19.7 percent or about 53 billion in imports, more rapid than that of 15.4 percent or 20.7 billion in exports. Import-export coverage rate thus stood at 48.2 percent.

The improvement of exports is due to the 35.8 percent hike in the sales of phosphates and derivatives, as well as to the 8.9 percent increase in exports excluding phosphates

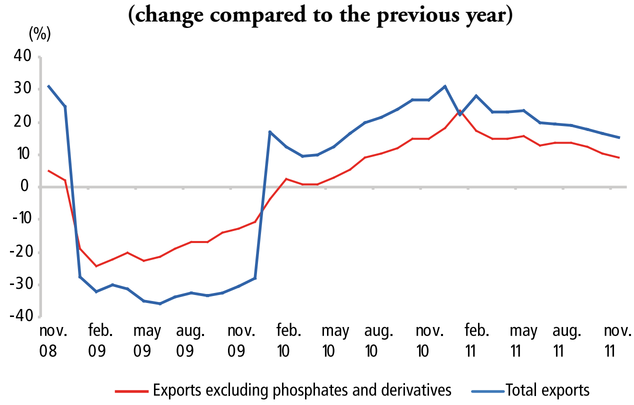
Table 1.2: YoY change in the trade balance, to the end of November 2011

(In millions of dirhams)	Jan.-Nov. 2010	Jan.-Nov. 2011*	Change Amount	Change %
Total exports	**134 076.3**	**154 771.2**	**+20 694.9**	**+15.4**
Phosphate and derivatives' exports	32 488.0	44 129.3	+11 641.3	+35.8
Exports excluding phosphates and derivatives	101 588.3	110 641.9	+9 053.6	+8.9
Electricity wires and cables	12 261.0	13 269.6	+1 008.6	+8.2
Electronic components	4 510.0	4 631.4	+121.4	+2.7
Hosiery items	6 278.8	6 702.7	+423.9	+6.8
Ready-made garments	16 250.8	17 063.8	+813.0	+5.0
Canned fish	4 497.3	3 672.6	-824.7	-18.3
Total imports	**268 282.3**	**321 258.7**	**+52 976.4**	**+19.7**
Energy imports	60 868.0	81 563.6	+20 695.6	+34.0
Non-energy imports	207 414.3	239 695.1	+32 280.8	+15.6
Semi-finished goods	56 436.8	69 182.4	+12 745.6	+22.6
Food products	26 105.7	33 381.2	+7 275.5	+27.9
Consumer goods	50 339.0	55 798.2	+5 459.2	+10.8
Capital goods	60 299.9	61 783.5	+1 483.6	+2.5
Trade balance	**-134 206.0**	**-166 487.5**	**+32 281.5**	**+24.1**

** Provisional data*

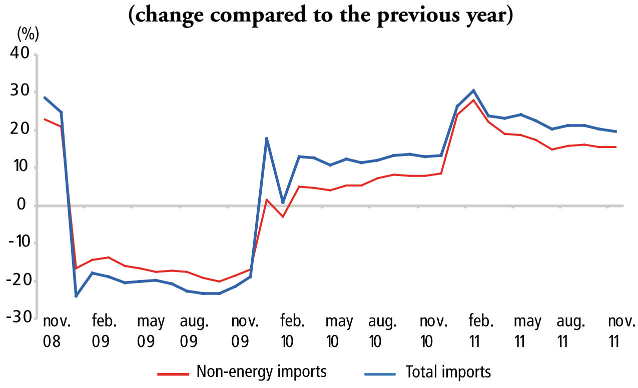
Source: Foreign Exchange Office

Chart 1.13: Total exports (change compared to the previous year)



Source: Foreign Exchange Office

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



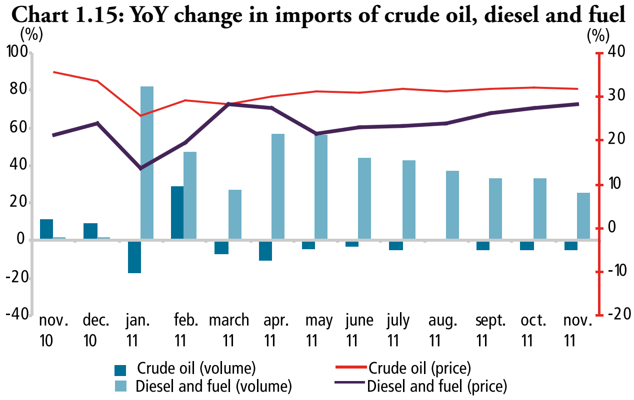
Source: Foreign Exchange Office

and derivatives. As a result, sales of phosphates and its derivatives moved up 36.1 percent and 35.7 percent respectively, compared to the same period of 2010, standing at 11.3 billion and 32.8 billion dirhams. In turn, exports of wires and cables as well as ready-made cloths went up 8.2 percent and 5 percent, respectively, to 13.3 billion and 17.1 billion dirhams. In parallel, exports of hosiery articles and electronic components reached 6.7 billion and 4.6 billion dirhams, respectively, up 6.8 percent and 2.7 percent. On the other hand, shipments of canned fish and citrus fruits fell by 18.3 percent and 25.1 percent, standing at 3.7 billion and around 2 billion dirhams.

As regards imports, their growth was attributable to the increase registered in all categories of goods. At 81.6 billion dirhams, the energy bill surged by 34 percent, mainly in connection with the 31.8 percent hike in the average price of the imported tonne of crude oil which reached 6,241 dirhams. The volume of imported crude oil fell by 4.9 percent, to 4,441.5 thousand tonnes. Similarly, purchases of gas-oil and fuel as well as petroleum gas and other hydrocarbons surged by 60.7 percent and 25.9 percent, to about 29 billion and 15.1 billion dirhams, respectively.

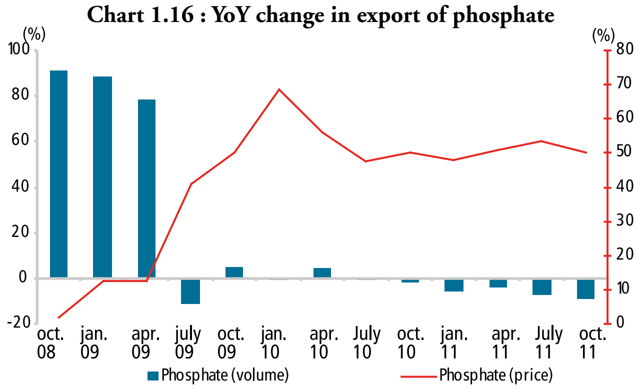
Excluding energy, imports increased by 15.6 percent, to 239.7 billion dirhams. Purchases of foodstuffs, up 27.9 percent, reached 33.4 billion dirhams, especially following the 33.6 percent rise in wheat imports, to 8.7 billion dirhams. In parallel, purchases of corn and sugar increased by 23.5 percent and 53.4 percent, respectively, to 4.4 billion and 4.3 billion dirhams. In turn, imports of semi-finished products totaled 69.2 billion, up 22.6 percent due mainly to an increase of 21.2 percent in the purchases of chemical products and that of 27.1 percent in plastics. Imports of consumer goods rose by 10.8 percent, to 55.8 billion, mainly in connection with the 7.1 percent increase in drug purchases. Similarly, imports of capital goods moved up 2.5 percent, to 61.8 billion dirhams.

Chart 1.15: YoY change in imports of crude oil, diesel and fuel



Source: Foreign Exchange Office

Chart 1.16 : YoY change in export of phosphate



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

Despite a net slowdown of activity worldwide, particularly in main partner countries, the good trend in domestic demand is expected to boost growth, thus maintaining the nonagricultural output gap almost nil in the third and fourth quarters of 2011, according to the Bank's estimates. As regards industry, the results of Bank Al-Maghrib's monthly survey of October 2011 show that the capacity utilization rate (CUR) stood at 74 percent overall and 71 percent excluding refining, levels which are higher than the historical averages. Concerning the job market, the third quarter of 2011 was marked by a quasi-stagnation of the unemployment rate from one year to the next at national level, covering a fall in urban area and a rise in rural area. During the same quarter, and mainly due to the raise of the minimum wage, recent data indicate the continued increase in nominal and real terms of the minimum wage in the private sector, year on year. Overall, signs of an uptrend in some pressure factors can be spotted, particularly in the job market, but the analysis of all indicators do not indicate significant pressures on prices in the coming months.

2.1 Pressures on output capacity[1]

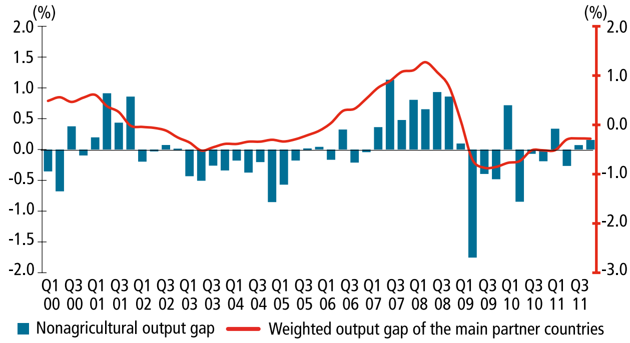
As was the case in the first half-year, the output gap would be close to zero in the third and fourth quarters of 2011 according to Bank Al-Maghrib estimates. The growth rate of domestic demand is not expected to change significantly in the short term, as pressures from global demand remain conditioned by the impact of recent developments in Europe on growth in this area. Generally, the output gap of Morocco's main partners will very probably remain negative during many quarters, even in case of non-materialization of the risks identified by the different prospective analyses which can even drag down economic activity in these countries (Chart 2.1).

In turn, the results of Bank Al-Maghrib's monthly industry business survey show that the capacity utilization rate (CUR) moved up somehow after the relatively low levels registered in August and September, to 74 percent in October 2011.

This trend is essentially the result of a rise in chemical and parachemical industries and mechanical and metallurgic industries, the CUR of textile and leather having remained at 73 percent (Chart 2.3).

The results of Bank Al-Maghrib's monthly industry business survey also show an increase of the output unit cost in the third quarter, with a balance of opinion of 27 percent, down 4 percentage points

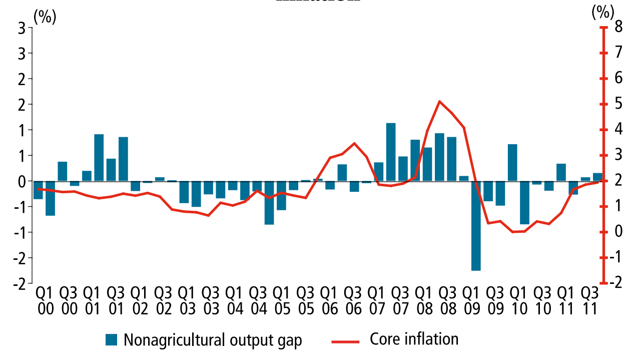
Chart 2.1: Nonagricultural output gap



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

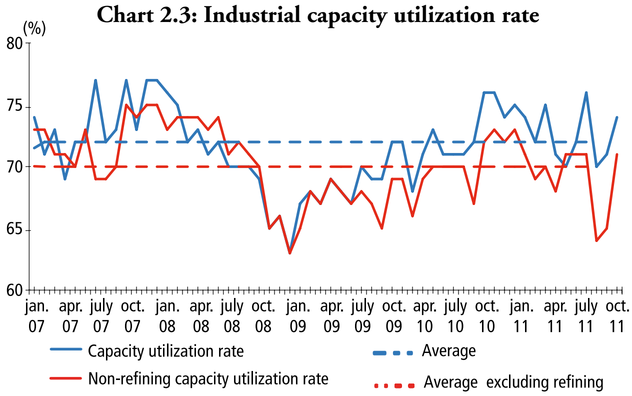
Sources: HCP, and BAM estimates

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

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

from one quarter to the next. According to industrialists, this trend is due to the higher price of nonenergy commodities and to payroll costs with a balance of opinion of 37 percent and 50 percent, respectively. Payroll costs were the main source of the rise in the output unit cost in chemical and parachemical industries and electrical and electronic industries, while nonenergy commodity prices were identified as the main factor in the other branches (see Chart 2.4).

In parallel, the index of apparent labor productivity in the nonagricultural sector gained 0.9 percent year on year in the third quarter of 2011, to 124.6 points, reflecting a lower rise in employment rate than in nonagricultural GDP such as estimated by BAM (see Chart 2.5).

2.2 Pressures on the labor market

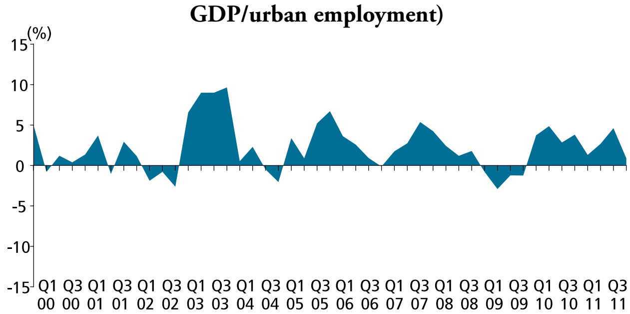
Unemployment rate remained virtually stagnant from one year to the next, at 9.1 percent, a rate masking a decline of urban unemployment from 13.8 percent to 13.5 percent and a rise of the rural one from 3.8 percent to 4.1 percent (see Table 2.1).

The labor force aged 15 years and more totaled 11.54 million persons in the third quarter of 2011, rising by 1.9 percent from one year to the other. This trend- which reflects an increase of 3.2 percent and 0.6 percent in the urban and rural areas, respectively – led to a 0.1 percent rise in the labor force participation rate which stood at 49.1 percent (see Table 2.1).

The share of the employed labor force rose by 1.9 percent to 10.5 million persons in the third quarter of 2011. Employment rate remained virtually at the same level, at 44.6 percent, covering a dip of 0.4 percentage point in rural areas and a rise of 0.5 percent in urban ones (see Table 2.1).

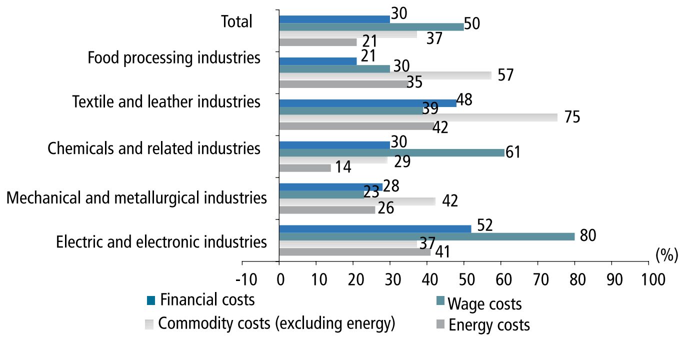
The job market thus registered a net

Chart 2.4: YoY apparent labor productivity (Nonagricultural GDP/urban employment)



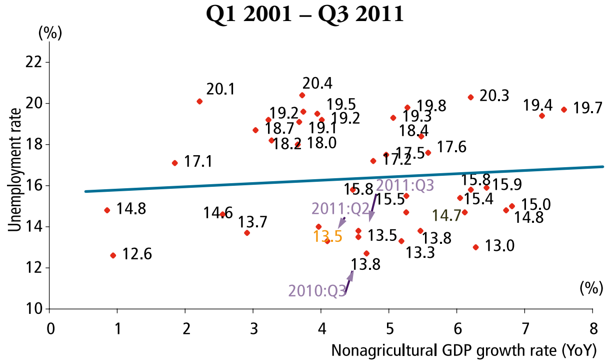
Sources : HCP, and BAM estimates

Chart 2.5: Change in components of unit production cost per sector (Balances of opinion in %, in Q3 of 2011)



Source: BAM monthly business survey

Chart 2.6: Nonagricultural growth and urban unemployment Q1 2001 – Q3 2011



Source : HCP

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

In million / in %	Q2 - 2010			Q3 - 2011		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force [2]	5.91	5.41	11.32	6.10	5.44	11.54
Labor force participation rate (%) [3]	42.8	58.0	49.0	43.3	57.8	49.1
Employed labor force	5.10	5.30	10.30	5.30	5.21	10.50
Employment rate (%) [4]	36.9	55.8	44.5	37.4	55.4	44.6
Unemployment						
Unemployed labor force	816	205	1021	825	224	1049
Unemployment rate (in %) [5]	13.8	3.8	9.0	13.5	4.1	9.1
By age						
.15 - 24 years	29.1	8.7	16.8	32.4	8.9	18.2
.25 - 34 years	20.1	4.1	13.3	19.2	5.0	13.2
.35 - 44 years	8.0	1.4	5.3	8.1	1.7	5.5
By degree						
. Non-graduates	7.7	2.1	4.1	6.7	2.6	4.1
. Graduates	18.4	13.1	17.4	18.4	11.3	16.9

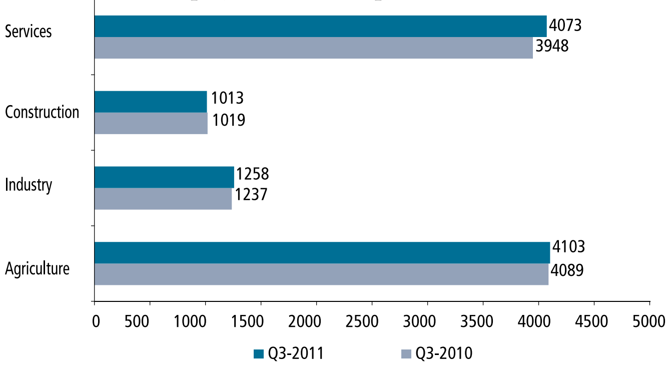
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and above (in millions of persons)
(3) Labor force/total population.
(4) Employed labor force/total population aged 15 years and above.
(5) Unemployed labor force/labor force aged 15 years and above
Source: HCP

creation of 120,000 paid posts and 70,000 non-paid posts, for a total of 190,000 posts, 97 percent of which in urban areas and 3 percent in rural ones. In terms of sectors, jobs were created in services, industry and agriculture while the sector of building and public works was again marked by a decrease, with 6,000 jobs lost within a year (see Chart 2.7).

Concerning the data available on payroll costs, they concern the second quarter of 2011, with a small dip of 0.2 percent year on year in the unit labor cost in the manufacturing sector. Compared with other countries, the national unit labor cost fell less rapidly than in Slovakia, Poland and Hungary, with a gap of 5.4 percent, 4.2 percent and 1.9 percent, respectively. However, it evolved more favorably compared with Canada, France and Belgium (see Chart 2.8).

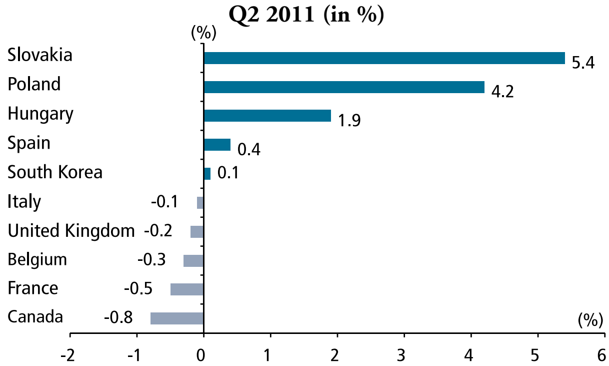
The quarterly average wage index, calculated by the HCP based on CNSS data, show a rise of 7 percent in nominal value and 5.3 percent in real terms in the third quarter of 2011 year on year. Furthermore, the findings of BAM industry business survey reveal an increase of the wage costs in the third quarter of 2011, with a balance of opinion of 50 percent (see Chart 2.9). As to the minimum wage, it went up 9.96 percent in nominal terms and 8.26 percent in real ones compared with the same period of the year before (see Chart 2.10).

Chart 2.7: Employed labor force per sector (in thousands)



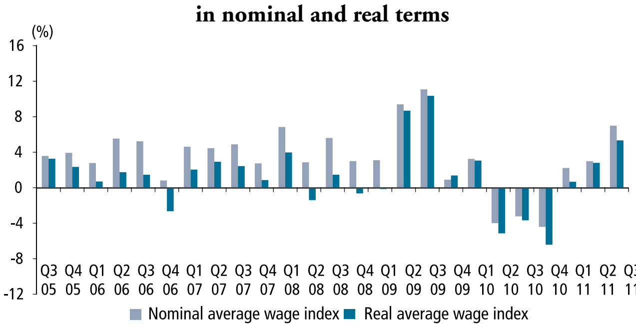
Source: HCP

Chart 2.8: Change in the unit costs of the manufacturing labor force in Morocco compared with other countries, Q2 2010 – Q2 2011 (in %)



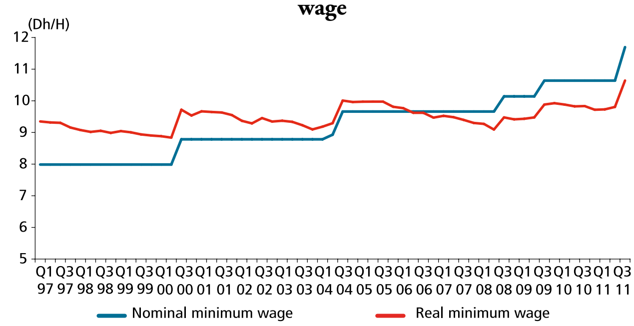
Sources: Datastream, and BAM calculations

Chart 2.9: YoY change in the private sector's average wage index in nominal and real terms



Sources: CNSS, and BAM estimates

Chart 2.10: Quarterly change in real and nominal minimum wage



Sources: Labor Ministry, and BAM calculations

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The international environment was marked in the last quarter of 2011 by greater pressures on financial markets, mainly as a result of the deteriorated economic outlook, especially for European countries, and the spread of the crisis to other countries of the euro area. Like the periphery of this area, France and Germany have also started to suffer from the mistrust of investors. In fact, the intensification of pressures led to a widespread distrust on the money, bond and stock markets. Moreover, on the foreign exchange markets, the euro continued to fall vis-à-vis the other major currencies, especially the dollar. As to the real sector, the results of national accounts in the third quarter of 2011 as well as the last high-frequency indicators suggest a continued deterioration of economic activity, at yet a higher rate in the euro area. Growth in emerging and developing countries, which remains relatively strong, has recently shown signs of slackening in some Asian countries, especially China and India. With regard to the outlook, the last OECD growth forecasts for 2011 and 2012 are in line with those of the IMF- with a bigger downward revision of growth- and the projections of the European Commission and main central banks. The downward revision also concerned growth in emerging and developing countries, which would slow down in 2011 and 2012, particularly in China. On the other hand, the job market in advanced economies remains generally marked by high unemployment rates which are expected to persist in the short term, viewing the current developments in the economic situation. Hence, the last economic and financial developments overall show a significant rise in the risks of recession, especially in the euro area. As to commodity prices, they went down generally in November, in connection with the slowdown of activity and the worsening of short and medium-term growth perspectives. Headline inflation was marked in November by slight changes in advanced economies, with varying developments depending on countries. In emerging countries, it slowed down marginally while remaining very high in general. These changes indicate that external inflationary pressures on the Moroccan economy would decrease overall in the coming months, but confirm risks to the consolidation of foreign demand for national products.

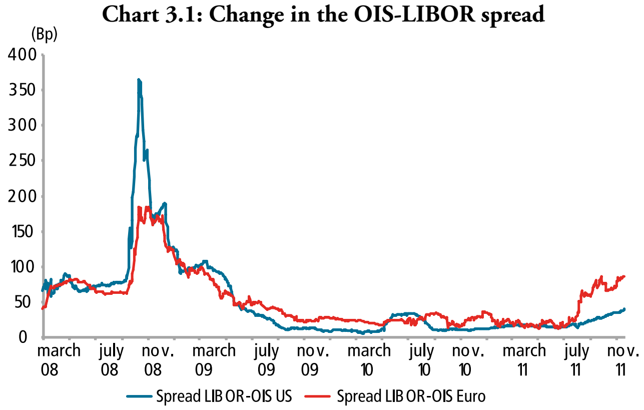
3.1 Global financial conditions and economic activity

Pressures intensified at the end of the year, due to the concerns still raised by the debt crisis in the euro area and the gloomy prospects in advanced economies. Recent data relative to economic activity worldwide overall show a persistently slow activity in most advanced countries. In emerging and developing countries, growth- although buoyant- decelerated slightly. These changes were concomitant with persistent budgetary problems and still-high levels of growth, particularly in the majority of advanced countries.

3.1.1 Financial conditions

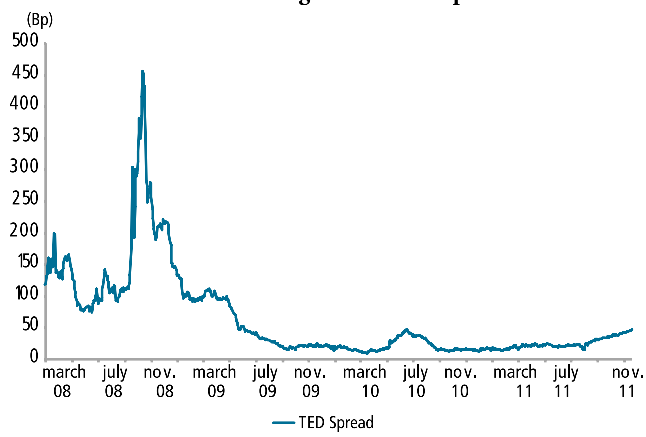
As regards bond markets, borrowing costs soared in peripheral countries and those of French bonds increased, although to a lower extent. From October to November 2011, the yield on 10-year sovereign bonds moved from 23.8 percent to 31 percent in Greece, from 5.8 percent to 6.7 percent for Italy and from 5.3 percent to 6 percent

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

Chart 3.2: Change in the TED spread[1]



Source: Datastream

1 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.

for Spain. Interest rates on 10-year French sovereign bonds increased by 34 basis points, from 3 percent to 3.3 percent from one month to the next (see Chart 3.3). This trend is due to the placing on the watch list of the French sovereign credit rating by two rating agencies, which are worried of its higher financing costs.

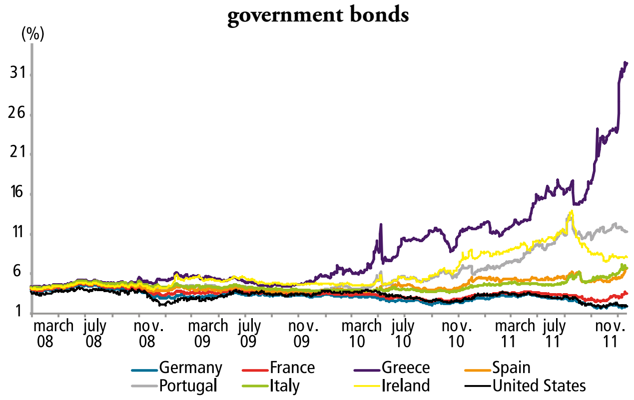
On the other hand, the yield on German 10-year sovereign bonds decreased to 1.8 percent compared to 2 percent between October and November 2011. However, Germany is likely to be soon affected by the rising sovereign rates viewing the difficulties encountered in mobilizing funds, on November 23, 2011, during the issue of a 10-year Bund, of which only 60 percent was sold.

The yield on American bonds also declined, from 2.1 percent to 2 percent, despite the failure of negotiations between Democrats and Republicans on an additional cut of 1,500 billion dollars on State spending over 10 years. Money markets remained tense, as demonstrated by the development of interbank rates and spreads, in the United States as well as in the euro area. The 3-month dollar Libor moved from 0.41 percent to 0.46 percent from October to November 2011. However, the 3-month Euribor stood at 1.49 percent in November as against 1.58 the month before. In turn, the 3-month dollar Libor-OIS spread went up to 36.8 basis points in November 2011 compared with 32.6 points in October. The 3-month euro Libor-OIS spread also increased to 83.4 basis points compared to 70.2 points a month before (see Chart 3.2).

On the stock markets, the main indices of advanced economies underwent diverging changes in November 2011, ranging from a rise of 3.7 percent for the Dow Jones Industrials to a fall of 1.5 percent for Eurostoxx 50 and 1.8 percent for the CAC40, from one month to the other.

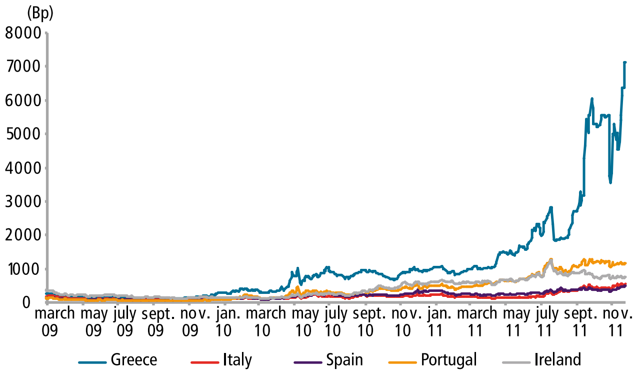
In turn, indices of emerging economies increased contrary to the month before,

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



Source: Datastream

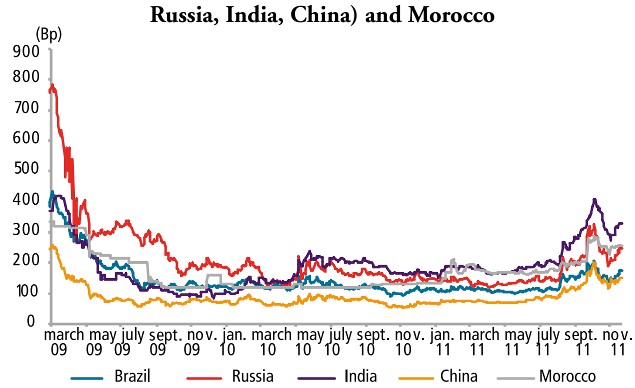
Chart 3.4: Change in CDS* in euro area peripheral countries



Source: Datastream

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

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



Source: Datastream

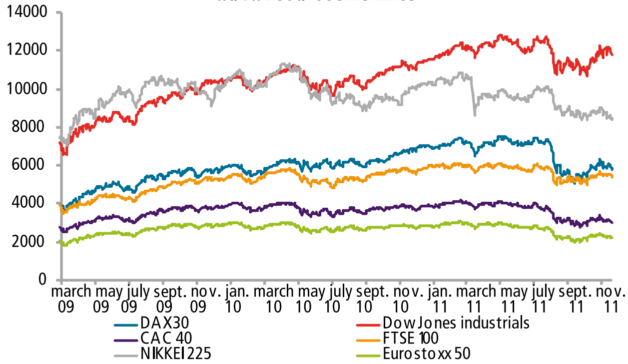
the MSCI EM having moved up 5.3 percent in November 2011. Year on year, the MSCI EM progressed by 6.9 percent in 2011 compared to the year before, and over the same period, the indices of advanced economies registered changes ranging from decreases of 4.7 percent for the NIKKEI, 4.4 percent for the Eurostoxx50 and 2.4 percent for the CAC40 to rises of 12.2 percent, 8 percent and 4.5 percent, respectively, in 2011, for the Dow Jones Industrials, the DAX and the FTSE (See Chart 3.6).

As to volatility indices, the VIX went slightly down to 32 basis points in November 2011 compared with 33 points a month ago (see Chart 3.8). In turn, the VSTOXX, the index of stock markets volatility in the euro area (Eurostoxx 50 Index), increased to 40.7 basis points compared with 39.4 points.

On the international foreign exchange markets, the euro continued to fall in front of the dollar, throughout November 2011, to stand at 1.36 dollars, which corresponds to a decrease of 0.8 percent compared to October. The euro also declined by 1.1 percent compared to the pound sterling but increased by 0.3 percent vis-à-vis the yen.

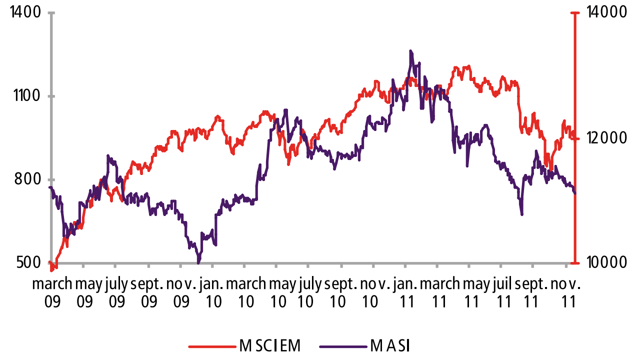
As to monetary policy decisions, the ECB decided, on December 8, 2011, to lower its key rate by 25 basis points to 1 percent, whereas the Federal Reserve and the Bank of England maintained their base rates unchanged at a range of 0 to 0.25 percent and at 0.5 percent, respectively. On the other hand, on November 30, 2011, the European Central Bank, the Federal Reserve, the Bank of Japan, the Bank of Canada, the Bank of England and the National Swiss Bank announced the implementation of a coordinated action in order to reinforce their capacity to provide liquidity support to the international financial system. These central banks mainly decided to reduce by 50 basis points the rate they apply as part of the temporary reciprocal currency arrangement (US. dollar swaps), to bring

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



Source: Datastream

Chart 3.7: Change in the MSCI EM and MASI

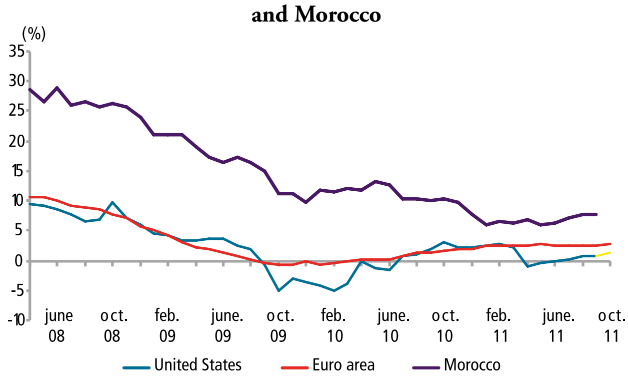


Source: Datastream

Chart 3.8: Change in VIX

Source: Datastream

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

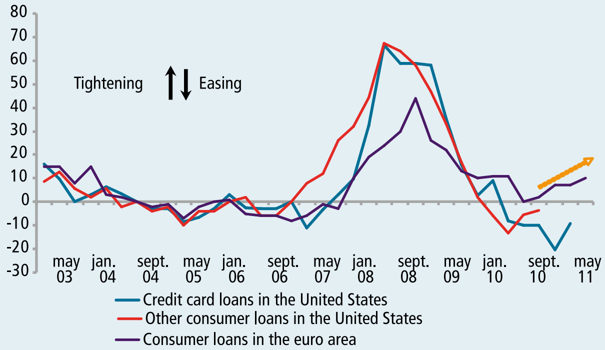


Source: Datastream

Box 3.1: Development of lending conditions in the United States and euro area

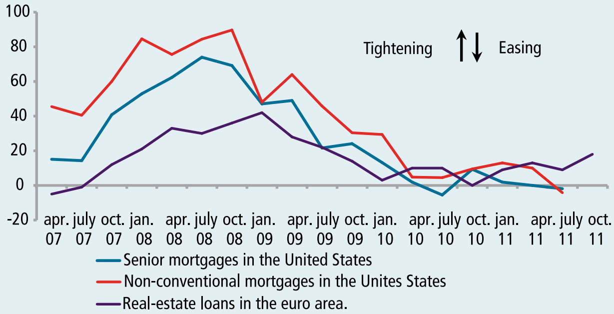
Central banks conduct surveys on lending conditions in order to improve their knowledge about and understanding of bank lending standards and terms. In this regard, the FED and ECB carry out quarterly lending surveys with a representative sample of 90 banks in the euro area for the ECB and 60 big commercial banks in addition to 24 big branches of foreign banks in the case of the FED. Polls include specific questions on the development of credit market and aim at capturing the changes in bank lending standards as well as the present and future development of demand for bank loans(*).

Chart B.3.1.1: Change in consumer loans: euro area and the United States



Sources: FED and ECB

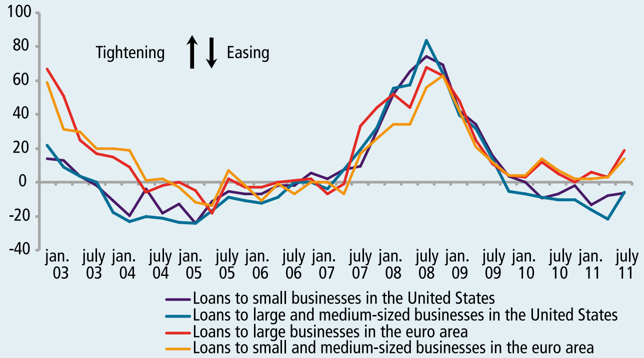
Chart B.3.1.2: Change in real-estate loans in the United States and euro area



Sources: FED and ECB

The analysis of lending conditions' development in Europe and the United States show that, after a strong tightening during the crisis, which was even more so in the USA, a significant easing was registered and lasted until the 1st quarter of 2011. Later, the intensification of pressures on financial markets, the worsening of economic activity and the unfavorable growth prospects led to the reintroduction of tight lending standards and the decline of demand for credit. This trend is more marked in the euro area than in the United States and is virtually the same for all types of loans, except housing loans the conditions of which have not been recently tightened.

Chart B.3.1.3: Change in loans to businesses in the United States and euro area



Sources: FED and ECB

According to bankers, the key factors behind this tightening are the constraints related to banks' liquidity management, on the one hand, and the worsening of financing conditions, on the other. The tightening of conditions by banks mainly translated into a significant increase in interest margins. At the short and medium term, the increasingly gloomy growth and unemployment prospects would lead to the persistence of tough lending rules.

(*) Results are analysed based on the difference between the share of banks having adopted tighter rules and those having eased their lending criteria. A net positive percentage indicates an increased tightening of standards: "net tightening" while a net negative percentage indicates more easing: "net easing".

it down to the US. dollar OIS plus 50 basis points, while extending the corresponding swap agreements to February 1, 2013.

In turn, credit to the private sector increased by 0.6 percent in the United States and 0.3 percent in the euro area, in October 2011, from one month to the next, whereas it fell by 1.3 percent and 2.7 percent, respectively, year on year (See Chart 3.9). The contraction of economic activity and the persistence of tensions on financial markets contributed to the tightening of lending conditions. In fact, the lending survey for the euro area (see Box 3.1) reveals tighter lending conditions in the third quarter of 2011, for businesses as well as for households. The results also show that firms' demand for loans and households' demand for consumer loans were on a downtrend over the same period. Similarly, the corresponding US survey revealed that conditions tightened further, mainly following the worsening of the economic outlook.

3.1.2 Global economic activity

The United States national account data in the third quarter of 2011 show a slowdown in GDP growth to 1.5 percent year on year in the second estimate made by US Trade Department (as against 1.6 percent in the first projection), and after 1.6 percent posted in the precedent quarter. This slight downward revision is due to the lower-than-expected rise in firms' stocks, investment and public spending. In spite of these developments, American growth remained sustained on the back of buoyant foreign trade.

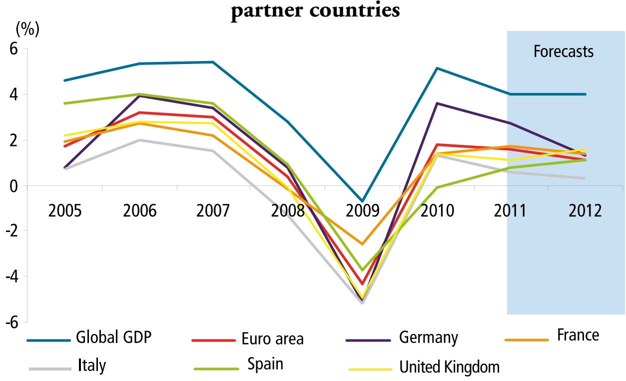
In the euro area, growth fell by 1.4 percent on a year-on-year basis in the third quarter, compared to 1.6 percent in the quarter before. This deceleration reflects the decline of activity in the main economies of this area, especially Germany where GDP growth reached 2.6 percent year on year compared with 2.9

Table 3.1: YoY change in quarterly growth

	2010				2011		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States	2.2	3.3	3.5	3.1	2.2	1.6	1.5
Euro area	0.9	2.1	2.1	1.9	2.4	1.6	1.4
France	1.1	1.5	1.6	1.4	2.2	1.6	1 .6
Germany	2.1	4.1	4	3.8	4.6	2.9	2.6
Italy	0.6	1.4	1.4	1.5	1	0.8	n.a
Spain	-1.4	0	0.4	0.7	0.9	0.8	0.8
China	11.9	10.3	9.6	9.8	9.7	9.5	9.1

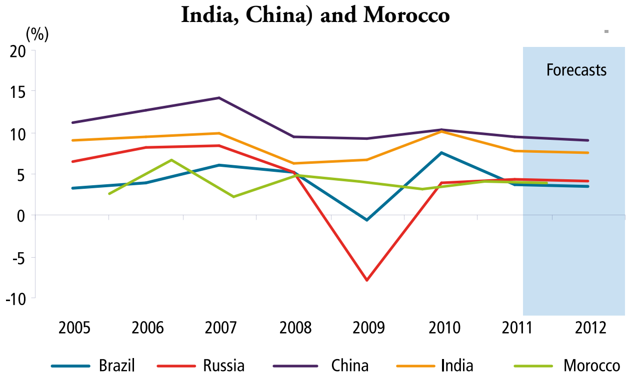
Source: Eurostat

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) and Morocco



Source: IMF

percent in the second quarter, while GDP growth stagnated in France and Spain at 1.6 percent and 0.8 percent, respectively. For Italy, the last available data are those of the second quarter which show the slowdown of GDP to 0.8 percent compared to 1 percent in the first quarter (see Table 3.1).

On the other hand, Japan showed signs of recovery, with a quarter-on-quarter growth of 1.5 percent in the third quarter, compared with -0.3 percent in the second quarter. Year on year, growth decelerated in the third quarter to -0.2 percent as against -1 percent a quarter before.

Against a backdrop of deteriorating economic activity in advanced countries, growth in emerging Asian countries remains buoyant, but has marginally decreased for several quarters now, particularly in China, where growth moved from 9.5 percent down to 9.1 percent (see Table 3.1). Data available for India concern the second quarter when GDP growth went down from 7.8 percent to 7.7 percent.

The slowdown of activity in the main advanced countries seems equally confirmed, viewing the recent changes in high-frequency indicators. Thus, the Confidence Index (Conference Board Consumer) in the United States strongly fell in October 2011, to 39.8 points, down 14.2 percent from one month to the other and 20 percent year on year.

Similarly, the manufacturing ISM reached 50.8 points in October compared to 52.1 points in September, down 2.5 percent from one month to the other and 10.7 percent year on year (see Chart 3.12). In the euro area, the manufacturing PMI index went down from 48.5 to 47.3 points in October, with a monthly decrease of 2.5 percent and 13.4 percent year on year. In the same line, the composite PMI index fell from 49.1 points to 47.2 in October, with a monthly decrease of 3.9 percent and a year-on-year fall of 12.3 percent (see Chart 3.13). Concerning the business climate,

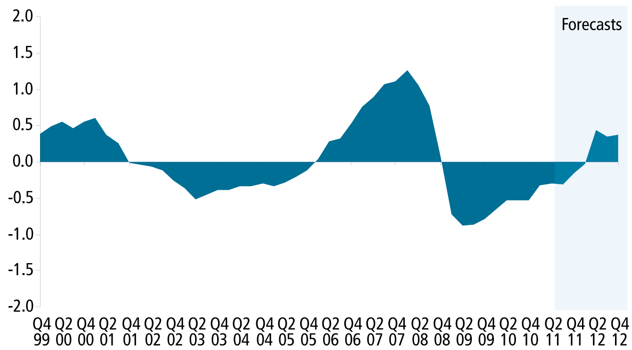
Table 3.2: Global growth outlook

	Forecasts (%)							
	OECD*		European commission*		IMF*		Centrales bank	
	2011	2012	2011	2012	2011	2012	2011	2012
Global GDP	-	-	-	-	4.0	4.0	-	-
United States	1.7	2.0	1.6	1.5	1.5	1.8	(1.6-1.7)	(2.5-2.9)
Euro area	1.6	0.2	1.5	0.5	1.9	1.4	1.6	1.3
Germany	3	0.6	2.9	0.8	3.2	1.6	3.1	1.8
France	1.6	0.3	1.6	0.6	1.8	1.6	1.8	1
Italy	0.7	-0.5	0.5	0.1	0.8	0.7	1	1.1
Spain	0.7	0.3	0.7	0.7	0.7	1.3	0.8	1.5
United Kingdom	0.9	0.5	0.7	0.6	1.2	2	2.5	3.2
China	9.3	8.5	9.2	8.6	9.6	9.5	-	-
India	7.6	7.5	-	-	8.3	7.8	-	-
Brazil	3.4	3.2	-	-	4.1	3.6	-	-
Russia	4.0	4.1	3.9	3.8	4.8	4.5	-	-

**OECD and European Commission: November 2011; IMF: September 2011*

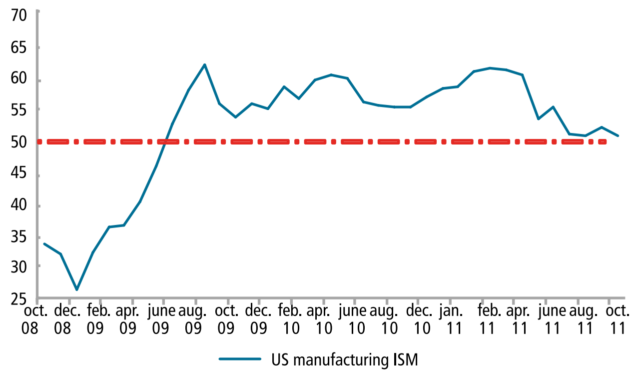
Sources: IMF, European Commission, OECD and Central Banks

Chart 3.12: Output gap of main partner countries



Sources: European Commission, and BAM calculations

Chart 3.13: ISM growth in the United States



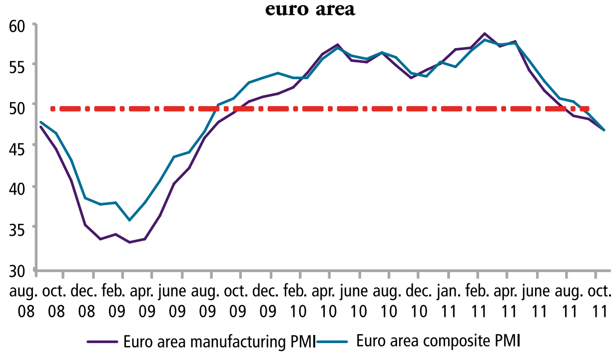
Sources: Dtatstream

the German IFO index posted a slight rise in November to 106.6 points (compared to 104.4 points in October). However, the Zew index (economic sentiment) dropped to its lowest level since October 2008, to -55.2 points compared to -48.3 points, down 14.3 percent from one year to the next.

As to the world economic outlook, the last OECD forecasts at end-November 2011 overall converge with those of the IMF and show a downward revision compared to the May edition. This revision was prompted by the intensification of uncertainties during the last months, in connection with the worsening sovereign debt crisis in the euro area. Thus, GDP should increase by 1.7 percent and 2 percent, respectively, in the United States in 2011 and 2012 (compared to 2.6 percent and 3.1 expected earlier), and 1.6 percent and 0.2 percent in the euro area (compared with the previous projection of 2 percent, respectively, in 2011 and 2012). For partner countries, the new forecasts are 3 percent and 0.6 percent for Germany, 1.6 percent and 0.3 percent in France, 0.7 percent and -0.5 percent in Italy, 0.7 percent and 0.3 percent in Spain, 0.9 percent and 0.5 percent in the United Kingdom, respectively, in 2011 and 2012.

The last fall forecasts (September 2011) of the European Commission post new GDP estimates in 2011 and 2012, with a downward revision in most advanced countries compared to the spring forecasts (May 2011). In fact, for the United States, it forecasts a GDP rise not exceeding 1.6 percent and 1.5 percent, respectively, in 2011 and 2012 compared to 2.6 and 2.7 percent, as foreseen previously. In the euro area, growth was revised down to 1.5 percent and 0.5 percent, respectively, in the same period, compared to 1.6 percent and 1.8 percent as expected last May. In partner countries, the European Commission foresees, respectively, 1.6 percent and 0.6 percent for France in 2011 and 2012; 2.9 percent and 0.8 percent for Germany over the same period, 0.5 percent and 0.1 percent for Italy, and 0.7 percent for Spain in 2011 and 2012.

Chart 3.14: Composite and manufacturing PMI change in the euro area



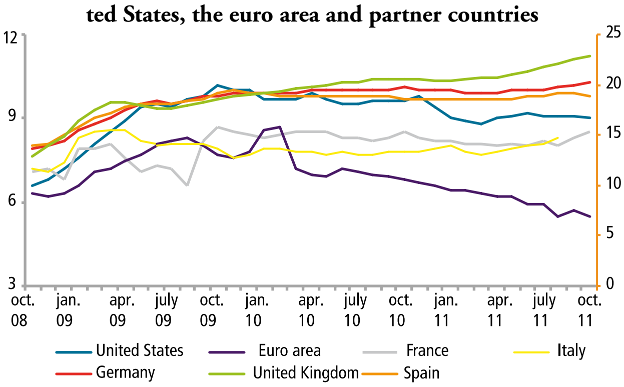
Sources: Dtatstream

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

	2009	2010	August 2011	Sept. 2011	Oct. 2011
United States	9.3	9.6	9.1	9.1	9.0
Euro area	9.6	10.1	10.1	10.2	10.3
France	9.5	9.8	9.9	9.9	9.8
Italy	7.8	8.4	8	8.3	8.5
Germany	7.7	7.1	5.8	5.7	5.5
Spain	18	20.1	22.1	22.5	22.8
United Kingdom	7.6	7.8	8.3	n.a	n.a

Sources: Eurostat

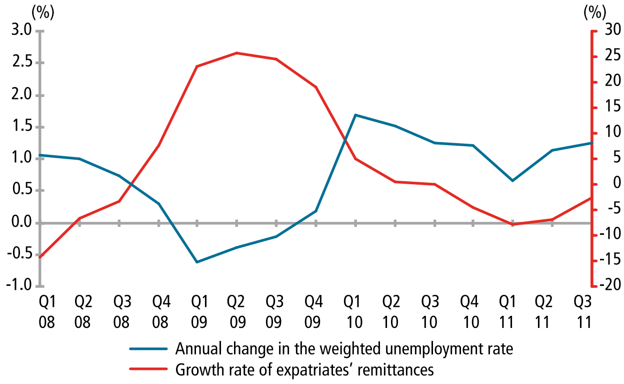
Chart 3.15: Change in monthly unemployment rate in the United States, the euro area and partner countries



Source: Eurostat

As to the last forecasts of central banks, the ECB in its last projections of September expects the euro zone growth at 1.6 percent and 1.3 percent, respectively, in 2011 and 2012 compared to 1.9 percent and 1.7 according to the forecasts of last June. Concerning partner countries, the Banque de France expects the French growth at 1.8 percent and 1 percent, respectively, in 2011 and 2012, while the Bundesbank forecasts Germany's growth at 3.1 percent and 1.8 percent. The Italian Central Bank projects growth at 1 percent and 1.1 percent in Italy over the same period. The Central Bank of Spain foresees growth at 0.8 percent and 1.5 percent, respectively, over the two years, while the Bank of England expects it at 2.5 percent and 3.2 percent, respectively, in 2011 and 2012.

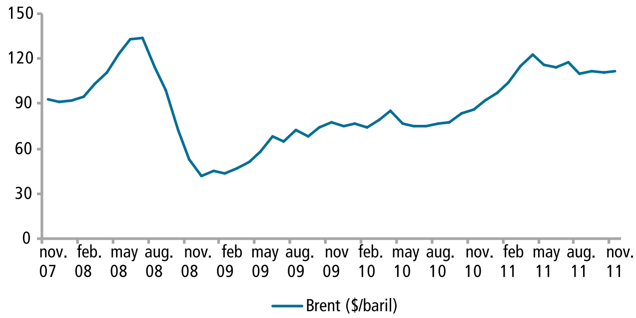
Chart 3.16: YoY change in main partner countries' weighted unemployment rate and expatriates' remittances* growth rate



** The weighted unemployment indicator is prepared on the basis of the unemployment rate in Morocco's main partner countries (France, Spain, Germany, Italy, Benelux, United States, the Netherlands and United Kingdom), which alone constitute 90.1 percent of Moroccan expatriates' remittances, weighted by the share of these countries in these remittances.*

Sources: Datastream, Foreign Exchange Office, and BAM calculations

Chart 3.17: World price of brent oil in dollar



Source: Datastream

3.1.3 Job market

At the international level, the job market is still marked by high unemployment rates in advanced countries. In some European countries, especially Spain, unemployment is still at record levels due to the job market reform policies considered inadequate and the budget difficulties impeding job market conditions.

According to the last forecasts of many international institutions, the uncertainties surrounding the short-term growth outlook in advanced countries are expected to keep the unemployment rate at still-high levels in 2011 and may, depending on countries, register a slight decrease in 2012.

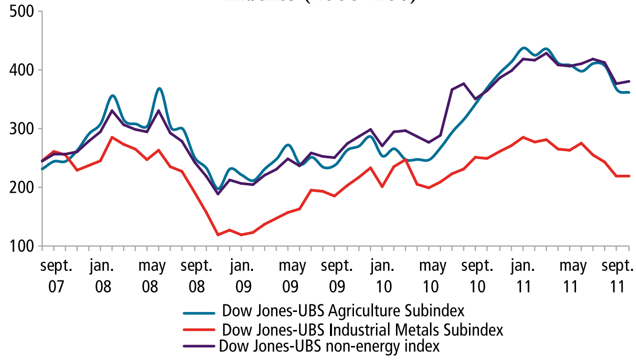
According to the IMF, unemployment in the USA is forecast at 9.1 percent and 9 percent, respectively, in 2011 and 2012, and at 9.9 percent, respectively, in the euro area over the same period. As regards partner countries, unemployment would stand at 6 percent and 6.2 percent in Germany, 9.5 percent and 9.2 percent in France, 8.2 percent and 8.5 percent in Italy and 20.7 percent and 19.7 percent in Spain.

Table 3.4: Oil futures (Brent in U.S. $)

	Q4:11	Q1:12	Q2:12	Q3:12	2012	2013	2014
Oil	108.3	105.04	104.13	103.2	103.63	99.31	95.13

Source: Bloomberg

Chart 3.18: Change in the DJ-UBS non-energy commodity indexes (2006=100)



Source: Datastream

New data in the USA indicate that unemployment would reach 9 percent in October 2011, compared with 9.1 percent in September. In the euro area, unemployment rate remains high overall, from the beginning of the year.

It increased to 10.3 percent in October 2011, compared with 10.2 percent the previous month, with respective rates of 9.8 percent in France, 8.5 percent in Italy, 5.5 percent in Germany and a record of 22.8 percent in Spain (see Table 3.3).

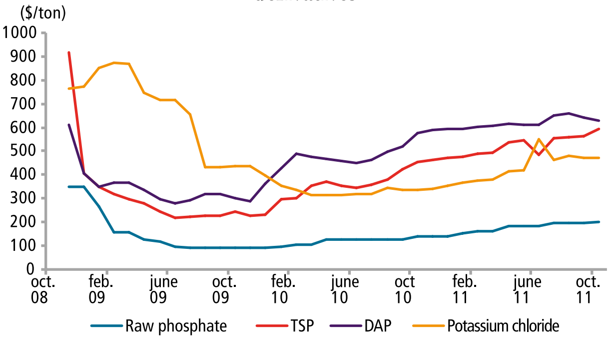
In the last forecasts published by the IMF in September, unemployment in the USA would stand at 8.6 percent and 7.8 percent, respectively, in 2011 and 2012 and in the euro area at 10 percent and 9.6 percent. For partner countries, unemployment is forecast to reach 9.5 percent and 9.2 percent, respectively, over the same period, 6 percent and 6.2 percent in Germany, 8.2 percent and 8.5 percent in Italy, 20.7 percent and 19.7 percent in Spain in 2011 and 2012. The last unemployment forecasts issued by the European Commission at end-September were overall revised upwards compared with the projections of last May. The Commission foresees unemployment rate at 9 percent and 8.8 percent, respectively, in 2011 and 2012 in the United States, 10 percent and 10.1 percent in the euro area, 5.9 percent and 5.8 percent in Germany, 9.8 percent and 10 percent in France, 8.1 percent and 8.2 percent in Italy, and 20.9 percent and 20.3 percent in Spain.

Table 3.5: Futures prices of wheat, corn and sugar

	Q4:11	Q1:12	Q2:12	2012	2013	2014
Wheat (cents/bu)	606.4	592.1	611.9	625.7	677.6	687
Corn (cents/bu)	614.5	591.4	598.3	571.56	550.95	555.6
Sugar (11cents/bl)	24.5	22.7	22.37	22.56	22.42	22.26

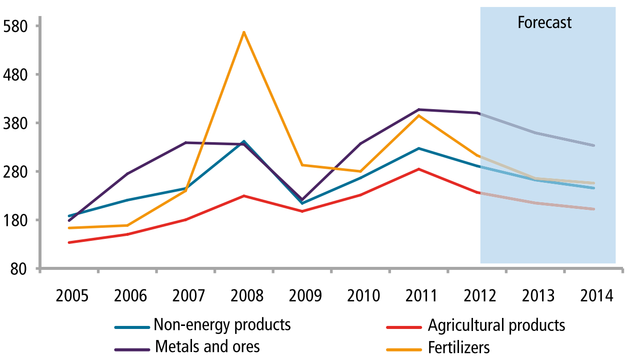
Source : Bloomberg

Chart 3.19: Change in the world prices of phosphate and derivatives



Source: World Bank

Chart 3.20: Outlook for commodity price indexes



Source: World Bank

3.2 Commodity prices and inflation

The intensification of pressures on financial markets led to a widespread decline in November on the commodity markets. Headline inflation evolved differently depending on countries in October.

3.2.1 Energy commodity prices

The heightened tensions arising from the euro area's sovereign debt crisis led to the decline of oil prices in November.

Table 3.6: Recent trend in world inflation, YoY

	Oct. 2010	August 2011	Sept. 2011	Oct. 2011	Forecast 2011	Forecast 2012
United States	1.1	3.8	3.9	3.5	3.0	1.2
Euro area*	1.9	2.5	3.0	3.0	2.5	1.5
Germany	1.3	2.5	2.9	2.9	2.2	1.3
France	1.8	2.4	2.4	2.5	2.1	1.4
Spain	2.3	2.7	3.0	3.0	2.9	1.5
Italy	2.0	2.3	3.6	3.8	2.6	1.6
Japan	-0.1	0.2	0.0	n.a	-0.4	-0.5
China	4.4	6.2	6.1	5.5	4.7	3.3

(*) Harmonized indexes
Sources : IMF, Eurostat

However, the new tightening of sanctions on Iran caused oil price to rebound, moving from $110.4 to $112/barrel in November (see Chart 3.16).

As to oil price projections, the World Bank lowered its forecasts. It is in fact expected at $103/barrel in 2011, and is projected to go down to $94.7/barrel in 2012. The IMF foresees an average price of $103.2/barrel in 2011 and $100 in 2012.

On the Brent futures market, prices of futures expiring in 2012 and 2013 decreased to $103.6 and $99.3/barrel, respectively (see Table 3.4).

On the other hand, the slowdown of Chinese manufacturing activity led to the decline in its oil consumption in the third quarter by 0.1 million barrel/day. Thus, OPEC maintained its demand forecasts for 2011 at 87.81 million barrel/day, assuming that a fall of demand from emerging countries would be offset by increased consumption in the Northern hemisphere in winter.

Natural gas price was 5.3 percent up in October month on month, while the price of coal fell 2.9 percent from one month to the next. However, the prices of these two products kept their trend as they are still rising compared with their levels a year ago, by 37.7 percent and 22.1 percent, respectively.

3.2.2 Non energy commodity prices

The prices of nonenergy products also underwent the effect of uncertainties surrounding growth in advanced countries, in addition to the slowdown of manufacturing activity in China (see Chart 3.17)

In fact, the Dow Jones-UBS index of base metals was down 12 percent year on year, while remaining stable from one month to the other. This trend resulted mainly from the year-on-year fall of the price of nickel, zinc and copper by 20.8 percent, 16.5 percent and 9.6 percent, respectively.

Moreover, the prospects of bumper crop in addition to the sluggish economic situation caused prices to decrease, as demonstrated by the decline of the Dow Jones-UBS agriculture by 1.7 percent year on year. Hence, the price of cotton, wheat and sugar fell by 24 percent, 8 percent and 7.5 percent, respectively, from one year to the next, although they remained unchanged from one month to the other.

As to the prices of phosphate and derivatives, they overall remain above their levels in 2010, pushed up by a strong demand. Yet, these prices followed divergent trends on a month-on-month basis in October. In fact, the price of unprocessed phosphate increased slightly, from $197.5 to $198.8/tonne, the price of TSP gained 4.8 percent whereas the price of urea and DAP fell 3.3 percent and 1.8 percent, respectively (see Chart 3.18).

3.2.3 Inflation in the world

In October, headline inflation in the euro area remained stable at 3 percent, while core inflation reached 1.6 percent for the second running month. In the United States, the consumer price index was up 3.5 percent year on year, compared to 3.9 percent in September, due mainly to the fall of the energy products price index, the year-on-year growth of which reached 14.2 percent compared to 19.3 percent a month ago (see Table 3.6).

As to main partner countries, inflation remained unchanged in Spain and Germany, at 3 percent and 2.9 percent respectively, whereas it went up in Italy and France to 3.8 percent and 2.5 percent compared to 3.6 and 2.4 percent, respectively. Moreover, inflation decreased slightly in the United Kingdom, moving from 5.6 percent down to 5.3 percent in October, following a decline in domestic food prices. In emerging countries, the rise of prices remains strong overall, especially in Brazil and India, at 6.7 percent and 9.7 percent, respectively, although it fell in China from 6.1 percent to 5.5 percent, year on year (see Table 3.6).

Additionally, the IMF revised down its inflation projections of September for all countries, mainly as a result of falling commodity prices and moderate output gaps. Thus, inflation in advanced countries is expected at 2.6 percent in 2011 before moving down to 1.4 percent in 2012, while it is foreseen at 7.5 percent in 2011 and 6 percent in 2012 in emerging and developing countries.

3.3 Morocco's import unit price index

According to the latest available data, nonenergy import price index (IPI) posted a monthly rise of 0.6 percent in September 2011, compared to 1.2 percent in August. The IPI of food increased by 12.4 percent from one month to the next, compared to 31 percent a month earlier, mainly as a result of the 21.2 percent rise in the import unit value index of wheat.

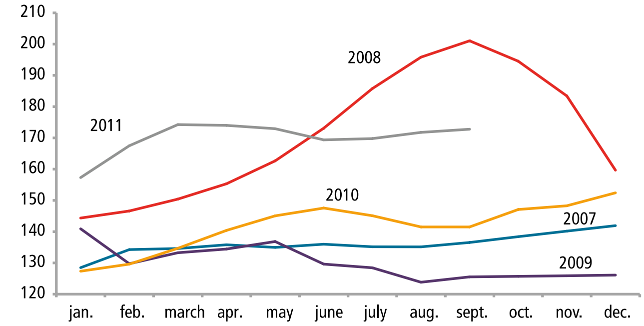
Similarly, the IPI of semi-finished products recorded a rise of 0.9 percent compared to 1.9 percent the previous month, especially in connection with the 0.8 percent increase in the average import unit price of plastics.

In parallel, the IPI of mining products was up 2.8 percent compared to 4.3 percent in August.

This trend was mainly driven by a 3.5 percent rise in the average import unit price of sulphur.

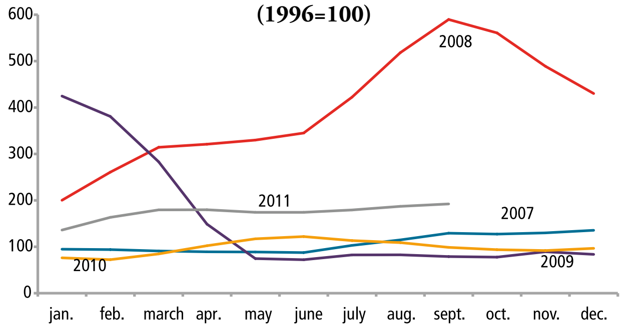
Year on year, nonenergy IPI rose by 22.3 percent in September, compared to 12.5 percent a year ago. Mining products IPI gained about 95 percent, mainly in connection with the import unit price of sulphur which more than doubled. In turn,

Chart 3.21: Non-energy import price index (1996=100)



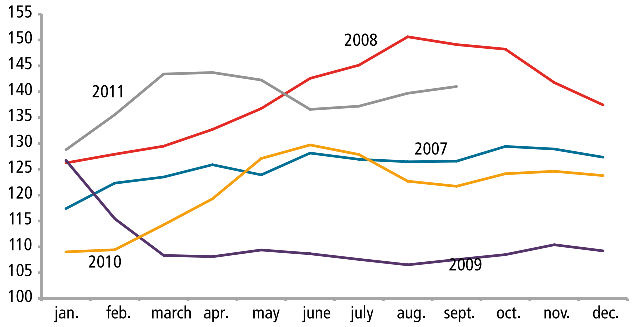
Sources: Foreign Exchange Office, and BAM calculations

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



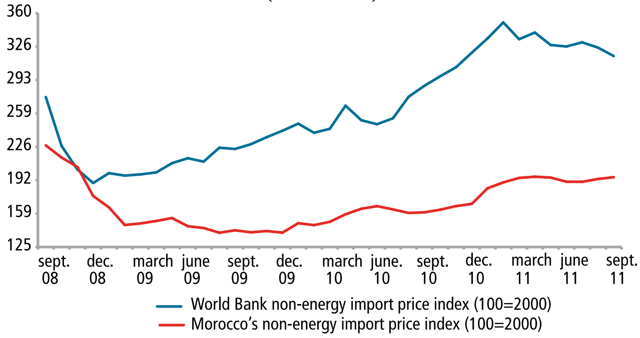
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.23: Mining products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.24: Change in world commodity price index and domestic non-energy import price index (2000=100)



Sources: Foreign Exchange Office, World Bank, and BAM calculations the IPI of food grew by around 91 percent, essentially due to the significant hike in the import unit price of wheat. In parallel, the IPI of semi-finished products surged by 16 percent approximately, following the 17.2 percent rise in the import unit price of plastics.

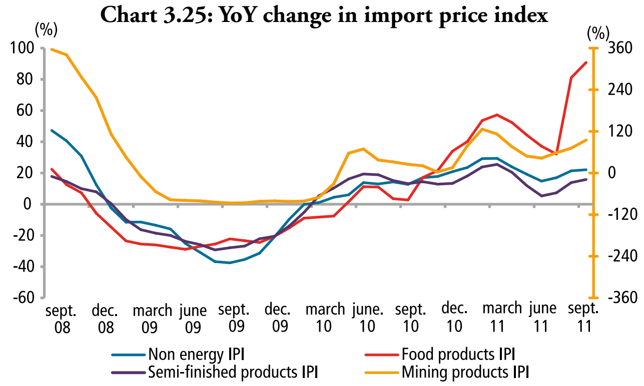
All this confirms the existence of greater inflationary tensions arising from commodities. However, the outlook of these latter prices is still trending downwards.

Table 3.7: Change in import price index

	Monthly change in %			Annual change in %		
	July 11	August 11	Sept. 11	July 11	August 11	Sept. 11
Non energy IPI	0.2	1.2	0.6	17.0	21.4	22.1
Food IPI	-5.1	31.0	12.4	32.1	81.1	90.8
Semi-finished products IPI	0.4	1.9	0.9	7.3	13.9	15.8
Mining IPI	2.9	4.3	2.8	58.2	71.7	94.8

Indexes calculated on the basis of unit prices in Dirhams.

Chart 3.25: YoY change in import price index



Sources: Foreign exchange office, and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

Data to the end of October 2011 show slight increase in the annual growth rate of M3, to 5.3 percent from 5.1 percent in the third quarter, and continued negative money gap. At the same time, the annual growth rate of bank lending decreased to 7 percent from 7.5 percent last quarter, mainly reflecting the deceleration of cash advances and equipment loans. With regard to lending rates, the results of Bank Al-Maghrib's survey among banks for the third quarter of 2011 indicate an increase of 16 basis points in the weighted average rate of credit, mostly because of the higher rates on cash advances and consumer loans. The effective exchange rate of the dirham remained virtually unchanged from the previous quarter in nominal terms, while in real terms it appreciated by 1.14 percent, as the inflation rate in Morocco was broadly higher than in the major trading partners and competitors. The real estate price index increased at a year-on-year rate of 0.8 percent from 2.2 percent the previous quarter. This change masks an increase of 2.1 percent in prices for residential and commercial property and a decline of 1.7 percent in land prices. Overall, recent developments in monetary conditions and asset prices, especially real estate assets, indicate the absence of inflationary pressures over the medium term.

4.1 Monetary conditions

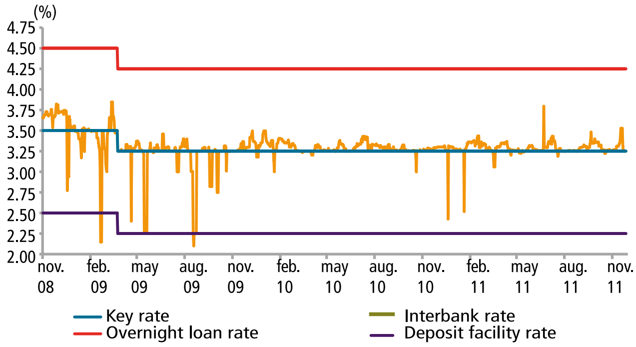
4.1.1 Interest rates

In a context where inflation central forecast is consistent with the price stability objective and the balance of risks surrounding this forecast is tilted to the downside, the Board of Bank Al-Maghrib decided, at its last meeting on September 20, 2011, to keep the key rate unchanged at 3.25 percent. Under these conditions, the weighted average rate of the interbank market in October and November 2011 averaged 3.30 percent, unchanged from the third quarter.

Meanwhile, rates on short and medium-term Treasury bonds issued in the primary market broadly increased in October 2011, up to five basis points, particularly for 2-year bonds, after almost stagnating to the end of the third quarter. The same pattern of growth was observed in the secondary market, for short-term yields as well as for medium and long-term returns.

The weighted average of 6 and 12-month deposit rates was down 10 basis points between the third quarter and October 2011. This change conceals lower rates

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



**Observation of november corresponds to the arithmetic average of data from 1 to november 27, 2011*

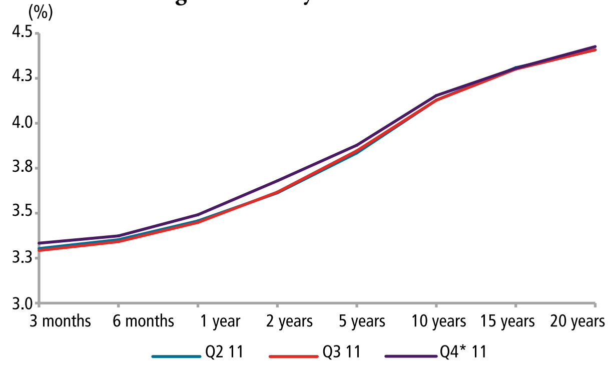
Table 4.1: Change in Treasury bond yields on the primary market

	2010			2011			
	Q2	Q3	Q4	Q1	Q2	Q3	Oct. 2011
13 weeks	3.39	-	3.29	3.31	3.30	3.30	3.32
26 weeks	3.45	3.41	3.33	-	-	3.33	3.33
52 weeks	3.55	3.49	3.48	3.46	3.45	3.46	3.48
2 years	3.69	3.68	3.62	3.63	3.61	3.61	3.66
5 years	3.90	3.90	3.85	3.85	3.84	3.85	3.86
10 years	4.19	4.17	4.15	4.13	4.12	4.13	-
15 years	4.35	-	4.34	4.32	4.33	4.34	-

on 12-month deposits and slightly higher rates on 6-month deposits.

With regard to lending rates, BAM survey among banks for the third quarter of 2011 shows an increase of 16 basis points in the weighted average of bank lending rates, to 6.31 percent. This mainly reflects higher interest rates on cash advances and consumer loans. In contrast, rates on real estate and equipment loans significantly declined from the previous quarter.

Chart 4.2: Change in maturity structure of TB interest rates



**Observation of the four quarter of 2011 corresponds to the arithmetic average of data from October 1 to November 25, 2011*

Table 4.2: Rates on time deposits

	2010			2011			
	Q2	Q3	Q4	Q1	Q2	Q3	Oct.2011
6 months	3.32	3.32	3.33	3.28	3.34	3.33	3.35
12 months	3.64	3.71	3.77	3.79	3.72	3.78	3.67
Weighted average	3.48	3.59	3.60	3.60	3.55	3.63	3.53

Box 4.1: Liquidity and monetary policy implementation

During the third quarter of 2011, banks' liquidity deficit widened 7.4 billion dirhams from the previous quarter (from 21.6 to 29 billion dirhams). Indeed, the autonomous factors (excluding Treasury intervention in the money market) had a restrictive effect on bank liquidity of nearly 6.3 billion dirhams, mainly due to increased currency in circulation and transactions on foreign assets.

Net withdrawals of currency in circulation reached 5.8 billion dirhams following the massive outflows that occurred in the summer and in preparation of Ramadan. Similarly, foreign exchange transactions caused a liquidity drain of 2.5 billion dirhams in spite of the large backflow of foreign banknotes during the summer (13.7 billion dirhams). These were largely offset by purchases of foreign currencies by commercial banks, totaling 16.2 billion dirhams (including 9.5 billion dirhams in September).

However, Treasury operations (excluding Treasury intervention in the money market) caused a liquidity injection of 2.7 billion dirhams: domestic debt repayments to the banking system (17.7 billion dirhams), settlement of civil service wages (15 billion dirhams), retirees' pensions (4 billion dirhams) and subsidization expenses (12 billion dirhams) were in part offset by bank purchases of Treasury bonds (22.5 billion dirhams) and the collection of tax revenue (20 billion dirhams).

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

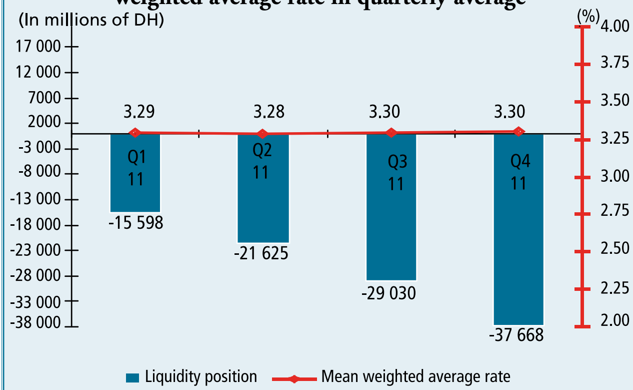
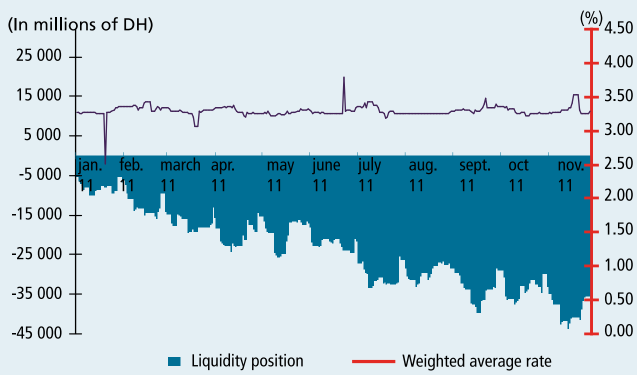


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



1 Liquidity position = banks' balance - required reserves +/- BAM interventions +/- Treasury interventions on the money market

During the fourth quarter 2011(2), banks' liquidity deficit further widened by 8.6 billion dirhams, due to the continued very restrictive trend in the autonomous factors (-9.1 billion dirhams).

Chart B 4.1.3: Change in reserve requirements

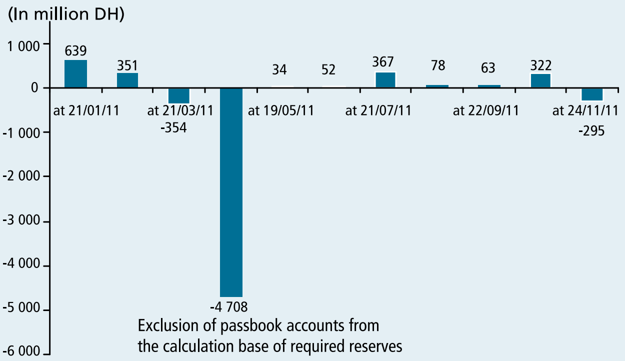
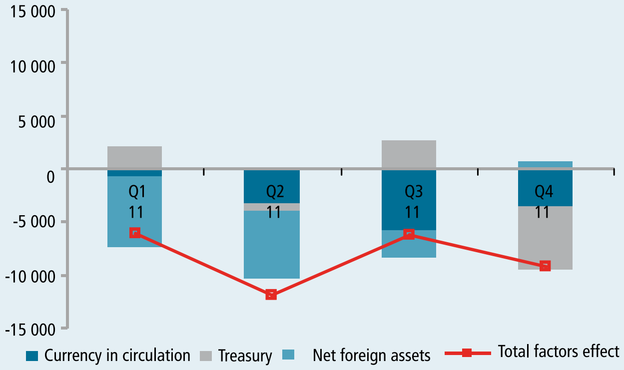


Chart B 4.1.4: Change in liquidity factors' effect



Indeed, Treasury operations (excluding money market intervention) had a negative impact of 6 billion dirhams on bank liquidity, mostly because of the difference between banks' purchases of Treasury bonds (22.1 billion dirhams) and the collection of tax revenues including the third installment of corporate tax for fiscal 2011 (15 billion dirhams), on the one hand, and domestic debt repayment to the banking sector (11.1 billion dirhams), settlement of subsidization costs (9.3 billion dirhams) and settlement of civil service wages (5.2 billion dirhams), on the other hand. Similarly, currency in circulation grew by 3.6 billion dirhams, mainly in conjunction with the preparations for Eid Al-Adha. However, transactions in foreign assets caused a liquidity injection of 650 million dirhams, resulting from the difference between sales of foreign banknotes that reached 5 billion dirhams and purchases of foreign currencies by commercial banks totaling 4.3 billion dirhams.

In the fourth quarter 2011, the Treasury interventions in the money market had a net expansive effect of 4.2 billion dirhams on bank liquidity, with an average daily outstanding amount of 1.7 billion dirhams, down from 2.3 billion dirhams the previous quarter.

To fill the shortage in bank liquidity, which averaged 36.1 billion dirhams during the quarter (as against 31.3 billion the last quarter), Bank Al-Maghrib primarily acted through the 7-day advances for an average daily amount of 29.4 billion dirhams, from 29.3 billion the previous quarter. Following the decision of the Bank Board on September 20, 2011, the central bank provided liquidity to banks also through two refinancing long-term operations (for three months), with a total of 15 billion dirhams.

During the fourth quarter of 2011, money market's weighted average rate averaged 3.30 percent, unchanged from the previous quarter. In addition, the volatility of the weighted average rate fell 1 basis point from the level recorded in the third quarter of 2011 to 7 basis points.

Chart B 4.1.5: BAM interventions on the money market

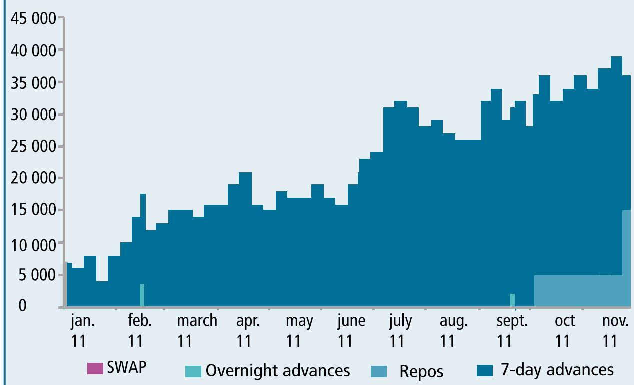
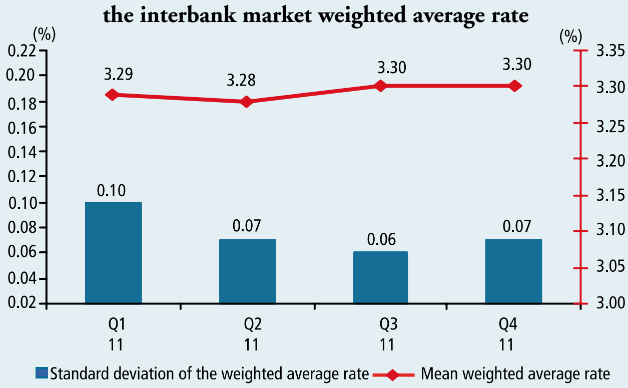


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



[2]The fourth quarter of 2011 only includes the period from October 1 to November 28.

4.1.2 Money, credit and liquid investments

M3 growth

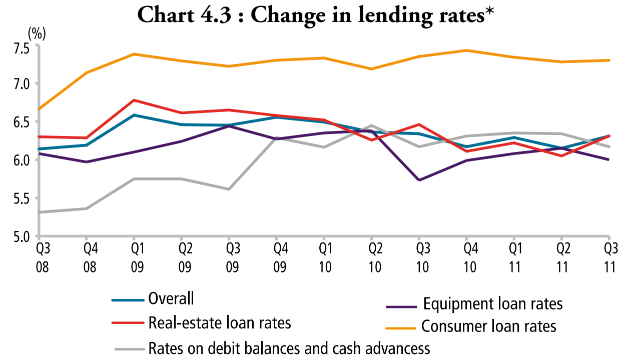
Data for October show a slight increase in the growth rate of money supply. Money gap remained kept, indicating the absence of monetary inflationary pressures in the coming quarters.

After moving up 5.1 percent in the third quarter of 2011, money supply grew at an annual rate of 5.3 percent in October. This trend conceals accelerated increase in net claims on central government, slight deceleration in claims on the economy and decline in net foreign assets.

In the main components of money supply, varied growth rates were observed between October 2011 and the previous quarter. Indeed, currency in circulation was up 10.1 percent in October from 9.6 percent in the third quarter, continuing the uptrend that began in the first quarter of 2011. Bank money fell at a monthly rate of 1.4 percent, and recorded a slower annual growth rate from 4.8 percent in the third quarter to 4.6 percent in October. Similarly, time deposits with banks and demand deposits decelerated from 4.9 percent and 9.5 percent in the third quarter to 4.5 percent and 9.3 percent in October, respectively. The outstanding amount of money market UCITS securities significantly increased month on month, but remain 12.7 percent lower than the level recorded in the same period of 2010.

The breakdown of deposits by institutional sector shows that those of households increased in October at a rate comparable to that observed in the third quarter, 7.3 percent, and remain the major contributor to growth in deposits with 5.2 percentage points. Deposits of the public sector rose 19.5 percent, from

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

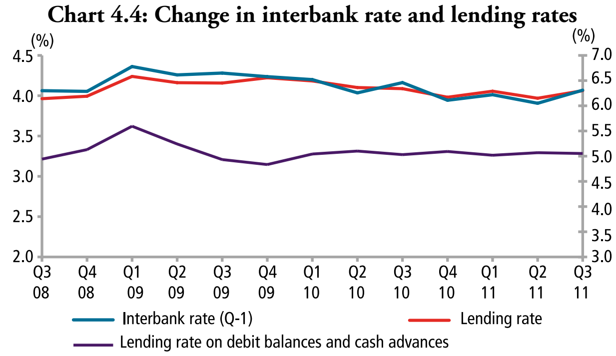


Chart 4.5: YoY M3 growth and its trend

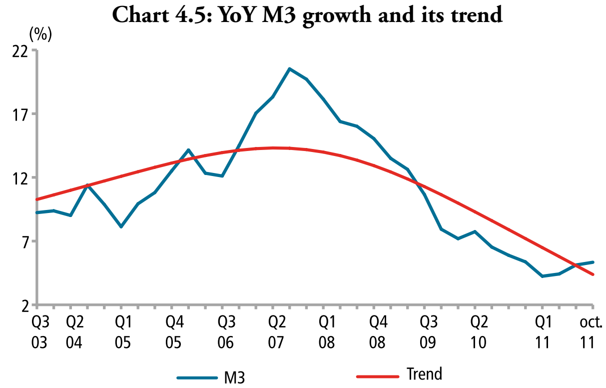
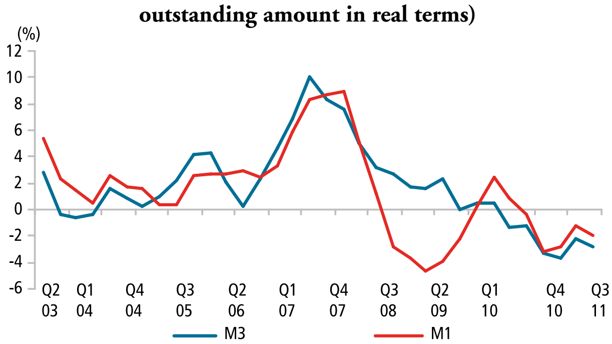


Chart 4.6: Money gap (in percentage of M3 and M1 balance outstanding amount in real terms)



14.1 percent, therefore increasing their contribution to the growth of total deposits.

Deposits of private nonfinancial corporations grew less rapidly, making a less significant contribution. Deposits of financial sectors still negatively impact the growth in deposits, continuing the trend observed in recent quarters.

Bank loans

The latest available data show that growth in bank credit slightly slowed down to a year-on-year rate of 7 in October, from 7.5 percent on average during the third quarter of 2011.

Credit analysis by economic purpose indicates that the slowdown covers divergent trends in loan categories. Indeed, the annual growth rate of cash advances slowed down to 13.6 percent in October, from 16.6 percent the previous quarter, reversing the accelerated growth that started in the fourth quarter of 2010. This appears to be the result of higher costs for this category of loans, as evidenced by the increase in lending rates of cash advances. Similarly, equipment loans continued to grow less rapidly, from 6 percent in the third quarter to 2.8 percent in October 2011. In addition to a base effect relating to the strong increase a year earlier, the slowdown in this category of credit can be partially explained by the slower growth in capital expenditure, given the deceleration in imports of machinery and equipment in October, as well as by a sentiment of tightened financial conditions according to the results of Bank Al-Maghrib's monthly business survey in industry. In contrast, real estate loans grew by 11.1 percent in October, from 10.3 percent the previous quarter. This change includes

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

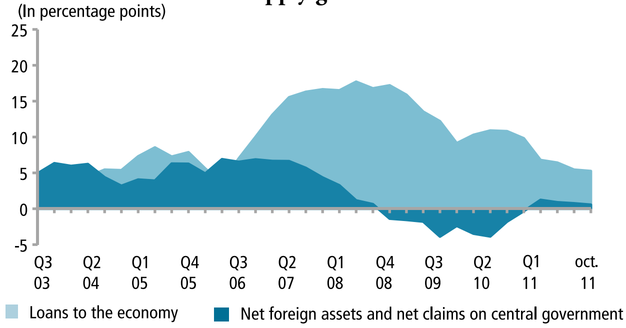


Chart 4.8: YoY change in the major M3 components

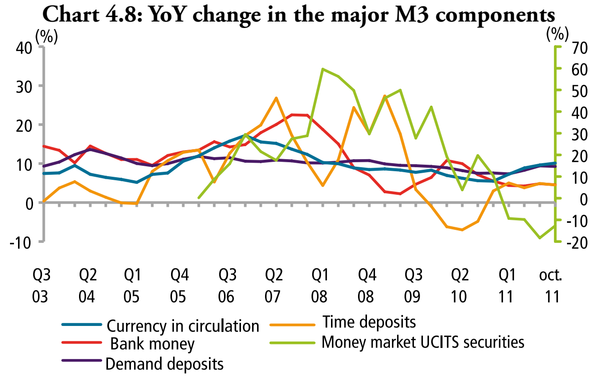


Chart 4.9: Institutional sectors' contribution to total deposits' growth

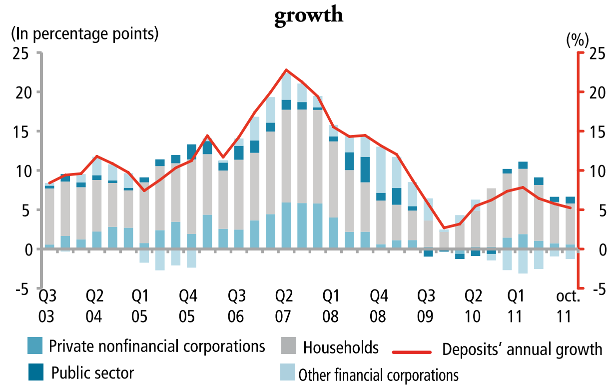
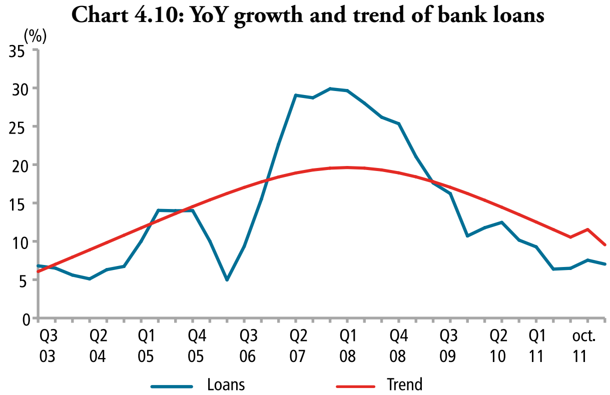


Chart 4.10: YoY growth and trend of bank loans



accelerated annual growth of loans to developers from 7.8 percent in the third quarter to 10 percent in October, and a nearly stagnant pace of growth in home loans, by about 11 percent. Growth in consumer loans increased from 7.2 percent to 11 percent between the third quarter 2011 and October. Other claims on customers continued the decline observed since early 2011, though at a slower rate, down 4 percent in October, from a 7.2 percent drop in the previous quarter. Nonperforming loans grew at a slower year-on-year rate of 1.5 percent in October, compared with 3 percent in the third quarter.

The breakdown of credit by institutional sector reveals slowdown in loans to the public sector, as their year-on-year growth rate fell from 20.1 percent in the third quarter to 13 percent in October. They contributed 0.6 percentage points to overall credit growth, from 0.9 points the previous quarter. In the same vein, loans granted to private nonfinancial corporations recorded a deceleration in their annual growth rate from 13.1 percent in the third quarter to 9.2 percent in October, therefore contributing 4.4 percentage points to credit growth, from 6 points in the previous. However, loans to households were up 8.7 percent in October from an average of 3.6 percent in the three quarters of 2011, increasing their contribution to overall credit growth to 2.9 percentage points in October, from 1.6 points in the last quarter. Loans to other financial corporations posted a new decline of 5.4 percent in October, which remains less pronounced than the fall observed during the last two quarters.

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

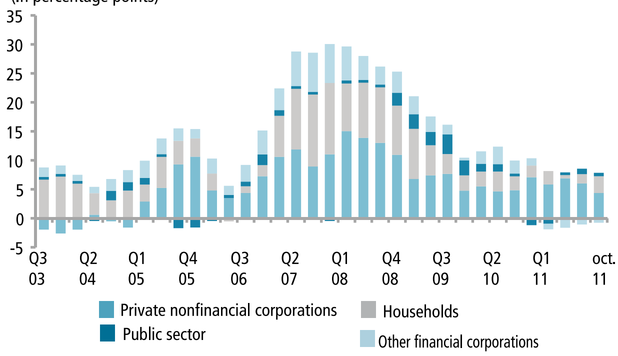


Chart 4.11: YoY growth of major bank loan categories

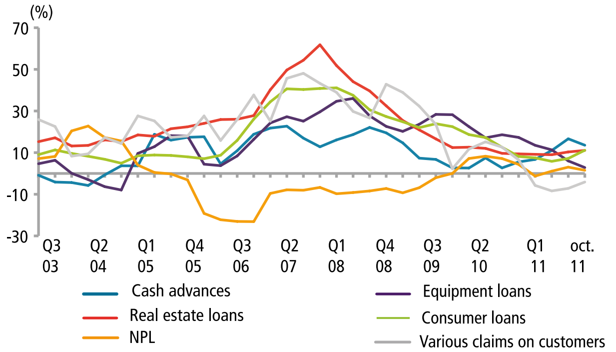


Chart 4.12: Contribution of the various loan categories to credit growth, YoY

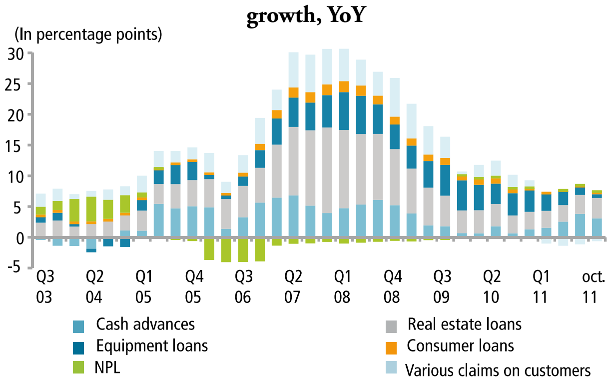
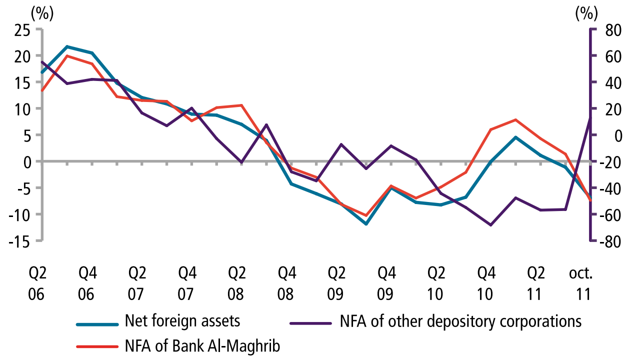


Chart 4.14: Annual growth of net foreign assets



Other sources of money creation

During the third quarter 2011, net foreign assets fell 1.1 percent from the same period last year, reflecting in particular the widening trade deficit. Their outstanding amount continued to trend downward in October, declining 6.9 percent year on year, dragged by the lower foreign exchange reserves of Bank Al-Maghrib and the slight improvement in those held by other depository corporations.

Net claims on central government were up 21.4 percent in October, compared with 10.2 percent the previous quarter, mainly due to the central government's increased borrowing from the other depository corporations.

Liquid investments

In October 2011, liquid investment aggregates were up 8.1 percent year on year, from 9.7 percent the previous quarter, continuing the same pattern of growth observed since the beginning of the year.

Assets included in the LI1 aggregate contributed most to this slowdown, as their annual growth decreased from 12.8 percent on average during the last three months to 11.7 percent in October, reflecting the downturn in investments in marketable Treasury bonds. Securities of bond UCITS included in the LI2 aggregate were up 5.6 percent in October as against 6 percent in the previous three months, most likely because of the negative effect induced by higher interest rates on Treasury bonds traded in the secondary market. Securities of equity and diversified UCITS, which make up the LI3 aggregate, were negatively impacted by the underperformance of the stock market in October 2011, as they were 4.8 percent lower than the same period the previous year.

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

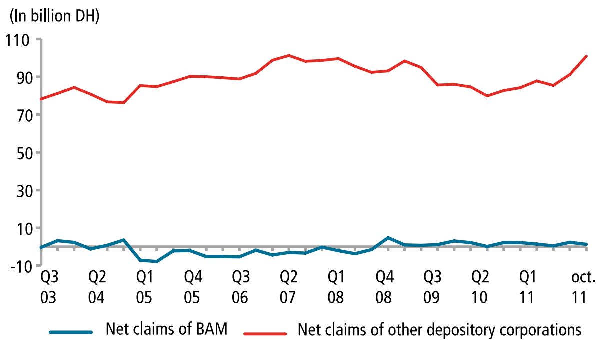


Chart 4.16: YoY change in liquid investments and time deposits

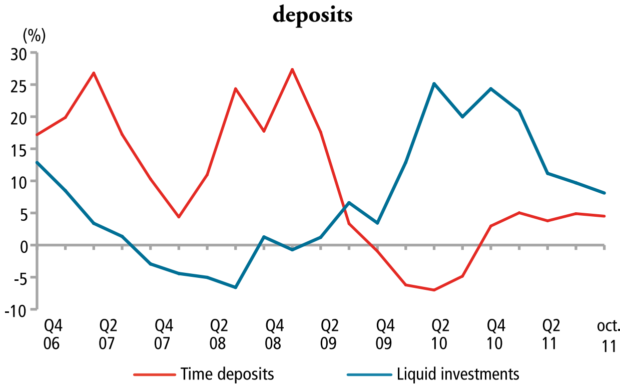


Chart 4.17: YoY change in LI1 and LI2 aggregates

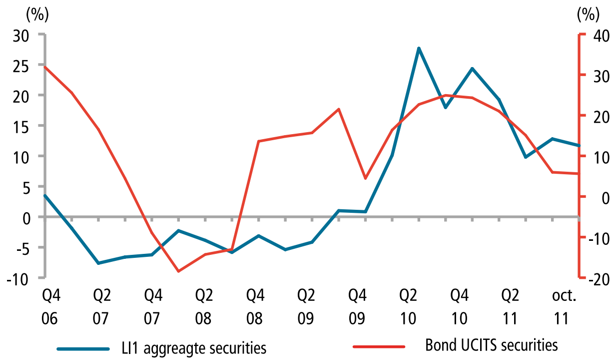
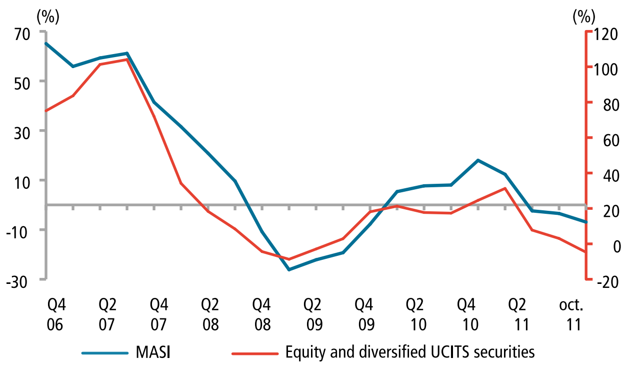


Chart 4.18: YoY growth of LI3 and MASI



Exchange rate

During the third quarter of 2011 and compared with the previous quarter, the dirham appreciated 0.33 percent vis-à-vis the euro. However, it depreciated 1.61 percent and 0.24 percent against the U.S. dollar and the pound sterling, respectively.

On average in October and November and compared with the previous quarter, the national currency again rose against the euro by nearly 0.61 percent, and lost 2.82 percent and 0.93 percent against the dollar and the pound sterling, respectively.

The dirham's nominal effective exchange rate, calculated on the basis of bilateral exchange rates against Morocco's major partners and competitors, remained virtually unchanged from the previous quarter. In real terms, the national currency gained 1.14 percent, as the inflation rate in Morocco was broadly higher than in the major trading partners and competitors.

4.2. Asset prices

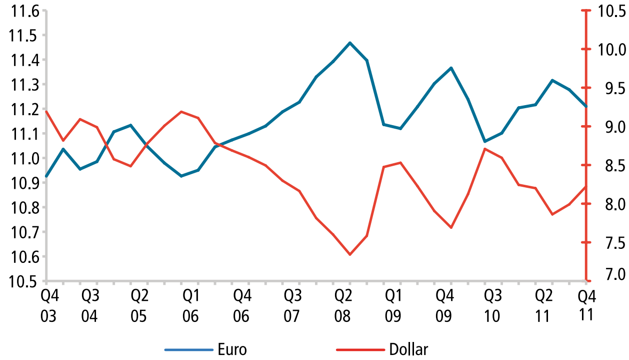
4.2.1 Real estate assets

At the end of the third quarter 2011, the real estate price index (REPI) points to a quarterly increase of 1.1 percent, after falling 0.3 percent the previous quarter. Year on year, prices continued the upward trend that began in the second quarter of 2010, rising 0.8 percent, though lower than the 2.2 percent rate recorded a quarter earlier.

Moreover, the number of property sales registered at the ANCFCC, captured 35 days after the end of the third quarter, grew at an annual rate of 8.6 percent to 23,180 transactions.

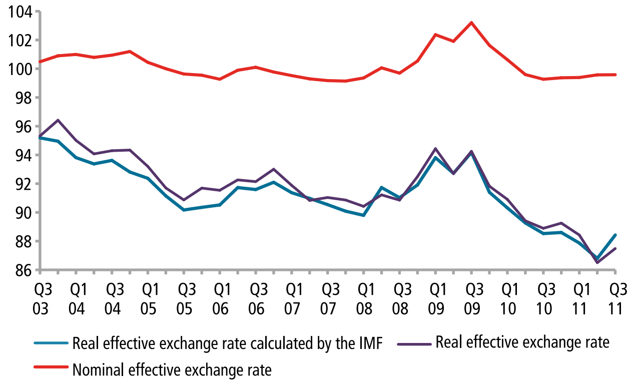
Meanwhile, housing loans increased in the third quarter of 2011 at an annual

Chart 4.19: Exchange rate of the dirham



**Observation of the four quarter of 2011 corresponds to the arithmetic average of data from October 1 to November 25, 2011*

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



Source: IMF and BAM calculations

Chart 4.21: Real estate price index (REPI)

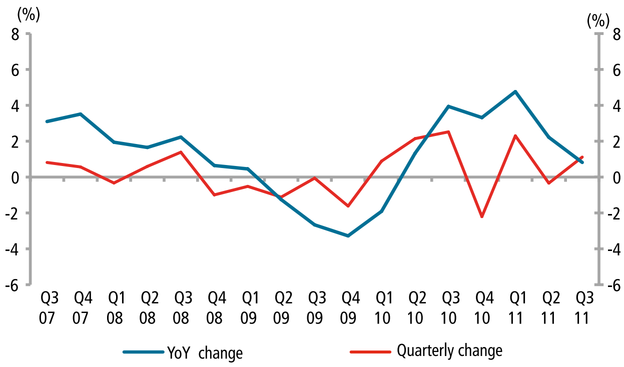
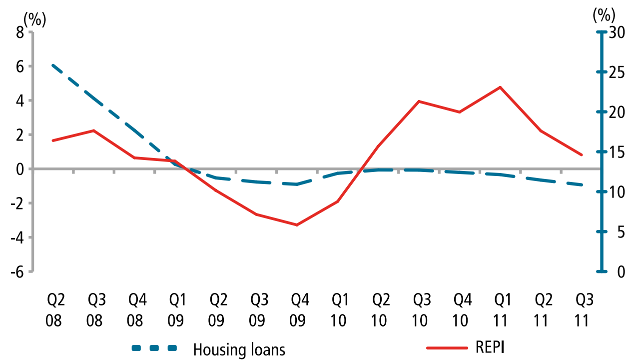


Chart 4.22: YoY change in the REPI and housing loans*



** Housing loans do not include loans to real estate developers* rate lower than the previous quarter, at 10.9 percent instead of 11.6 percent. The real estate stock market index continued to trend downward, posting an annual decline of 9.6 percent.

4.2.2 Stock prices

Continuing the trend seen for several quarters, the MASI reported a quarterly decline of 0.4 percent in the third quarter of 2011, which was steeper to the end of November as the index lost 4.5 percent. As a result, its annual underperformance rose to 13.4 percent in November, from 9.4 percent the previous quarter. The real estate sub-index followed the same trend, shrinking more markedly by 15.6 percent between the second and third quarters. In November, it was again down by nearly 9.7 percent from the previous quarter and 32.4 percent year to date.

Conversely, market capitalization was up 1.1 percent quarter on quarter, to 531.4 billion dirhams. This change mostly results from capital increases during this period, totaling 5 billion dirhams. In November, market capitalization fell 3.9 percent to 510.5 billion dirhams.

Under these conditions, the price earnings ratio of the Casablanca stock market increased from 16.1 in the second quarter to 16.9 in the third quarter and November. It thus remains relatively higher than other markets of comparable size. The price to book ratio, estimated at 3.9 in November, was higher than other markets.

The average monthly trading volume totaled 4.9 billion dirhams in the third quarter, up from 4.6 billion a quarter earlier. During the first two months of the fourth quarter, the average monthly volume reached 3.8 billion dirhams.

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

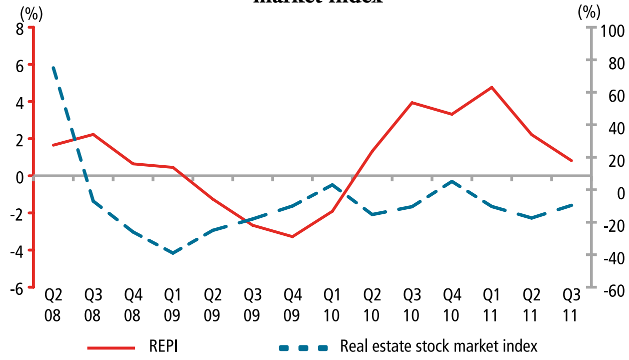


Chart 4.24: Stock market indexes

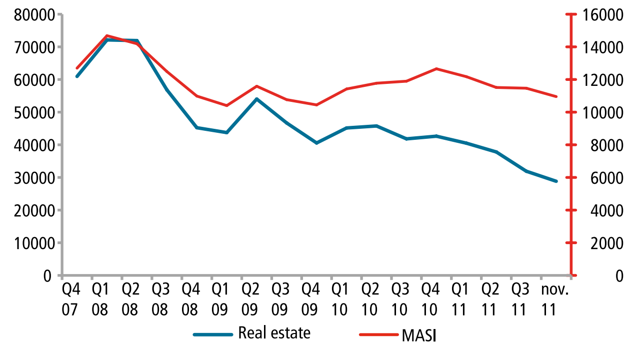
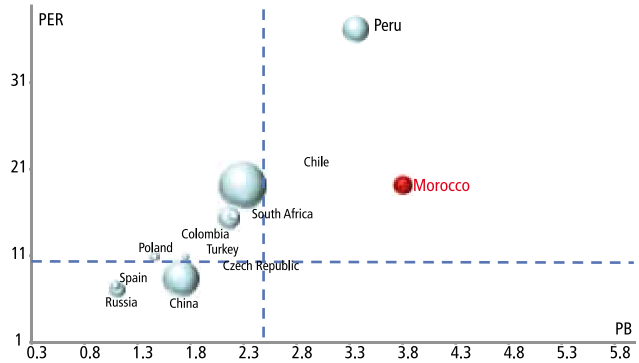


Table 4.3: Equity market's PER

PER	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Nov. 11
Argentina	12.9	11.1	12.7	13.4	11.5	9.8	8.6
Brazil	14.9	14.7	14.8	14.2	11.9	10.4	10.5
Mexico	13.5	14.3	15.7	15.3	13.4	12.5	13.5
Turkey	12.6	11.5	13.5	12.8	12.0	10.2	10.8
Morocco	**18.1**	**17.7**	**19.1**	**16.6**	**16.1**	**16.9**	**16.9**

Sources: Datastream and CFG

Chart 4.25: Stock market valuation in Morocco and in some emerging countries (*) to the end of September 2011

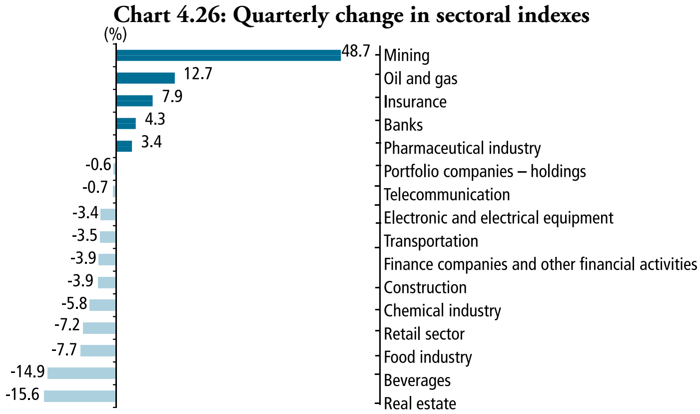


(*) The size of bubbles depends on the market capitalization/ GDP ratio.

Sources: Datastream, CFG, and BAM calculations

Sectoral indexes broadly trended downward in the third quarter. Indeed, only five indexes were up, within a range from 3.4 percent for the pharmaceutical sector to 48.7 percent in the mining index. Other indexes, however, registered declines ranging from 0.6 percent for portfolio holding companies to 15.6 percent for the real estate sector.

Chart 4.26: Quarterly change in sectoral indexes



Source: Casablanca stock exchange

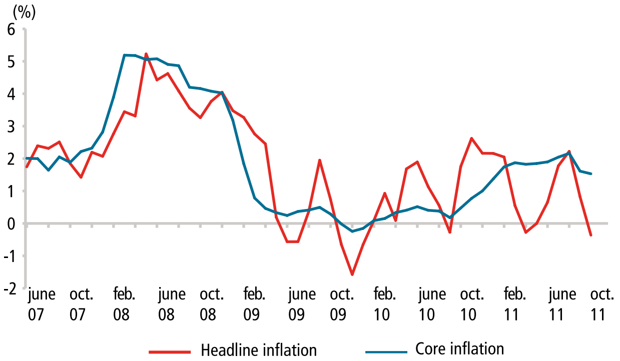
5. RECENT INFLATION TRENDS

Data for the third quarter and the month of October 2011 show changes consistent with the Bank Board assessments in the last Monetary Policy Report (MPR), which projected a downward trend of inflationary risks. Headline inflation, measured by the year-on-year change in the CPI, reached -0.4 percent in October from 2.2 percent and 0.8 percent in August and September, respectively, averaging 0.9 percent over the first ten months of 2011. Excluding volatile food prices and regulated products, core inflation (CPIX) slowed sharply, reversing the upward trend observed since November 2010. It was 1.5 percent in October, down from 1.6 percent in September and 2.2 percent in August. Its absolute deviation from headline inflation widened to 1.9 percentage point, mainly in connection with very short-term supply shocks. Largely reflecting changes in global food prices and inflation in major partner countries, the price index of tradable goods included in core inflation (CPIXT) increased by 2.9 percent in October, from 3 percent the previous month. In contrast, the inflation of nontradable goods (CPIXNT) remained unchanged at 0.1 percent in the last two months, in conjunction with the continued moderation of domestic demand pressures. Although it remains lower than the exceptional levels seen in 2008, the annual change in the industrial producer price index still reflects the dissemination of past increases in world commodity prices. As a result, the manufacturing price index grew at a year-on-year rate of 15.4 percent in October, from 15.5 percent in September and 15.9 percent in August.

5.1 Inflation trends

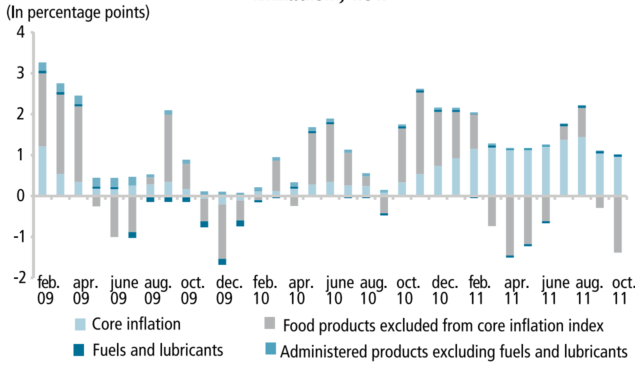
Overall, the trend in headline inflation remains consistent with price stability over the medium term, amid moderate pressure from domestic demand and stable inflation in partner countries. After 2.2 percent in August and 0.8 percent in September, headline inflation as measured by the annual change in the consumer price index (CPI) stood at -0.4 percent in October 2011, with an average of 0.9 percent over the first ten months of the year, slightly higher than the 0.7 percent recorded a year earlier. The recent change in headline inflation in part reflects the inflation of "volatile food" prices which declined more steeply from -2.1 percent to -9.3 percent. It also results from the relatively low core inflation, as the prices of regulated products excluding fuel and lubricants did not change between September and October. Besides the sharp drop in prices for fresh vegetables (-28.2 percent versus -8.8 percent), the trend in prices for "volatile food" is also due to the slower increase in poultry prices (+9.6 percent versus +13.9 percent), while fresh fruit prices were up by a mere 1.9 percent. Regarding the category of regulated

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations

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



Sources: HCP, and BAM calculations

products, prices excluding fuel and lubricants remained unchanged from the previous month, in conjunction with the stable prices of some components, notably tobacco, electricity and pharmaceuticals, as well as prices for fuels and lubricants which remain stable amid the continued freezing of the indexation mechanism (see Table 5.1).

Core inflation (CPIX), which excludes volatile food and regulated products, stood at 1.5 percent in October from 1.6 percent in September and 2.2 percent in August. The slowdown in core inflation in September mostly results from the significant one-off drop in prices for "phone and fax services". In October, the absolute deviation of headline inflation from core inflation widened to 1.9 percentage point, up from about 0.1 and 0.8 point in August and September, respectively. This temporary deviation is mainly due to the decline in certain fresh food prices, especially vegetables that negatively contributed 1.7 percentage point to inflation. Analysis by major components of the general index basket shows that the recent trend in core inflation mostly reflects the slightly slower growth in food prices included in the CPIX (3.4 percent, from 3.6 percent) as well as in the prices of miscellaneous goods and services (2.1 percent versus 2.7 percent). Meanwhile, the prices of some CPIX components increased at a rate virtually identical to that of September and October, particularly "clothing and footwear" (2.4 percent), "restaurants and hotels" (2 percent from 1.9 percent) and "education" (3 percent from 3.1 percent). In the first ten months of 2011, core inflation averaged 1.8 percent from 0.3 percent a year earlier. This is due to the rise of certain basic foodstuffs, especially cereal-based products (+2.4 percent versus -1.4 percent), oils and fats (12.9 percent instead of 0 percent) and milk (0.4 percent versus 0.1 percent).

Table 5.1: Inflation and its components

	Monthly change (%)			YoY(%)		
	August 11	Sept. 11	Oct. 11	August 11	Sept. 11	Oct. 11
Headline inflation	**1.4**	**0.0**	**-0.4**	**2.2**	**0.8**	**-0.4**
Including:						
- Volatile food products excluded from core inflation	8.5	0.3	-3.0	5.7	-2.1	-9.3
- Fuels and lubricants	0.0	0.0	0.0	0.0	0.0	0.0
- Administered goods excluding fuels and lubricants	0.0	0.0	0.0	0.1	0.1	0.0
Core inflation	**0.3**	**-0.5**	**0.1**	**2.2**	**1.6**	**1.5**
Including:						
- Food products	0.8	0.2	0.1	3.6	3.6	3.4
- Clothing and footwear	0.8	0.4	0.5	2.4	2.4	2.4
- Housing, water, gas, electricity and other fuels*	0.0	0.1	0.2	0.9	1.0	1.0
- Furniture, household appliances and common house maintenance	0.1	0.1	-0.1	1.0	1.0	0.9
- Health*	0.0	0.0	0.0	0.2	0.3	0.1
- Transportation*	0.3	0.2	0.3	-0.3	-0.4	0.0
- Communication	0.0	-12.4	0.0	-1.4	-13.7	-13.7
- Entertainment and culture	-0.1	0.0	0.4	-0.6	-0.5	-0.1
- Education	0.1	2.7	0.3	4.6	3.1	3.0
- Restaurants and hotels	0.1	0.3	0.2	1.6	1.9	2.0
- Miscellaneous goods and services	0.0	1.0	0.1	1.8	2.7	2.1

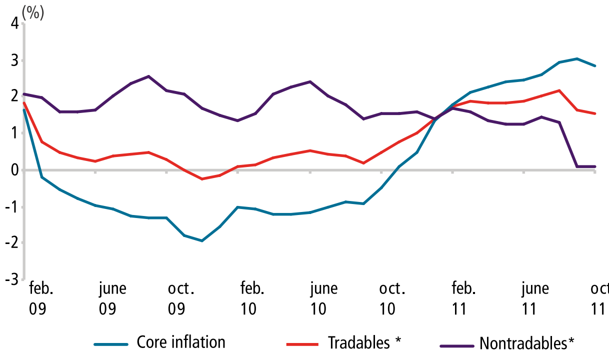
** Excluding administered goods*
Sources: HCP, and BAM calculations

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	July 2009	Jan. 2010	Apr. 2010	Oct. 2010	Jan. 2011	Apr. 2011	Oct. 2011
Premium gasoline	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Diesel 350/50 *	7.15	7.15	7.15	7.15	7.15	7.15	7.15
Industrial fuel (Dh/Ton)	3074	3074	3074	3074	3 678	3 678	3 678

(*) The Diesel 50PPM replaced the diesel 350 in February 2009 and the ordinary diesel in April 2009.
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

5.2 Tradable and nontradable goods

Analysis of prices by category of tradables and nontradables indicates that core inflation is still largely driven by the momentum in the CPIXT, itself impacted by inflation in Morocco's trading partners. Inflation of nontradable goods (CPIXNT) remained subdued, reflecting the continued absence of significant domestic inflationary pressures (see Table 5.4).

The prices of tradable goods (CPIXT) have been rising on a year-on-year basis since November 2010, before moving to 3 percent and 2.9 percent in September and October 2011, respectively, with an average of 2.4 percent during the first ten months of 2011 instead of -1.1 percent over the same period the previous year. This recent trend largely reflects the change in food products included in the CPIXT, such as "oils" and "oils and fats" that jointly contributed 1.2 percentage point to the increase in the CPIXT, and to a lesser extent the trend in cereal-based products which contributed 0.5 percentage point (see Table 5.3).

The annual growth rate of nontradables' prices (CPIXNT) slowed down markedly to 0.1 percent in September and October 2011, from 1.3 percent in August and 1.4 percent in the first eight months of 2011. This deceleration is largely due to the base effect related to the sharp one-off drop in September in the prices for "phone and fax services", the contribution of which to the annual decline in the prices of nontradable goods is estimated at -1.3 percentage point (see Table 5.3).

5.3 Goods and services

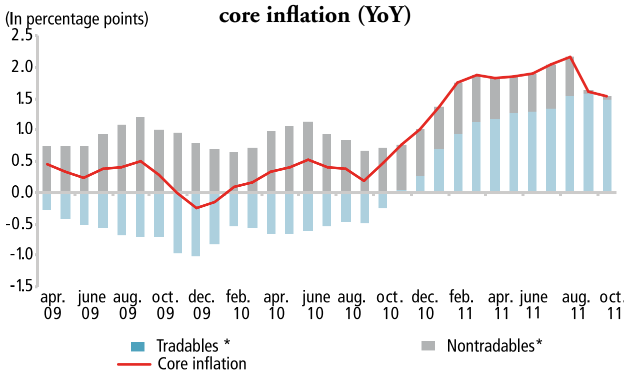
The breakdown of the CPI basket into goods and services shows that the short-term momentum in inflation is largely

Table 5.3: Change in tradables* and nontradables* price indexes

	Monthly change (%)			YoY change (%)		
	August 11	Sept. 11	Oct. 11	August 11	Sept. 11	Oct. 11
Tradables*	0.5	0.2	0.3	2.9	3.0	2.9
Nontradables*	0.3	-0.6	0.0	1.3	0.1	0.1

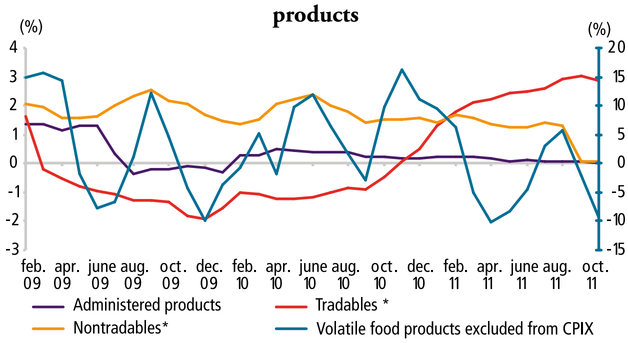
** Excluding volatile food and administered products*
Sources: HCP, and BAM calculations

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. 11	Oct.11	Sept. 11	Oct.11
Products excluded from core inflation index Including:	0.1	-0.4	-0.3	-1.4
Administered products	0.0	0.0	0.0	0.0
Volatile food products	0.0	-0.4	-0.3	-1.4
Tradables*	0.1	0.1	1.1	1.0
Nontradables*	-0.2	0.0	0.0	0.0

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

influenced by changes in prices of unprocessed goods as well as prices of services. Indeed, the year-on-year decline in headline inflation in October is related to the lower prices of unprocessed goods as well as services, which fell 5.3 percent and 0.2 percent, respectively. The contribution of these two components to the decrease in the general price index stood at -1.3 percentage point from a mere -0.2 point a month earlier.

The prices of processed goods excluding fuels and lubricants grew at a rate similar to the previous two months, rising 2.3 percent. The contribution of this category of goods to headline inflation is estimated at 1.0 percentage point on average in September and October 2011 (see Table 5.5).

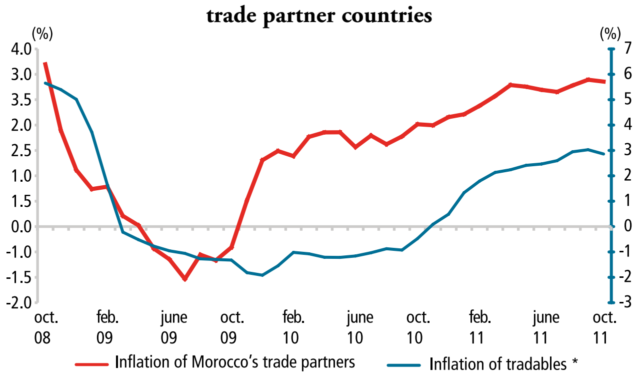
5.4 Industrial producer price index

On a monthly basis, the industrial producer price index recorded an increase of 0.8 percent in October after -0.5 percent and 1 percent in September and August, respectively. This trend is largely attributable to the change in coking and oil refining prices, which rose 1.5 percent after -1.6 percent and 2.5 percent in September and August.

Excluding coking and refining, producer prices rose 0.4 percent between September and October, mainly covering the increase in the prices of the "food" and "manufacture of wood and wood products" industries by 1.2 percent and 1.6 percent, respectively. This reflects, to a lesser extent, the 4 percent drop in the prices of "leather and footwear industry".

Year on year, the overall index in October was up 15.4 percent, virtually unchanged from the September figure of 15.5 percent. The non-refining index grew at

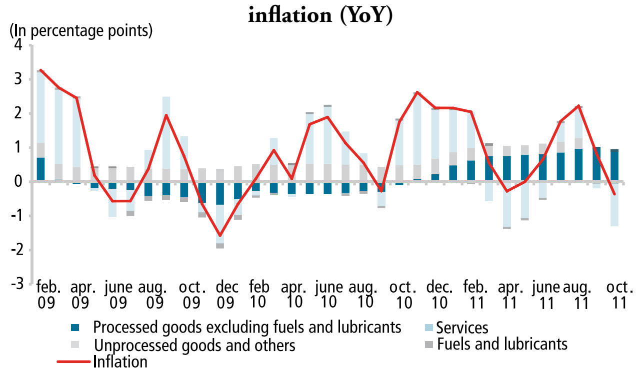
Chart 5.6: YoY change in inflation of tradables* and inflation in trade partner countries



** Excluding volatile food and administered products*

Sources: HCP, IFS, and BAM calculations

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



Sources: HCP, and BAM calculations

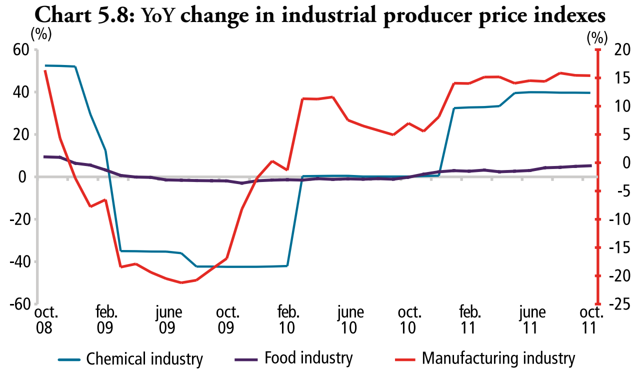
Table 5.5: Price indexes for goods and services

	Monthly change (%)			YoY change (%)		
	August 11	sept. 11	Oct. 11	August 11	Sept. 11	Oct. 11
Processed goods*	0.4	0.3	0.3	2.3	2.4	2.3
Unprocessed goods and others	5.4	-0.1	-2.0	4.1	-0.8	-5.3
Services	0.0	-0.5	0.1	1.0	-0.1	-0.2
Fuels and lubricants	0.0	0.0	0.0	0.0	0.0	0.0

** Excluding fuels and lubricants*

Sources: HCP, and BAM calculations

Chart 5.8: YoY change in industrial producer price indexes



Sources: HCP, and BAM calculations

the same pace of the previous month, 8.7 percent (see Chart 5.9).

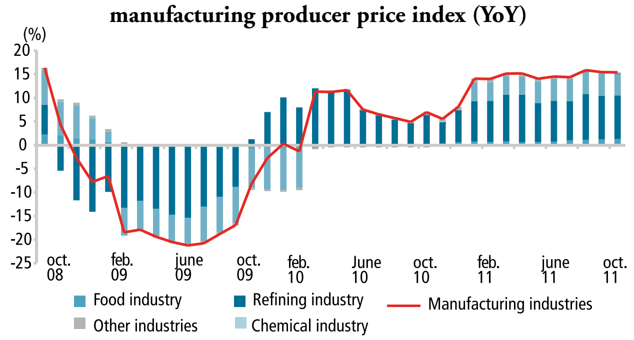
Despite the increase in industrial producer prices, its spread to consumer prices remains relatively limited and concentrated in non-energy tradable goods, due to the continued freezing of fuel prices indexation scheme.

5.5 Inflation expectations

The results of Bank Al-Maghrib business survey for October 2011 show that prices of industrial products should continue to moderate, as evidenced by the persistently high percentage of corporate managers anticipating stagnant industrial prices, reaching 81 percent in October from 88 percent in September (see Chart 5.11).

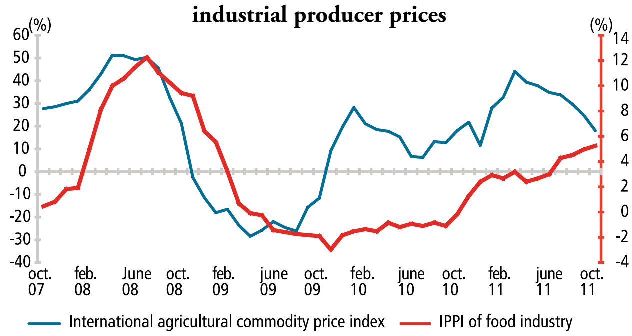
Meanwhile, the survey results indicate continued easing of inflation over the next three months. Indeed, the percentage of corporate managers expecting stagnant inflation stood at 74 percent, as against an average of 66 percent in the first three quarters of 2011. The percentage of manufacturers anticipating an increase slightly declined from 24 percent to 21 percent in October (see Chart 5.12).

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



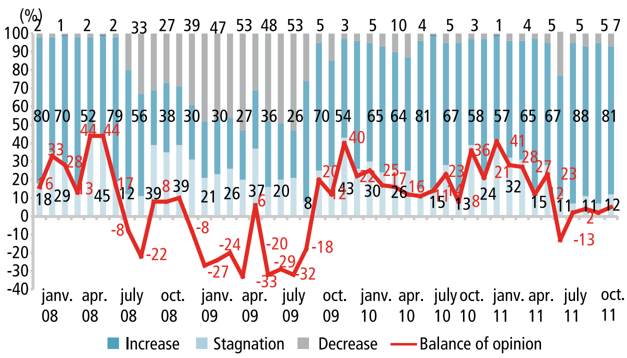
Sources: HCP, and BAM calculations

Chart 5.10: YoY change in domestic and international food industrial producer prices



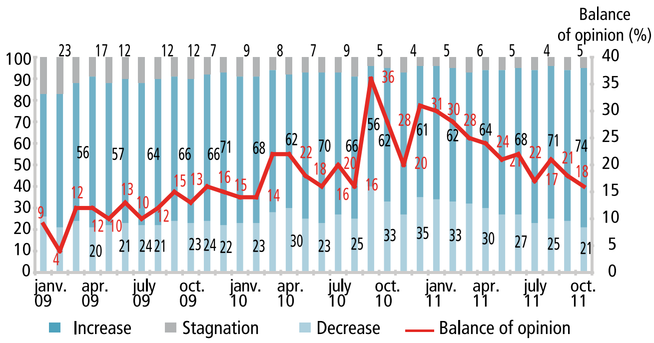
Sources: World Bank, HCP, and BAM calculations

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 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 associated risks (balance of risks). The baseline scenario therefore 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 1.4 percent, below the average rate expected in the last Monetary Policy Report (2 percent). For the full year 2011, inflation should be around 1 percent, down from the rate of 1.3 percent expected in the last MPR. For the year 2012, inflation would average 1.5 percent. Assuming diesel pump price remains at its current level, the balance of risks to this forecast exercise is slightly tilted to the downside due to a steeper decline in commodity prices and a larger-than-expected contraction in foreign demand for Morocco.

6.1 Baseline scenario assumptions

6.1.1 International environment

Economic activity in advanced countries is starting to show signs of a new contraction, as growth decelerated in the first half of the year and virtually stagnated in the third quarter. Emerging economies continue to show strong growth, but at a lower rate mainly because of the measures taken to curb signs of overheating.

The stagnation of economic activity in developed countries mostly reflects the sharp deterioration in confidence, in conjunction with the continued debate on fiscal adjustments in the United States as well as the worsening and spread of the sovereign debt crisis in the euro area.

Moreover, private demand is slow to take over as fiscal stimulus winds down, in a context marked by worsening household balance sheets, following the sharp fall in stock prices and the continued weakness of the housing and labor markets.

Indeed, despite the short period of improvement in recent months, the number of job seekers again increased and the average working time is well below its pre-crisis level. Financial institutions are still severely weakened by heightened financial turmoil, as evidenced by the excessive volatility of stock prices and the significant widening of government bond yield spreads.

Under these conditions, the eurozone and the United States achieved a growth rate of 1.4 percent and 1.6 percent, respectively, in the third quarter of 2011, almost stagnant compared to the previous quarter.

On the whole, despite the combination of all these contractionary factors, the advanced economies continued to record positive growth rates due to the momentum in demand from emerging countries, the continued implementation of accommodative monetary policies and the consolidation of measures to support the financial sector.

With regard to growth prospects, the latest IMF forecasts project growth in the United States and the euro area to reach 1.5 percent and 1.6 percent in 2011 and 1.8 percent and 1.1 percent in 2012, respectively.

Downside risks to the economy have increased significantly in recent months. They are primarily related to fears about the ability of governments to restore fiscal sustainability while cushioning the economy against a second recession, the consequences of which may be more severe. In addition, growing tensions in financial markets may further weaken financial institutions that are still vulnerable. Finally, a drop in demand from advanced economies is likely to impact economic growth in emerging markets through the channel of international trade, which could eventually impact the exports of developed economies.

In view of these developments, we assume in this forecasting exercise that the weighted growth rate of our major trading partners (France, Germany, Italy, Spain and the United Kingdom) would reach 1.3 percent this year, 1.2 percent in 2012 and 1.7 percent in 2013. Compared to the rates presented in the September MPR (1.4 percent in 2011 and 2012), these assumptions were revised downward in connection with a less positive global economic outlook. For the record, this growth rate is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

The upward trend of consumer prices in the first half of this year is starting to moderate in conjunction with the easing of commodity prices which, however, remain relatively elevated compared to the levels seen in 2009 and early 2010.

In this context, inflation remains high in the euro area, hovering around 3 percent since September. Nonetheless, the persistently large output gaps and underemployment levels should contribute to bringing down inflation to around 2 percent. The ECB, in its November Monthly Bulletin, expects an inflation rate of 2.6 percent for the full year 2011 and 1.8 percent for 2012 and 2013. It should be noted that these figures were not revised from the forecast set out in the last MPR.

Risks to the inflation outlook remain balanced. Indeed, inflationary pressures from possible increases in indirect taxes and regulated prices, in connection with fiscal consolidation plans, are mitigated by sluggish growth prospects.

With regard to the three-month Euribor, the central scenario of this exercise assumes a rate of 1.40 percent for the fourth quarter of this year. This rate would gradually decrease to an average of 1.21 percent for the full year 2012. In the first quarter of 2013, this rate is expected to stand at 1.29 percent.

In light of changes in commodity prices as outlined above, the forecasts of non-energy import prices, included in the forecasting models developed by Bank Al-Maghrib, still report a deceleration in the last quarter of 2011 followed by a virtual stagnation in 2012.

6.1.2 National environment

Compared to the previous forecasting exercise, Bank Al-Maghrib somewhat lowered its projections for overall growth in 2011 to a range between 4 percent and 5 percent, down from 4.5 percent to 5.5 percent reported in the September MPR. This slight deceleration would be particularly attributable to the decline in foreign demand for Morocco in the wake of weaker growth in the partner countries. For the year 2012, domestic growth outlook broadly points to the resilience of the economy, although downside risks would persist in connection with the economic downturn in our major trading partners. External demand is expected to remain negative and overall growth would mostly depend on the momentum in domestic demand.

Despite the rain delay that occurred in the beginning of the 2011-2012 season, the agricultural value added was characterized by a good start of the crop year on the back of well-distributed rainfall. It would also benefit from a number of measures planned by the Ministry of Agriculture, including the supply of 1.3 million quintals of selected seeds, fertilizer supply in sufficient quantities and the establishment of a new agricultural insurance scheme against the main climate risks. Under these conditions, we expect an average cereal production of 68 million quintals for this crop year and the 2012-2013 season.

Nonagricultural value added in 2012 is expected to grow at a rate comparable to that of the last two years. This increase would be linked to the relatively positive trend in the components of private demand. Indeed, household final consumption would hold up in conjunction with the recent wage increases, the adjustment of minimum wage scheduled in July 2012 and the moderate inflation. However, this trend may be altered by the contraction in external demand which is expected to impact household income (declining remittances of Moroccans living abroad and lower employment in exposed sectors). Meanwhile, private investment would remain buoyant as evidenced by the strengthening of capital goods imports in 2011.

Ultimately, although the global economic downturn may slow the pace of growth in Morocco, the latter would continue to be sustained by domestic demand.

Labor market data for the third quarter of 2011 point to a slight increase in the national unemployment rate, up 0.1 percent from the same period last year. This near stagnation reflects contrasting trends between urban and rural areas. While rural unemployment rate rose from 3.8 percent to 4.1 percent, the urban unemployment rate was down 0.3 percent from 13.8 percent to 13.5 percent. The major job-creating sectors were the services sector, industry and agriculture, forestry and fishing, which generated 152,000, 21,000 and 14,000 new jobs, respectively. However, the construction sector, which remains the main source of employment at the national level, lost 6,000 jobs.

The results of Bank Al-Maghrib business survey for the fourth quarter of 2011 show that manufacturers expect stagnation in the labor force employed in the chemicals and related industries as well as in the mechanical and metallurgical industries, whereas an increase in employment is expected in the other industries. Nevertheless, these conditions would not weigh on the future change in wages. Therefore, the central scenario assumes a minimum wage of 11.70 dirhams/hour over the first three quarters of the forecast period and 12.24 dirhams/hour as from the fourth quarter, as underscored in the previous forecasting exercise.

Considering the sluggish outlook for global economic growth, the IMF revised down in September its forecasts for oil price to an average of $103.2 a barrel in 2011 and $100 in 2012. Similarly, the World Bank expects the oil price to average $103.2 a barrel in 2011 and $94.7 in 2012, down from previous forecast.

Amid falling commodity prices, the central forecasting scenario assumes the diesel pump price to remain unchanged at 7.15 dirhams.

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 points to an inflation rate of 1.4 percent, lower than the average rate of 2 percent projected in the last MPR. For the full year 2011, inflation would average 1 percent, below the 1.3 percent expected in the previous forecasting exercise.

Inflation in the fourth quarter of 2011 would hover around 0.5 percent, down from the 1.7 percent announced in the previous MPR. In the first half of 2012, inflation would run at 1.4 percent; from 2.3 percent. For the second half, it is expected to average 1.6 percent, instead of 1.8 percent. Finally, inflation in the first quarter of 2013 would stand at 2.1 percent (see Table 6.1).

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

The fan chart of this forecasting exercise suggests slight downward asymmetry, involving a possible downward deviation of the inflation rate from the central projection. This asymmetry arises from potential deflationary risks, associated with an easing of pressure on import prices. Indeed, a steeper decline in commodity prices may influence the future trend in import prices. Similarly, a larger-than-expected contraction in foreign demand for Morocco could dampen price increases.
The materialization of one or more of these

risks could cause the inflation rate to deviate from the central forecast, at a value falling (with a probability of 90 percent) within the forecast range represented on the fan chart.

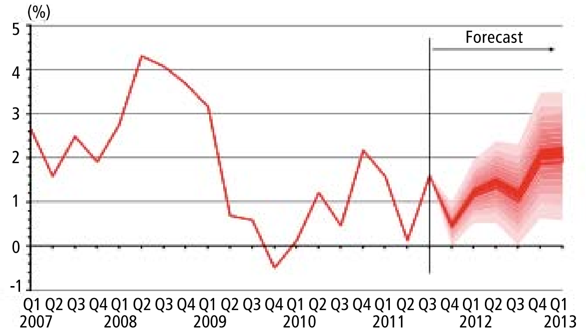
Table 6.1: Inflation outlook for 2011 Q4 – 2013 Q1

	2011	2012				2013	Average		FH*
	Q4	Q1	Q2	Q3	Q4	Q1	2011	2012	
Central forecast (%)	0.5	1.2	1.5	1.2	2.1	2.1	1.0	1.5	1.4

(Quarterly data, YoY)

*Forecast horizon**

Chart 6.1: Inflation forecast, Q4 2011- Q1 2013 (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.

بنك المغرب

بنك المغرب

بنك المغرب

Legal deposit: 2007/0033

BANK AL-MAGHRIB

Central Administration
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

بنك المغرب