بنك المغرب
BANK AL MAGHRIB

MONETARY POLICY REPORT

N° 13 / 2009

Document prepared for
the Bank Board
December 22, 2009

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LIST OF ABBREVIATIONS

APC : Cement manufacturers professional association
BAM : Bank Al-Maghrib
CFG : Casablanca Finance Group
CNSS : Caisse nationale de sécurité sociale (National Social Security Fund)
CPI : Consumer Price Index
CUR : Capacity utilization rate
DH : Dirham
ECB : European Central Bank
FDI : Foreign direct investments
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
OCP : Office chérifien des phosphates (Morroccan 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
SMIG : Salaire Minimum Interprofessionnel Garanti (minimum wage)
UCITS : Undertakings for collective investment in transferable securities
VA : Value added

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 22, 2009

1.The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, December 22, 2009.

The Board examined recent economic, monetary and financial trends, and the inflation forecasts made by the Bank staff up to the first quarter of 2011.

The Board particularly noted that inflation remained moderate, notwithstanding some slight fluctuations linked to the volatility of fresh food prices. Indeed, headline inflation increased from 0 percent in August to 1.4 percent in September, and fell back to 0.4 percent in October 2009. Core inflation, reflecting the underlying trend of prices, remained stable at around -0.7 percent over the last three months. At the same time, industrial producer prices continued to decline, albeit at a slower pace, and stood at 16.9 percent in October, compared with 18.8 percent in September and 20.8 percent in August.

Internationally, economic activity showed some signs of recovery; however, its growth is still surrounded by considerable uncertainties mostly associated with the high unemployment rate and the functioning of the credit market. the output gap of our main partners is expected to remain negative during the coming quarters, and would continue to impact the performance of the national economy particularly through the channels of goods and services' exports and transfers. Nonetheless, projections suggest that this output gap would be positive in the fourth quarter of 2010.

Against this background, the national data available show a continued progressive improvement in nonagricultural growth, started in the second quarter of 2009. Moreover, the balance of payment performances are expected to be more important compared with 2008, thus bringing the exchange reserves to a level close to that of December 2008. Nonagricultural output gap, which is more relevant for the assessment of inflationary risks, would yet remain negative over the coming quarters. On the other hand, overall growth would be between 5 percent and 6 percent in 2009, and slow down in 2010 to stand between 3 percent and 4 percent, due to a less important contribution of the agricultural sector.

Analysis of monetary conditions shows the continued moderate growth of M3 aggregate, which posted a year-on-year growth rate of 6.4 percent in October, unchanged from the third quarter. Bank credit, despite the continued slowdown, remains relatively strong with a 10.7 percent increase in October, down from 14.9 percent in the third quarter.

On the basis of these data, inflation forecasts remain generally in line with those published in the Monetary Policy Report of October 2009. Nevertheless, the central forecast was slightly revised upward at the end of the forecast horizon, from 2 percent to 2.5 percent, considering the transmission of the recent increase in international commodity prices. Inflation would consequently average 1.9 percent over this horizon. Core inflation would be negative in 2009, and would remain below 2 percent over the forecast horizon.

Risks surrounding inflation forecasts will be generally tilted to the downside during the next quarters. Indeed, pressure from demand, particularly foreign demand, is projected to remain moderate. However, the volatility of international commodity prices, especially oil, represents a source of uncertainty.

In this context where risks to stability are skewed to the downside and inflation forecast is in line with the objective of price stability, the Board decided to keep the key rate unchanged at 3.25 percent.

The Board also examined the three-year budget forecasts and approved the budget of 2010.

The Board agreed on the schedule of its meetings for the year 2010 as follows:

- March 30, 2010
- June 15, 2010
- September 21, 2010
- December 21, 2010

OVERVIEW

In a context of continued decline of inflation at the international level and the easing of internal and external pressures from demand, headline inflation remained generally weak, thus in line with the analyses and forecasts of the October Monetary Policy Report. After 0.0 percent in August and 1.4 percent in September, annual headline inflation fell back to 0.4 percent in October 2009, while core inflation remained almost stable at around -0.7 percent over the last three months. This trend reflects a 0.2 percent decrease in the prices of tradable goods and a moderate inflation of nontradable goods, which reached 1.5 percent down from 2 percent in September. At the same time, industrial producer prices, sensitive to international commodity prices, remain lower than in 2008. However, the rate of their decline has again slowed down, from -18.8 percent in September to -16.9 percent in October.

Internationally, the economic situation seems to improve gradually, owing to the renewed growth in emerging countries, particularly in Asia, and to a lesser extent the moderate recovery of economic activity in industrialized countries. After generally positive growth rates in the second quarter of 2009, national accounts for the third quarter and high-frequency indicators of October and November again improved somewhat. At the same time, unemployment rate remained at record highs in advanced economies, while the stagnation of credit, or even its contraction in some countries, persists. These developments, coupled with uncertainties surrounding the durability of recovery policies› impact, constitute significant risk factors that require vigilance regarding the pace and scope of the recovery at the international level, mainly for Morocco›s main partners.

World inflation seems to be at a record low, as the most recent data show a break in the downward trend of consumer prices that began months ago. This trend may continue over the forthcoming quarters, suggesting a slight upward revision of external inflationary risks.

At the national level, and according to the most recent data, Bank Al-Maghrib maintained its forecasts for GDP growth between 5 percent and 6 percent for the whole year 2009, with a strong contribution of agricultural value added. Considerably linked to the cycle of activity in partner countries, nonagricultural growth would be lower than 3 percent at the end of the year, thus breaking with the trend of the last five years. Domestic demand remains resilient, on the back of the uptrend in household consumption and to the continued investment momentum of the public sector. The contribution of foreign demand to growth would again be negative for the third year running, notwithstanding a small increase due to a more marked decline in imports compared with exports. For the year 2010, national economy would witness a continuing improvement in nonagricultural activities, in parallel with the expected recovery of growth in Morocco›s main partners, and a marked decline in the agricultural value added, after the exceptional growth observed this year. Consequently, overall growth is expected to range between 3 percent and 4 percent, since the main risk factors are related to the extent of the decrease in agricultural value added at the domestic level and to the pace of economic recovery at the international level.

Nonagricultural output gap, relevant for the assessment of inflationary risks, again was negative in the third and fourth quarters of 2009, and would remain weak over the coming quarters. Similarly, the output capacity utilization rate, calculated through Bank Al-Maghrib›s business survey in the industry, remained below its average level despite the increase observed since the second quarter of 2009. Concerning the job market, the third quarter of 2009 was characterized by stability in the national unemployment rate compared with the same period of last year, reflecting a decrease in the urban unemployment rate and an increase in rural areas. Regarding wages, the data available show an increase, in real terms, in private sector wages during the third and fourth quarters of 2009, particularly due to the second operation of readjustment of the minimum wage as of July 2009. Overall, and in the present context, the various indicators of pressures on output capacities show some moderate inflationary pressures in the coming quarters.

As for monetary conditions, figures at the end of October indicate a continued slowdown in money creation, observed since the start of the year 2008. In this context, money surplus remained negative and the average annual growth of M3 stabilized at about 6.4 percent in the third quarter and in October. The annual growth rate of bank loans declined from 14.9 percent in the third quarter to 10.7 percent in October. Still, credit increase remains steady. As to lending rates, the findings of BAM›s survey among banks for the third quarter of 2009 show that the weighted average rate remained stable at 6.53 percent. Similarly, the weighted average rate of 6-month and 12-month deposit rates remained unchanged at 3.55 percent between the third quarter and October 2009.

Analysis of all these elements confirms the ongoing easing of inflationary pressures. Nonetheless, the central forecast of headline inflation for the six coming quarters was substantially revised upward compared with the Monetary Policy Report of October 2009. This revision is mainly explained by the integration of a growing probability that the recovery observed in the international prices, mainly in commodity prices, will pass through to domestic prices. Accordingly, over the forecast horizon, the central forecast averages 1.9 percent, up from 1.1 percent in the last MPR. At the end of the forecast horizon -the first quarter of 2011- headline inflation is expected to reach 2.5 percent.

Altogether, analysis of the economic and financial situation, carried out as part of this report, suggests that risks to the central forecast are expected to continue their downward trend. Externally, these risks are linked to the continuing unfavorable economic conditions in our major trading partners, despite the positive signs observed. Volatility of commodity prices remains a potential source of uncertainty, especially if the current pressures on world markets intensify, therefore affecting imports prices, industrial producer prices, and tradable prices. Internally, risk factors would remain skewed to the downside, whereas nonagricultural growth would probably recover slightly, while remaining below the pace of the last years.

1. AGGREGATE SUPPLY AND DEMAND

The latest data available are in line with the forecasts published in the last Monetary Policy Report that predicted that global GDP would grow between 5 percent and 6 percent in 2009. A growth rate close to that recorded in 2008 is mainly attributable to the expansion of the agricultural value added. In fact, despite the signs of recovery observed during the second quarter of 2009, the growth of nonagricultural activities would break with the momentum observed in the last five years, thus confirming the significant link between the activity cycle in Morocco, excluding agriculture, and in partner countries, mainly European. Domestic demand remained strong all over the year 2009, on the back of the uptrend in household consumption and the continued momentum in public sector investment. The contribution of foreign demand would be negative for the third year in a row, despite a small increase due to a more marked decline in imports compared with exports. For the year 2010, national economy would witness continued improvement in nonagricultural activities, in parallel with the expected recovery of growth in Morocco's main partners, but also a marked decline in the agricultural value added, after the exceptional growth observed this year. Consequently, domestic growth is expected to range between 3 percent and 4 percent, since the main risk factors are related to the extent of the decrease in agricultural value added at the domestic level and to the recovery pace of activity at the international level.

1.1 Output

National economy has recently showed, in its nonagricultural component, significant signs of integration and harmonization of the activity cycle with the global economy, especially with the major European partner countries. Nonagricultural value added has registered a two-phase profile since the beginning of global recession. A first phase of slowdown started in the second quarter of 2008, resulting in a record low of 0.6 percent in the first quarter of 2009. Then, a period of upturn began in the second quarter of 2009, as nonagricultural activity started to return to its growth trend, which is expected to be long and gradual, as in partner countries.

These cyclical variations are not much reflected in the overall GDP, which increased by 4.6 percent in the first quarter of 2009 and by 6 percent in the third quarter, particularly owing to the 27.3 percent increase in agricultural value added.

Based on the most recent data and the very short-term perspectives, the development of the available indicators reveals an improvement in nonagricultural activities, due to the strength of national demand and the slight increase in foreign demand (see chapter 3). In this context, considering the 27.6 percent expansion of agricultural value added, economic growth is projected to reach, on average, around 6 percent during the last couple of quarters of 2009.

Table 1.1: Year-on-year growth of quarterly GDP at 1998 chained prices per major activity sectors. in %

	2008				2009			
Activity sectors	QI	QII	QIII	QIV	QI	QII	QIII(f)	QIV(f)
Agriculture	16.0	16.6	16.1	16.6	26.8	27.8	27.3	27.8
Nonagricultural value added	**6.2**	**4.8**	**4.3**	**1.2**	**0.6**	**2.0**	**3.2**	**4.0**
Industry*	5.6	3.4	1.6	-6.7	-7.3	-3.7	-1.2	0.7
Electricity and water	8.8	7.3	4.1	3.4	6.1	1.4	2.0	1.5
Building and public works	11.9	9.1	11.8	5.1	-0.2	1.0	0.9	1.2
Trade	6.9	6.6	3.6	1.0	0.7	0.2	0.8	1.0
Hotels and restaurants	0.5	1.3	1.1	0.2	-7.8	-4.0	-2.8	-2.1
Transportation	4.6	4.1	2.1	-0.1	0.3	1.9	2.2	2.5
Post and telecommunications	10.0	12.7	8.1	4.1	2.0	2.6	2.8	2.7
General government and social security	3.1	3.6	4.2	4.9	6.0	6.7	6.5	6.7
Others services**	6.4	5.0	3.5	1.5	5.0	5.3	5.7	5.9
Value added at basis price	**7.4**	**6.4**	**5.8**	**3.1**	**4.2**	**5.7**	**6.3**	**6.7**
Taxes on products net of subsidies	5.9	6.0	5.1	3.0	0.6	3.1	4.1	4.4
Nonagricultural GDP	**6.2**	**5.0**	**4.4**	**1.4**	**0.6**	**2.1**	**3.0**	**2.9**
Gross domestic product	**7.2**	**6.3**	**5.7**	**3.1**	**3.7**	**5.4**	**6.0**	**6.4**

(*) Including extractive industry. and refining and non-refining industry

(**) Including financial activities and insurance. services to companies and personal services. education. health and social action. and the fictitious branch

Sources: HCP. and BAM estimates and forecasts

In the secondary sector, the value added decrease, observed since the last quarter of 2008, is expected to witness moderation during the third quarter of 2009 then increase by 0.9 percent in the fourth quarter of 2009. Still, this new improvement will depend on the pace of recovery by foreign demand.

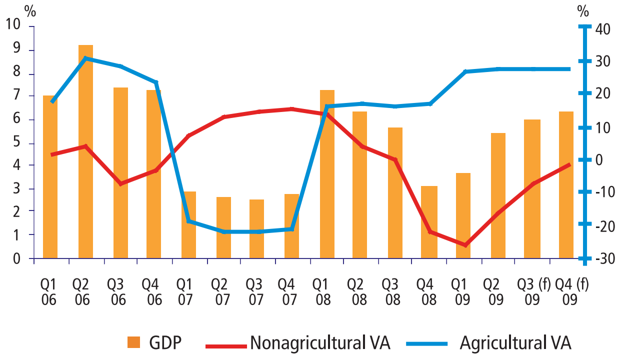
At the level of the industry, the signs of upturn observed during the second quarter (see MPR of October 2009) tend to be confirmed in the different sectors. In fact, the decrease of extractive value added, which did not exceed 27.1 percent in the second quarter compared with 46.6 percent in the first quarter, should be more moderate for the remaining of the year, owing to the increase in production of phosphates, phosphoric acid, and natural and chemical fertilizers. Furthermore, after a 0.7 drop in the first half-year, the value added of processing industries is projected to grow up again in the second half-year, with an average increase of 1.8 percent. The results of Bank Al-Maghrib's business survey in the industry for October reveal a generally optimistic business climate, with a positive present and future trend in sales and an increase in the industrial output compared with September. However, overall orders, despite their upward trend from one month to the next, remain below their usual levels, while the finished products' stock returned to its usual trend. Output capacity utilization rate stabilized at 69 percent, thus in a net increase compared with the low levels recorded at the end of 2008. However, this level remains inferior to its historical average.

After a 0.2 percent decrease in the first quarter and a 1 percent increase in the second, the sector of building and public works seems to recover slowly, according to the figures of cement sales. In fact, the latter's aggregate flow, at the end of September, remained 2.4 percent lower than the same period of last year. During the third and fourth quarters of 2009, value added of this sector is expected to reach no more than 0.9 percent and 1.2 percent, respectively.

The value added of the services sector is expected to rise 3.7 percent in the third quarter, and 4 percent in the fourth quarter, owing to the improvement in the different sub-sectors.

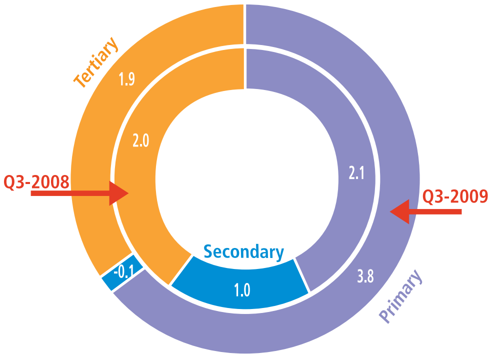
The tourist activity downward trend, observed since the beginning of the year, eased off in the last two quarters of 2009. This

Chart 1.1: Year-on-year quarterly change in gross domestic product, and in agricultural and nonagricultural value added



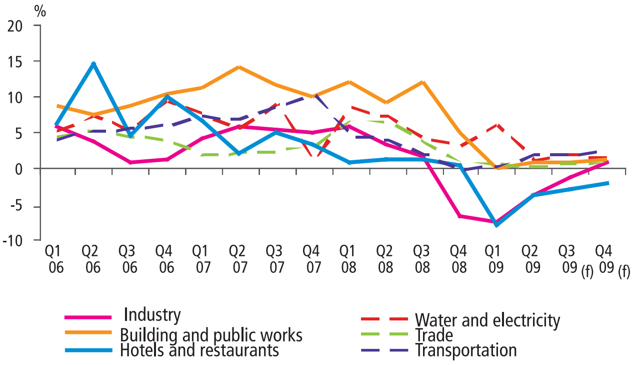
Sources: HCP, BAM forecasts

Chart 1.2: Contributions of the primary, secondary, and tertiary sectors to the overall VA growth, in percentage points



Source: HCP and BAM estimates and forecasts

Chart 1.3: Year-on-year sectorial VA change



Sources: HCP, BAM forecasts

change is reflected in the activity's indicators, particularly the tourists' flow, which grew up to 7.1 million visitors at the end of October, up 5.7 percent compared with the same period of 2008. At the same time, the decrease of overnight stays in classified hotels dropped to 2.1 percent, compared with 3 percent in the first quarter. Moreover, travel receipts' contraction slowed down markedly; it was limited to 7.7 percent compared with 14.4 percent at the end of the first half-year. Meanwhile, transportation value added is projected to rise by 2.3 percent, on average, in the second quarter, due to the expected improvement in the economic situation. In this regard, air transportation reported a 2.5 percent increase in the number of passengers, at the end of September 2009, in part reflecting the progress in tourist activity. Similarly, the number of railways passengers increased by 8.7 percent. With regard to the posts and telecommunications' sector, its value added is expected to rise at the same pace of the second quarter of 2009, namely 2.7 percent, confirming its break with the two-digit growth rate observed in the last three years.

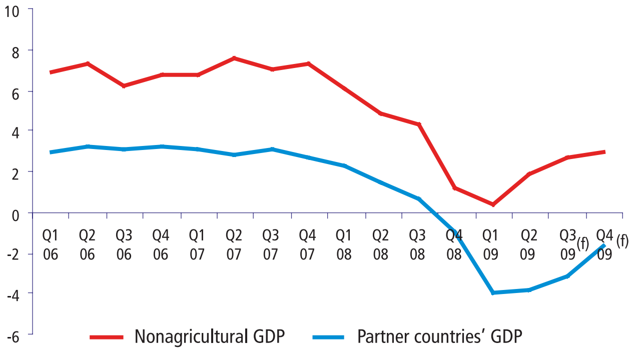
In 2010, economic activity is projected to witness a recovery in nonagricultural activities, whose growth should reach a rate close to 4 percent. On the contrary, agriculture's contribution to overall growth is expected to be negative, after its exceptional growth in 2009. In fact, according to the initial forecasts of Bank Al-Maghrib, cereal output would not exceed 60 million quintals. Overall, GDP growth is expected to range between 3 and 4 percent.

1.2 Consumption

Domestic final consumption is expected to increase by 7.3 percent in 2009. Although less rapid than the last three years, this rate remains above the average of the decade. Concerning household final consumption, more particularly, it would grow by 7.1 percent, after the average growth rate observed in 2006-2008, which equaled 10.9 percent.

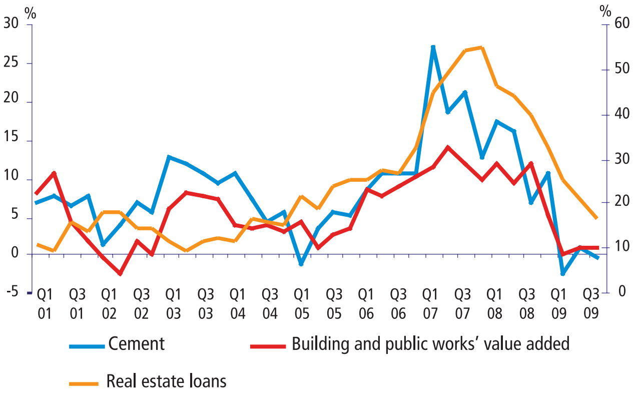
Overall, the main indicators available at the end of October suggest that household consumption is expected to continue its

Chart 1.4: year-on-year evolution of non-agricultural GDP, and of the weighted GDP of partner countries



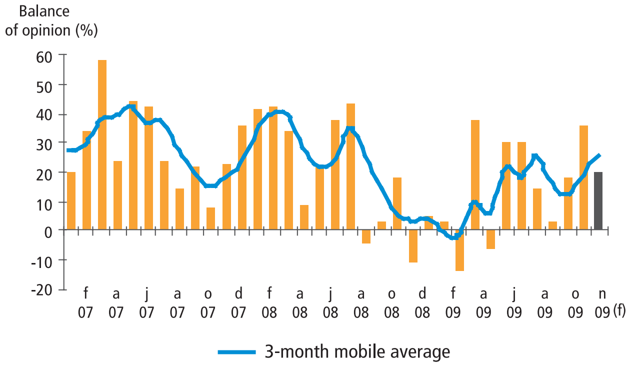
Sources: HCP, European commission, Foreign exchange office, and BAM calculations

Chart 1.5: Year-on-year change in the value added of Building and public works, cements quarterly cumulative sales and real estate loans



Sources: APC, and BAM forecasts

Chart 1.6: Past and forecast industrial output



Source: BAM's monthly business survey inthe industry positive trend during the coming quarters. In fact, the third quarter of 2009 witnessed an increase in the share of gainful labor and in wages. Moreover, the decrease of expatriate remittances, observed since September 2008, recorded a net slowdown in the last months, and is expected to improve, in the light of the more favorable prospects of the international economy.

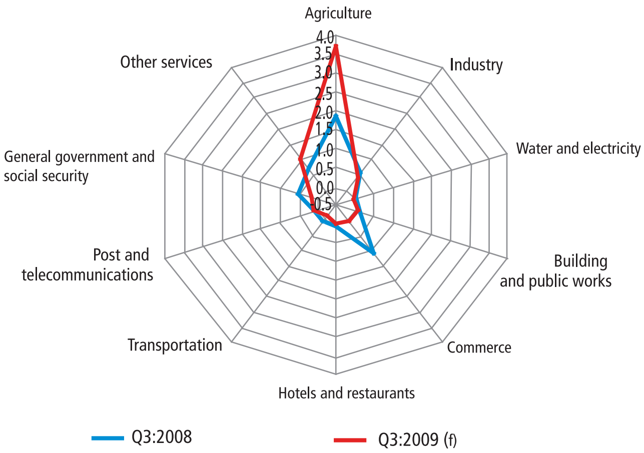
On the other hand, imports of consumer finished products decreased at a moderate pace, by 3.3 percent, at the end of October 2009, while the growth rate of consumer loans remains dynamic, despite its deceleration. This rate settled at 19.3 percent compared with 32 percent during the same period of the previous year.

Regarding public consumption, it speeded-up lightly compared with preceding year. Hence, at the end of October 2009, operating expenses rose by 12.3 percent, reflecting the 6.4 percent and the 24.6 percent increase of personnel expenses and of other goods and services, respectively. At the end of the same period of last year, these expenses had increased by 6.1 percent.

1.3 Investment

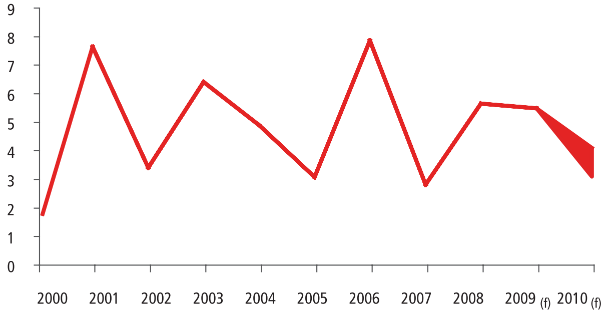
Nominal gross fixed capital formation is projected to increase by 7.8 percent in 2009,

Chart 1.7: Contribution of sectors to overall growth



Sources: HCP, and BAM calculations and forecasts

Chart 1.8: Gross domestic product change



Sources: HCP, BAM forecasts

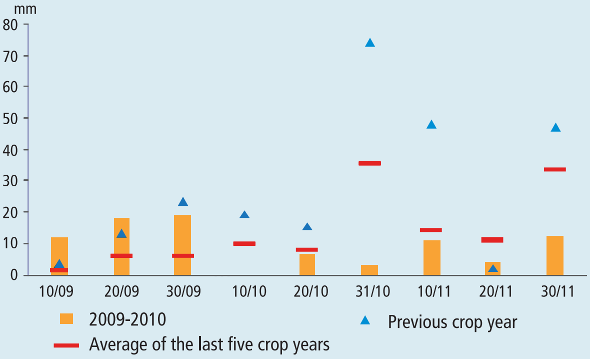
Box 1.1: Cereal production forecast of 2010 based on the data available at the end of November 2009

Bank Al-Maghrib has put in place a mechanism for forecasting cereal production and agricultural value added, whose features have been presented in Box 1.1 in page 15 of March 2009 MPR.

Regarding the 2009-2010 crop year, the climatic conditions which characterized its beginning may be divided in three stages. The first stage, which covers the month of September, has observed considerable cumulated rainfalls all over the national territory. However, these rainfalls were concentrated in time, as shown by the maximum daily rainfall, which attained a peak of 75 mm.

On the contrary, rainfalls in October and in the first twenty days of November did not exceed 2.5 days and recorded a deficit of 69 percent compared with the

Chart B.1.1. : Decadal cumulative rainfall



Source: National directorate of meteorology average of the last five crop years. During this phase, temperatures remained above the season average all over the territory.

The last stage covers the last ten days of November, with more or less important rainfalls according to regions, in one day.

Overall, the rainfall cumulated at the beginning of the present crop year has recorded a deficit in almost all regions, either compared with the average of the last five crop years or to the last crop year. At the national level, these deficits have respectively reached 32 percent and 65 percent, at the end of November.

Using the ten-day frequency data relative to nine climate[1] variables allows refining the econometric model and the method based on similar crop years.

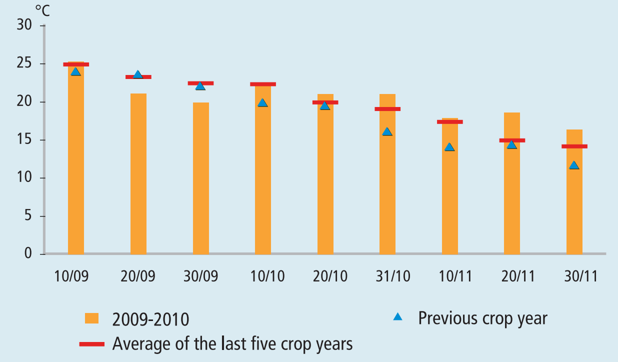
Hence, based on the data available at the end of November, the econometric model provides a preliminary forecast of cereal production for the current crop year, of nearly 61 million quintals. This forecast includes soft wheat, durum wheat and barley output, which has reached levels similar to their averages of the last five years, and estimated at 29, 13, and 19 million quintals, respectively.

By comparing the outputs with those of similar crop years, according to the climatic conditions, an effect of potential adjustment is revealed. Hence, we can consider that the production potential for the current crop year is preserved. In fact, the similar-campaign method leads to an estimation of cereal production of 57 million quintals, including 18 million quintals of barley, 25 million quintals of soft wheat and 14 million quintal of durum wheat.

As for the rainfall indicator method, its application leads to a preliminary forecast of cereal production at the national level, at around 60 million quintals.

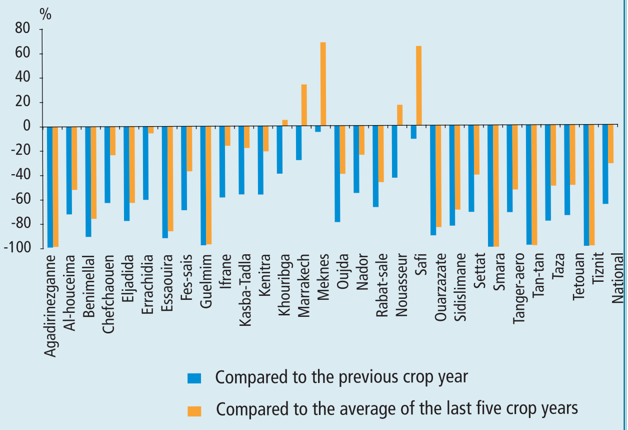
Using the three methods, the average forecast attains around 60 million quintals. This level, comparable to a measure of the production potential in 2010 on the basis of the climatic conditions at the end of November, will be reviewed according to the changes observed in the next two months.

Chart B.1.2. : Average temperature



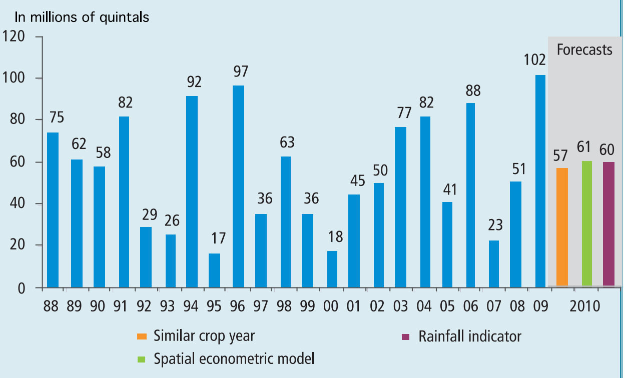
Source: National directorate of meteorology

Chart B.1.3. : Rainfall deficit of the first three months of the 2009-2010 crop year, per meteorological station



Source: National directorate of meteorology

Chart B 1.4.: Change and forecasts of cereal production, to the end of November 2009



Sources: Ministry of agriculture and marine fisheries, and BAM calculations compared with 18.3 percent a year earlier, mainly owing to the marked slowdown in private investment.

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[1] The nine climatic variables are: The number of raining days, maximum rainfall in 24 hours, average temperature, maximal temperature average, minimal temperature average, absolute maximal temperatures and absolute minimal temperatures, rainfall evaporation and cumulated rainfall.

Analysis of the various investment factors and advanced indicators confirms such a trend, except as concerns the equipment loans, which increased by 24.8 percent at the end of October to attain 118 billion dirhams.

Consequently, the observed and expected weakness in foreign demand, as well as the under-utilization of productive capacities, contributed to the decrease of the private growth pace. This decrease may also have resulted from the shrinking of foreign private investment and loans, which came to 33 percent at the end of October. Imports of equipment finished goods also decreased by 9.2 percent, and concerned both agricultural and industrial ones. This development is in line with the results of Bank Al-Maghrib's business survey in the industrial sector for October. The latter indicated a drop in investment by the industrial companies subject to the survey, except for those working in food processing industries and chemical and parachemical ones.

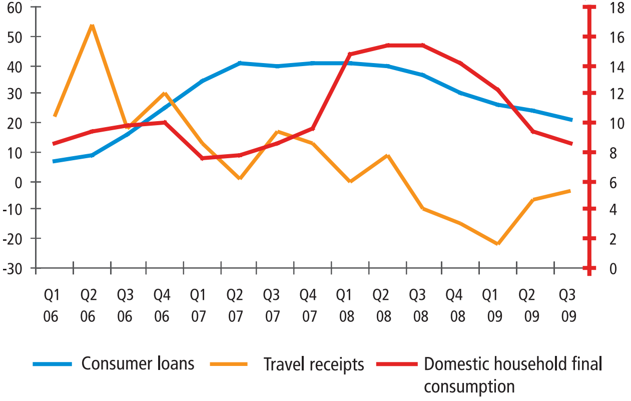
On the contrary, public investment held up well, as the Treasury investment outlays increased 20.9 percent in October. Compared with the updated finance law of 2009, these expenses were executed up to 81.7 percent, which suggests that the trend is in line with the initial forecasts.

1.4 Foreign trade

In a national context marked by a slight recovery in the economic activity, the data available at the end of October 2009 continue to reflect the transmission of the international condition's effects. Yet, trade deficit has contracted, year-on-year, namely in connection with the continuing decline in imports. As a result, the negative contribution of foreign trade to overall growth should remain negative for the whole of 2009, albeit to a less degree compared with the years 2007 and 2008.

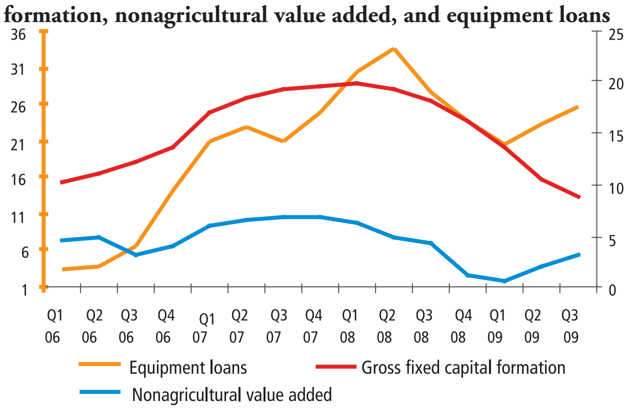
Indeed, at the end of the first ten months of the year, trade balance turned negative at 122.2 billion dirhams, narrowing by 14.8 percent compared with a 28.6 percent widening during the same period of the preceding year. This trend is exclusively attributable to the

Chart 1.9: Year-on-year quarterly change of household final consumption, consumer loans and travel receipts



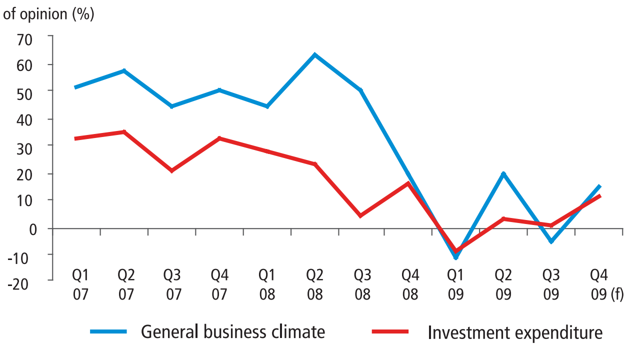
Sources: HCP, Foreign Exchange Office, and BAM calculations and forecasts

Chart 1.10: Year-on-year quarterly change of gross fixed capital formation, nonagricultural value added, and equipment loans



Sources: HCP, Foreign Exchange Office, and BAM forecasts and calculations

Chart 1.11: Change in the general business climate and investment expenditure



Source: BAM business survey in the industry decline in imports by 23.4 percent, equal to 66.1 billion dirhams, as exports have also decreased by 32.4 percent, equal to 45 billion dirhams. Accordingly, the coverage ratio dropped in one year from 49.2 to 43.4 percent.

The exports decline is particularly due to the 66.5 percent decrease of phosphates and derivatives exports and the 13.9 percent decrease in other exports. Accordingly, exports of electrical and electronic equipment, especially electricity wires and cables, dropped by 47.3 percent. At the same time, exports of sea products fell by 12.9 percent. Still, this decrease remains less marked than the 19.6 percent and 16.1 percent drop rates registered in August and September, respectively. Similarly, citrus fruits' exports went down by 37.2 percent, consistent with the trend observed over the last months.

On the contrary, imports decline is mainly due to the 34.4 percent reduction in the energy bill, as well as to the decline of crude products and semi-finished products by 53.9 percent and 27.6 percent, respectively. For their part, the purchases of consumer finished goods shrank at a limited rate of 3.3 percent.

The decrease in the average price of crude oil and its imported volume by 41.8 percent and 21.8 percent, respectively, have been significant factors in the decline of oil products' imports. Hence, the average price of the imported tonne reached 3424 dh/tonne at the end of the ten first months of 2009, compared with 5887 DH/tonne during the same period in the preceding year. Purchases of other energy products generally followed the same trend in terms of price. On the contrary, imported volumes increased by 42.7 percent for purchases of gasoline and fuel-oil and by 8.6 percent for purchases of oil gas.

Non-oil imports dropped by 20.1 percent, largely as a result of low purchases of semi-products, namely iron and steel, chemical products and plastics. Similarly, purchases of food produce fell by 24.8 percent, mainly because of the 55.1 percent decrease in wheat imports owing to the good performance of the crop year 2008-2009. Also, purchases of industrial equipments declined by 9.2 percent as a result of the diminishing purchases of various machines and industrial vehicles. Finally, imports of mineral origin raw products contracted by 79.7 percent, particularly owing to the decline in purchases of crude sulfur.

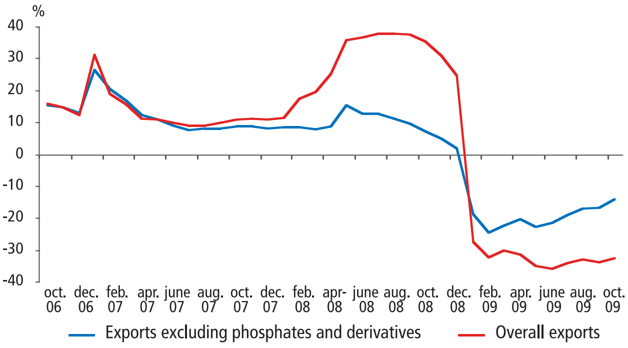
Table 1.2 : Year-on-year change of the trade balance at the end of October 2009

	Jan.-Oct.	Jan.-Oct. *	Change	
(In millions of dirhams)	2008	2009	Amount	%
Total exports	**138,800.5**	**93,822.1**	**-44,978.4**	**-32.4**
Phosphates and derivatives' exports	48,759.3	16,316.5	-32,442.8	-66.5
Exports excluding phosphates and derivatives	**90,041.2**	**77,505.6**	**-12,535.6**	**-13.9**
Ready-made garments	15,951.7	15,642.1	-309.6	-1.9
Hosiery items	5,562.4	5,524.2	-38.2	-0.7
Citrus fruit	2,280.1	1,431.9	-848.2	-37.2
Total imports	**282,159.9**	**216,032.9**	**-66,127.0**	**-23.4**
Energy products' imports	66,451.6	43,611.5	-22,840.1	-34.4
Non-energy products' imports	215,708.3	172,421.4	-43,286.9	-20.1
Food products	26,545.9	19,962.3	-6,583.6	-24.8
Wheat	9,891.5	4,439.1	-5,452.4	-55.1
Capital goods	59,441.3	53,994.0	-5,447.3	-9.2
Consumer goods	45,040.1	43,560.6	-1,479.5	-3.3
Trade balance	**-143,359.4**	**-122 210.8**	**21 148.6**	**14.8**

** Provisional data*

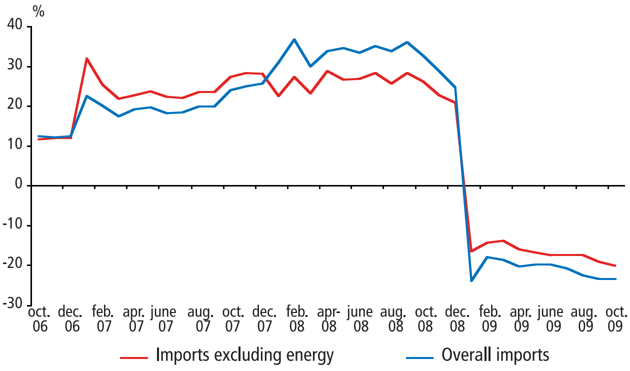
Source: Foreign Exchange Office

Chart 1.12: Year-on-year evolution of overall exports and exports excluding phosphates



Source: Foreign exchange office

Chart 1.13: Year-on-year evolution of overall imports and exports excluding energy



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

All over the year 2009, and more particularly in the fourth quarter, BAM estimates reveal, anew, a positive output gap on account of the agricultural VA's expansion from one year to the next. On the contrary, the nonagricultural output gap, more pertinent in the assessment of inflationary risks, showed once again negative values at the third and fourth quarters of 2009, due to the impact of the contraction of foreign and domestic demand. Similarly, the industrial output capacity utilization rate remained below its average level despite the increase observed since the second quarter of 2009. Concerning the job market, the third quarter of 2009 was characterized by stability in the national unemployment rate compared with the same period of the preceding year, reflecting a decrease in the unemployment rate in the urban area and its increase in the rural area. Regarding wages, the data available reveal their increase in the private sector, in real terms, during the third and fourth quarters of 2009. This increase was the outcome of the second readjustment operation of the minimum wage as of July 2009. Overall, and despite this trend, the various indicators of pressures on output capacities confirm the moderate pressures of demand on prices.

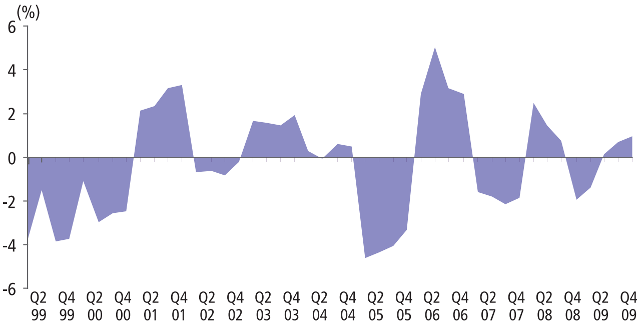
2.1 Pressures on output capacity

On the back of the good crop year 2008/2009, the overall output gap, which was slightly positive in the second quarter of 2009, is expected, according to the last BAM forecasts (see Chapter 1), to increase further in the third and fourth quarters of 2009.

Impacted by the continued stagnation of activity in our main partner countries, nonagricultural GDP is projected to remain below its potential level of the two last quarters of 2009. The weighted output gap of our main partners, which constitutes one of the main sources of the cyclical variations in Morocco's nonagricultural activity, is expected to remain negative during the next four quarters. In the meanwhile, the improvement of the international activity started in the third quarter of 2009 and expected to continue for the next quarters (see chapters 1 and 3), should result in a contraction of this output gap. This would suggest an easing in the unfavorable repercussions of the global economic situation on nonagricultural activities (Chart 2.2).

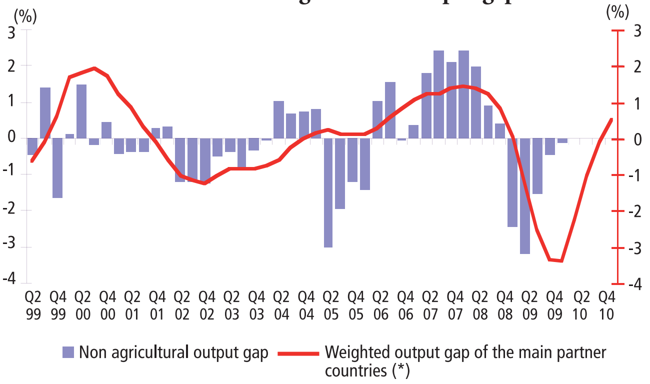
Considering the findings of BAM business survey in the industry for October 2009, they reveal that the output capacity utilization rate almost stabilized at 69 percent in October, after it has increased by 3 percentage points last September. Nonetheless, this rate remains 2 percentage points lower than its average level recorded since the start of the BAM monthly

Chart 2.1: Overall output gap



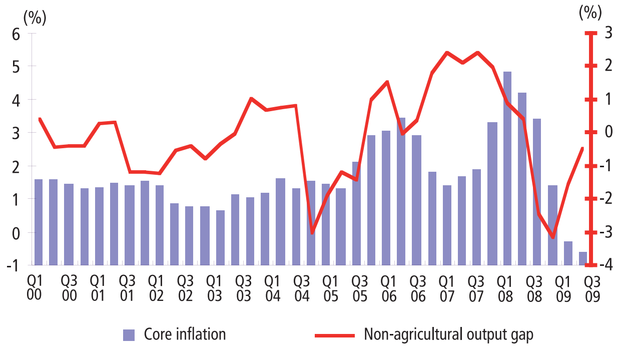
Sources : HCP, and BAM estimates

Chart 2.2: Nonagricultural output gap



Sources : HCP, and BAM estimates

Chart 2.3: Nonagricultural output gap and core inflation (year-on-year)



Sources : HCP, and BAM estimates

business survey in January 2007. Broken down by sector, the output capacity utilization rate stagnated in the food processing industries, while it fell by 2 percentage points in chemical and parachemical industries, mechanical and metallurgical industries, and in electrical and electronic industries to attain 72 percent, 56 percent and 74 percent, respectively. On the contrary, this rate grew by 3 percentage points in textile and leather industries, to reach 65 percent.

On the other hand, apparent labor productivity[1] in nonagricultural activities continued the upward trend that began early this year, and reached about 112 in the third quarter of 2009, up by 1 percent year-on-year. This increase is attributable to the growth of nonagricultural GDP at a slightly more rapid pace compared with urban employment.

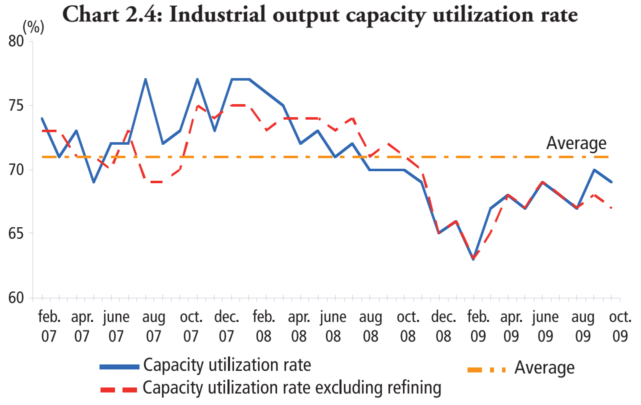
As regards industry production costs, the results of the survey reveal that they increased in all sectors, especially in electric and electronic industries and in food processing industries. The main factors behind this increase, during the third quarter of 2009, were the financial and commodity costs. Wage costs have also contributed to that growth after the second readjustment operation of the minimum wage started early July 2009.

At the sectoral level, the financial and energetic costs constituted the main reasons behind the rise in the output unit costs in food processing industries, chemical and parachemical industries, and in textile and leather industries. In the electric and electronic industries, the level of the wages and the energy costs constituted the two key factors which influenced the production costs.

2.2 Pressures on labor market

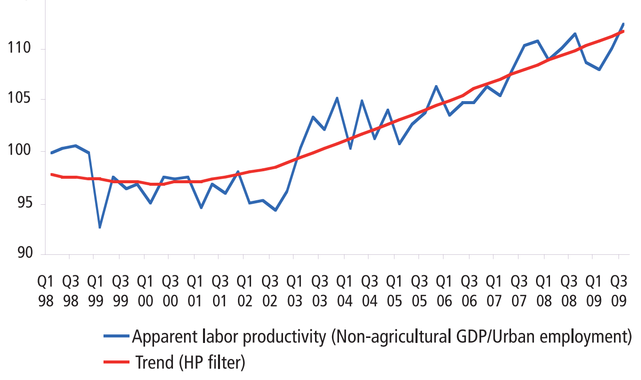
At the end of the third quarter of 2009, active population aged 15 and more reached 11,314,000 persons, up by around 0.2 percent compared with the same period of the year 2008. This rise was brought about by the 1.2

Chart 2.4: Industrial output capacity utilization rate



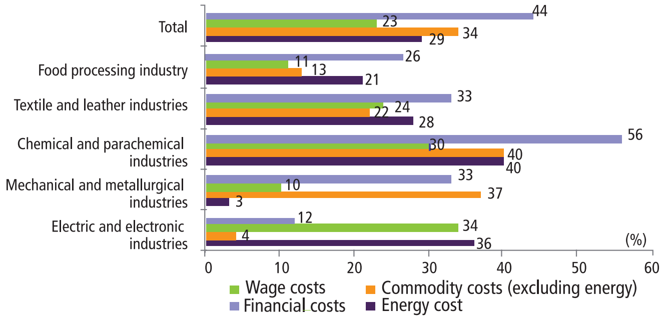
Source: BAM's monthly business survey inthe industry

Chart 2.5: Apparent labor productivity (base year =1998)



Sources : HCP, and BAM estimates

Chart 2.6: Change in unit production cost components per sector(balances of opinion in %, in Q3 of 2009)



Source: BAM monthly business survey

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[1] Apparent labor productivity is measured by the ratio between output and employed labor force. This indicator must be interpreted with precaution, as it does not take into account the efficiency with which labor force is used in production.

percent increase of active population in the urban area, as active population in the rural area dropped by 1.1 percent. Accordingly, labor force participation rate stood at 49.8 percent, down by 0.8 percentage point.

On the labor market, employed labor force slightly increased in the third quarter of 2009, compared with the same quarter of last year. On the contrary, employment rate dropped by 0.7 percentage point to 44.9 percent, as the number of jobs grew at a rate slightly below the growth rate of the labor force aged over 15 years.

Per place of residence, urban employment rate stood almost stable at 37.5 percent, while the rural one declined by 1.3 percentage point to 55.7 percent.

According to the HCP, overall unemployment rate remained almost unchanged around 9.8 percent compared with the same quarter of previous year. Per place of residence, urban unemployment rate dropped significantly from 15.5 percent to 14.8 percent in urban areas, while it increased by 0.4 percentage point to reach 4.3 percent in rural areas.

Considered per age group, unemployment rates' decreases concerned solely the 15-24 and 25-34 age groups (-0.3 point each). In contrast, the 35-44 and over 44 age groups witnessed an increase in the unemployment rate, which moved up respectively from 5.4 percent to 6 percent and from 1.9 percent to 2 percent. At the same time, unemployment rate dropped more rapidly for diploma-holders than for undergraduates.

During the third quarter of 2009, labor market witnessed a net creation of 128,400 gainful jobs, compared with 94,400 net losses in unpaid labor. At the sectoral level, job gains were essentially concentrated in the sectors of services with 72,400 new jobs (+1.9 percent) and building and public works with

Table 2.1: Activity and unemployment quarterly indicators per place of residence, on a year-on-year basis[(1)]

In millions	Q3 - 2008			Q3 - 2009		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force [(2)]	5.86	5.43	**11.29**	5.93	5.37	**11.31**
Labor force participation rate (%)	44.5	59.3	**50.6**	44	58.2	**49.8**
Employed labor force	4.95	5.22	**10.17**	5.05	5.15	**10.2**
Employment rate (%)[3]	37.6	57	**45.6**	37.5	55.7	**44.9**
Unemployment						
Unemployed labor force	0.91	0.21	**1.12**	0.87	0.22	**1.1**
Unemployment rate (in %)	15.5	3.9	**9.9**	14.8	4.3	**9.8**
By degree						
. Non-graduates	8.9	2.6	**4.8**	7.5	2.9	**4.6**
. Graduates	21.1	12.4	**19.5**	20.5	12	**18.9**

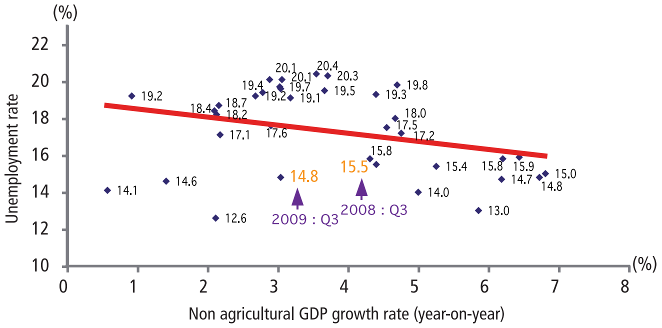
(1) Data adjusted according to the new population forecasts

(2) Population aged 15 years and over (in millions of persons)

(3) Occupied labor force/total population aged 15 years and over.

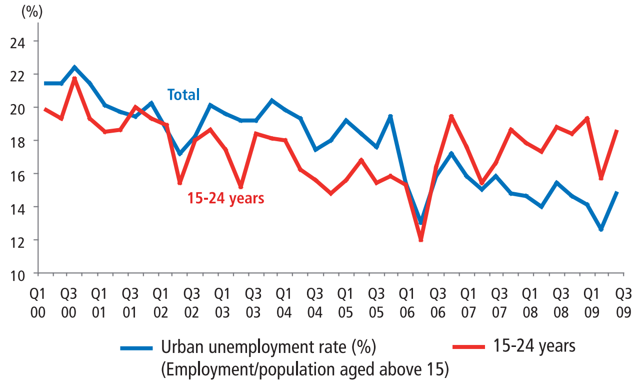
Source: HCP

Chart 2.7: Nonagricultural growth and urban unemployment Q1 2000- Q3 2009



Sources : HCP, and BAM estimates

Chart 2.8: Unemployment rate in urban areas



Source: HCP

68,800 jobs, up by 7.6 percent. In contrast, the industrial sector, which was most severely hit by the slump in foreign demand, saw a loss of 4,400 jobs.

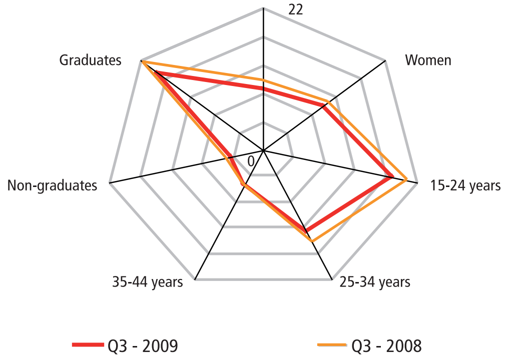
In the industrial enterprises mentioned in the sample of BAM business survey, the number of personnel employed remained almost unchanged during the third quarter of 2009, compared with the preceding quarter. This situation covers the labor force strengthening in food processing industries and in the electric and electronic industries, the fall in the number of employees in the textile and leather industries, and its quasi stability in the other sectors. Still, corporate managers of the industrial sector expect a progression in the number of employees during the next quarter, namely in electric and electronic industries.

The relative labor unit cost (see box 2.1) registered an increase from the second quarter of 2008 to the second quarter of 2009, surpassing that of emerging countries by around 3 percent. Compared with the Euro area and to developed countries, this cost rose at a slightly more rapid pace. In addition, the third quarter of 2009 witnessed the second phase of the minimum wage readjustment, which took effect as of July 1, 2009. Accordingly, the minimum hourly wage of workers and employees in industry, trade and liberal professions sector rose by 5 percent in nominal terms.

Furthermore, the results of BAM business survey in the industry for the third quarter of 2009 confirm the increase of the wage level, with a balance of opinion of 23 percent.

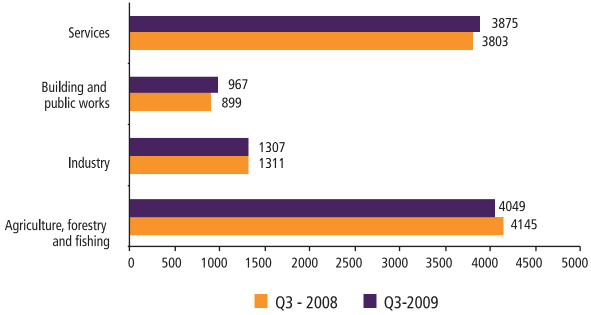
Altogether, analysis of the change in the different risk factors suggests a continued moderation of demand-driven pressures on prices in the coming quarters, notably in view of the decline of nonagricultural activity, stability of the unemployment rate, and the weak utilization of production capacities.

Chart 2.9 : Change in unemployment structure by gender, age and degree



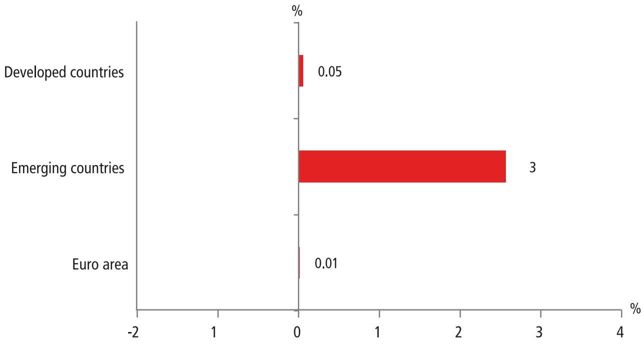
Source: HCP

Chart 2.10 : Change in employment by sector (labor force in thousands)



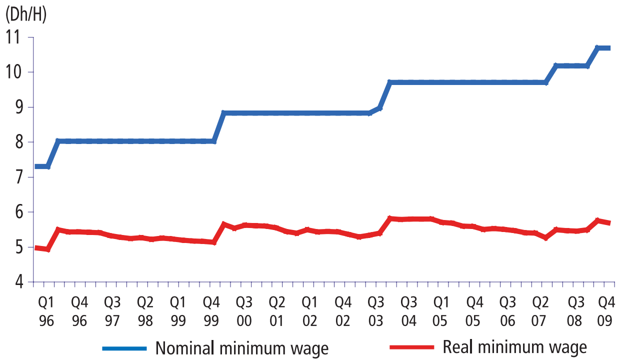
Sources: HCP, and BAM estimates

Chart 2.11 : Change of the manufacturing sector labor unit cost in Morocco compared to some groups of countries Q2 2008 - Q2 2009



Sources: Datastream, and BAM estimates

Chart 2.12 : Quarterly minimum wage in nominal and real terms



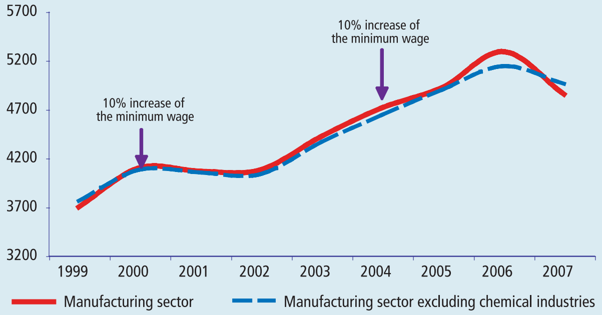
Sources: Ministry of Labor, and BAM calculations and estimates

Box 2.1: Assessment of the labor unit cost in the manufacturing sector

As part of the works carried out for the study and the follow-up of Morocco's foreign competitiveness, Bank Al-Maghrib elaborated a preliminary framework of the labor unit cost of the manufacturing sector , which represents a key component of production costs of goods and services. In fact, the increase of the labor unit cost generally shows that the growth of the average labor compensation per employee is more rapid compared with the growth of labor productivity, which may generate pressures on producer prices.

Therefore, the elaboration of the national manufacturing sector index was carried out based on the results of the annual survey on processing industries, conducted by the Ministry of industry, commerce, and new technologies. This index is defined, for each sector, as the wage bill/value added ratio, deflated by the industrial producer price index. By carrying out a real terms analysis of this index for the 1999-2007 period, it turns out that it registered a slight decrease in 2001 to rise by 3.2 percent on average between 2002 and 2007. However, this index observed a one-time drop in 2007, mainly due to the increase of the growth rate of chemical industries value added further to the increase in phosphate products' prices (Chart B 2.1). Hence, the upward trend of the labor unit cost is attributable to the increase of the average labor compensation per employee in Morocco, which is more rapid compared with the growth of labor productivity.
During

Chart B 2.1: Average wage and productivity of the Moroccan manufacturing sector (23 branches from 1998 to 2007)

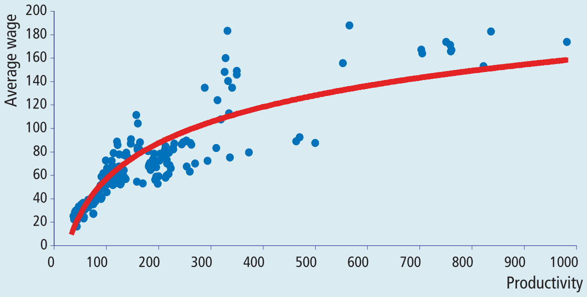


Source: Ministry of industry, commerce and new technologies, BAM calculations.

Consequently, average wage rose by 4 percent on average during the 1999-2007 period, mainly impacted by the different increases of the minimum wage. During the 1999-2007 period, the minimum wage increased by 2.3 percent on average (10 percent in 2000 and 2004). This may have had a negative impact on labor demand and contributed to the increase of the labor unit cost in Morocco, and , all things being equal, influenced Morocco' s foreign competitiveness.

Chart B.2.2 shows that the relation between the average wage and productivity in Morocco seems to follow a logarithmic form, which suggests that the first grows at a more rapid pace compared with the second. By applying the econometric regression method on the average salary over productivity for all the 23 industrial sectors, 62 percent of the average wage variation in the Moroccan manufacturing sector can be attributed to the average productivity gap.

Chart B 2.2: Change of the labour unit cost in the manufacturing sector (1999-2007)



Source: Ministry of industry, commerce and new technologies, BAM calculations

In addition, in order to measure the foreign competitiveness of the Moroccan manufacturing sector in terms of labor costs, we evaluated the relative labor unit cost, based on the relative position of the country compared with the other partners and competitors. This indicator is defined, for a country i, as the total of the labor unit costs of partner countries and competitors j (CUTj), weighted by the country j weight in country i exports (WPj,i). The formula comes as follows:

$$CUTRi = \left(\sum_{j=1}^{n} WPj,i \,.\, CUTj\right) / \sum_{j=1}^{n} WP_{j,i}$$

Analysis of this indicator shows that it followed the same trend as in our main partner countries (Chart B 2.3). The Moroccan relative labor cost unit has recorded an average annual growth of 10 percent between 1985 and 1995, followed by an average annual growth of 6 percent during the 1996-2000 period. The 2001-2008 period witnessed acceleration in the labor unit cost, with an annual average rise of 6 percent.

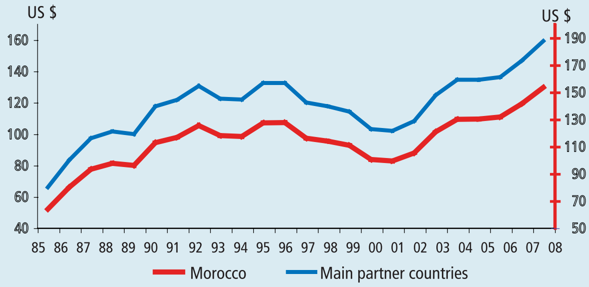
The same analysis proves that Morocco's competitiveness-cost has weakened compared with many other emerging countries, where the productivity level is higher in comparison to Morocco. In fact, the growth of the Moroccan labor unit cost between 2001 and 2008 exceeded that of emerging countries by 25 percent. On the contrary, this indicator progressed less rapidly compared with the Euro area and to developed countries, by -5 percent and -3 percent, respectively.

The growth of the Moroccan labor unit cost exceeded that of Poland, Czech Republic, and Hungary, by 83, 64, and 42 percent respectively between 2001 and 2008.

On the contrary, the Moroccan labor unit cost increased less rapidly compared with that of France and Spain. In terms of productivity, Morocco is ranked relatively low compared with countries such as Greece, Hungary, Poland, and Bulgaria.

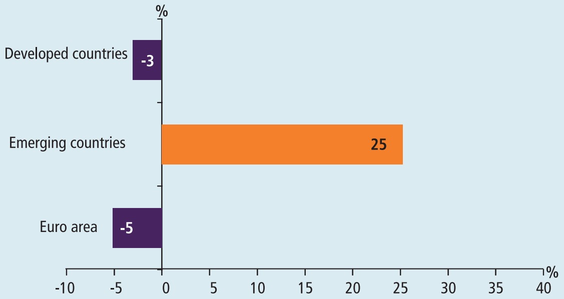
Overall, Morocco's counter performance regarding the labor cost is the result of both the wage increase, particularly after the readjustment of the minimum wage, as well as the weak productivity compared with emerging countries. Furthermore, the sectors which have most contributed to jobs creation in Morocco during the last years (public works and services) are also those which have observed the lowest levels of productivity per person and the weakest productivity gains.

Chart B 2.3.: Labor unit cost of the manufacturing sector in Morocco and in its partner countries between 1985 and 2008



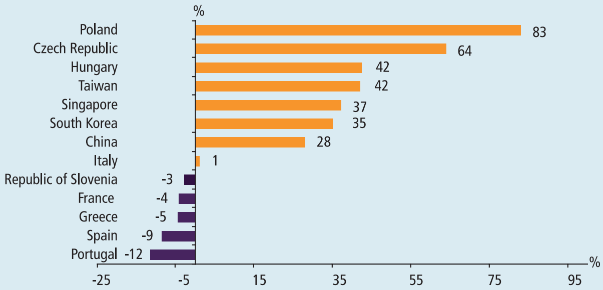
Sources: Datastream and BAM calculations

Chart B 2.4: Change of the manufacturing sector labor unit cost in Morocco compared to some groups of countries between 2001 and 2008



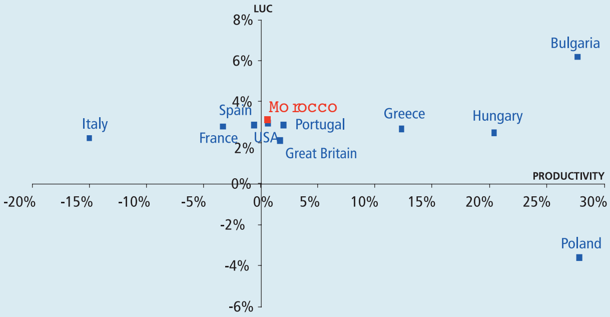
Sources: Datastream and BAM calculations

Chart B 2.5 : Change of the manufacturing sector labor unit cost in Morocco compared to other countries between 2001 and 2008



Sources: Datastream and BAM calculations

Chart B 2.6: Growth rate of the labor unit cost and of productivity (1999-2008)



Sources: Datastream and BAM calculations

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1 This concerns the 12 countries whose weight in Morocco's total exports exceeds 1 percent.

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

According to the recent data, world economy is slowly heading toward a period of recovery, after many successive quarters of recession. Still, this trend of the world economic activity is more driven by the renewed growth in emerging and developing countries, mostly in Asia. In the developed countries, some signs of improvement again emerged in the national accounts of the third quarter of 2009 and in the high-frequency indicators of October and November. Nonetheless, the continued record-high levels of unemployment rates and the persisting decline of credit, whose annual decrease reached 5 percent in the United States and 0.8 percent in the euro area, constitute significant risk factors that call to vigilance regarding the pace and scope of recovery at the international level, mainly for Morocco's main partner countries. In addition, the durability of the positive impact of the economic policy measures on demand and growth constitutes an important source of uncertainty. The last growth projections of most international institutions, such as the International Monetary Fund, the OECD and the European Commission, are cautiously optimistic, suggesting less-strong-than-expected deceleration of economic activity in 2009 and a slight upward revision of the 2010 forecasts. In a context where commodity prices are improving, world inflation seems to have reached a record low level in October, and registered in November its first positive value in the industrialized countries. This trend would probably continue in 2010, owing to the improvement of the economic outlook. Overall, the developments of the world environment depend on the materialization of the forecasted demand recovery and on the probable heightening of current inflationary pressures on markets of commodities and some financial assets. Their contribution to the easing of inflationary pressures at the national level, as assessed in the previous monetary policy reports of 2009, may be reconsidered if these risk factors grow in scale during the next months.

3.1 Global financial conditions and economic activity

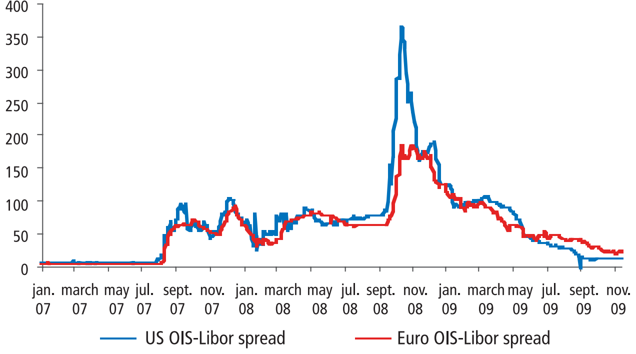
During the last months, the international environment saw an easing of the recessionary effects and slight improvement in financial conditions, except for credit, still in slowdown.

3.1.1 Financial conditions

During the last months, money markets' trend was characterized by the return of spreads to their pre-crisis level, as the key rates' status quo, coupled with the improving confidence, have led to a considerable reduction in the Libor and Euribor. Nonetheless, the weak volumes of transactions on these markets suggest a persisting mistrust from operators.

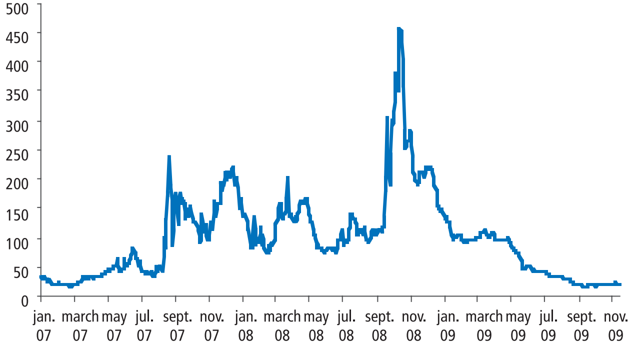
Similarly, the bonds market seems relatively constant. In fact, after the net restoring of rates curve as a result of the deflationary risks' dwindling and of growth forecasts' upward revision, long rates have somehow stabilized. In emerging countries, public debt markets continue their improvement, as credit default swaps[1] dropped to an average of 150 basis points compared with 380 points peak reached at the end of 2008.

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream, and BAM calculations

Chart 3.2: Change in the TED spread



Source: Datastream, and BAM calculations

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[1] Credit default swaps on the sovereign debt of emerging countries correspond to insurance premiums against default risk on a sovereign debt. Their change measures the extent of investors' risk aversion with regard to the capacity of these countries to honor their commitments.

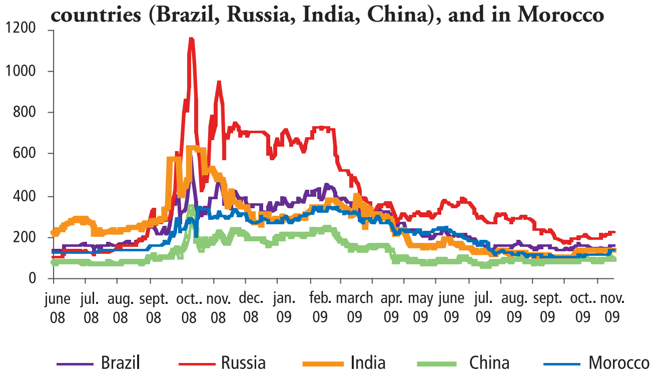
While normalization of financial conditions seemed totally reflected in stock market indexes during the last months, equity markets in advanced countries are witnessing downward pressures anew, despite their 15 percent increase since the beginning of the year. Some deceiving economic news announced (unemployment rate and consumers' confidence indexes) have, in fact, revived the uncertainties surrounding the solidity of the recovery, leading therefore to a massive profit taking and a return of risk aversion. In emerging countries and commodity producing countries, equity markets pursued their marked recovery, as the MSCI EM index[1] rose by 58 percent since the start of the year. However, the rapidity and extent of the recovery suggests that these countries risk the emergence of an assets' prices bubble.

Despite the stability of money and bond markets, implying a normalization of banks' resources and a sturdy improvement of the net banking income in the most important European and American institutions, loans market is still sluggish in advanced economies. Indeed, loans annual growth rate reached, in October, -0.8 percent in the Euro area and -5 percent in the United States. During the coming months, loans are expected to remain tight, owing to the weak demand for consumer loans (labor markets deterioration) and for financing loans by nonfinancial corporations, which are still reluctant to invest.

3.1.2 World economic activity

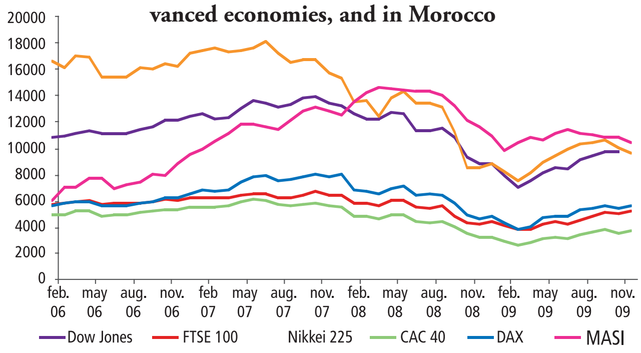
In a context where the downturn effects are more and more easing, the most recent indicators confirm a stabilization of the world economic activity, owing to the renewed growth in emerging countries namely in Asia, and to the increasing signs of stabilization, if not modest improvement, in other countries. On the other hand, the results of the available national accounts of the third quarter of 2009, as well as the high frequency indicators

Chart 3.3: Change in Credit Default Swaps in emerging countries (Brazil, Russia, India, China), and in Morocco



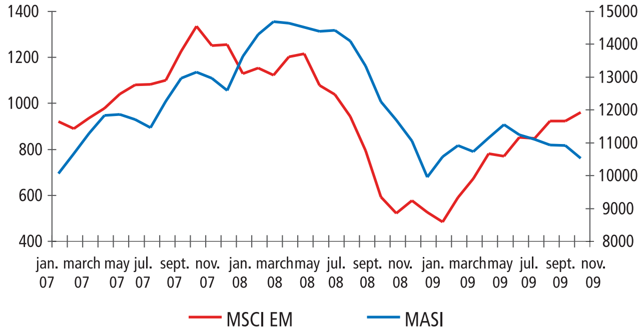
Source: Datastream, and BAM calculations

Chart 3.4: Change in the main stock market indexes in advanced economies, and in Morocco



Source: Datastream, and BAM calculations

Chart 3.5: Change in the MSCI EM index



Source: Datastream, and BAM calculations of October and November, in addition to the last growth forecasts, confirm this global economic upturn.

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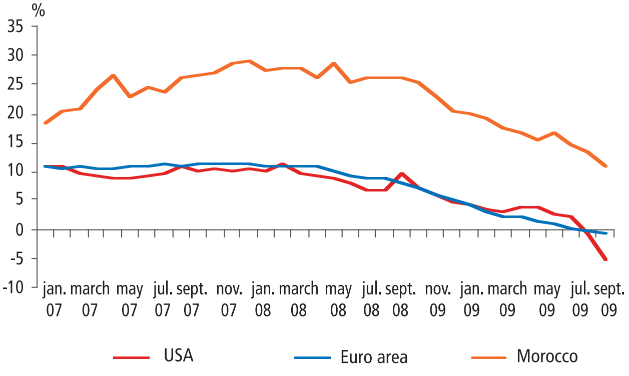
[1] MSCI EM is a composite stock-exchange index that measures the performance of equity markets in Central Europe, Middle East and African countries, including Morocco.

Chart 3.6: Credit change in the United States and in the Euro area, and in Morocco



Source: Datastream, and BAM calculations

In the third quarter of 2009, world economy started to show signs of stabilization, and this trend is beginning to be confirmed particularly for developed countries, especially the United States and the Euro area.

Recent data related to quarterly national accounts and to high frequency indicators suggest that the decline of activity has ended and that world economy has started its upward trend. This upward trend is being confirmed, namely in emerging and developed countries.

Table 3.1 : Global growth change

	Projections					
	EC		OECD		IMF	
	2009	2010	2009	2010	2009	2010
Global GDP	-	-	-	-	-1.1	3.1
United States	-2.5	2.2	-2.5	2.5	-2.7	1.5
Euro area	-4.0	0.7	-4	0.9	-4.2	0.3
Germany	-5.0	1.2	-4.9	1.4	-5.3	0.3
France	-2.2	1.2	-2.3	1.4	-2.4	0.9
Italy	-4.7	0.7	-4.8	1.1	-5.1	0.2
Spain	-3.7	-0.8	-3.6	-0.3	-3.8	-0.7
United Kingdom	-4.6	0.9	-4.7	1.2	-4.4	0.9
China	-	-	8.3	10.2	8.5	9.0
India	-	-	6.1	7.3	5.4	6.4
Brazil	-	-	0	4.8	-0.7	3.5
Russia	-7.2	2.3	-8.7	4.9	-7.5	1.5

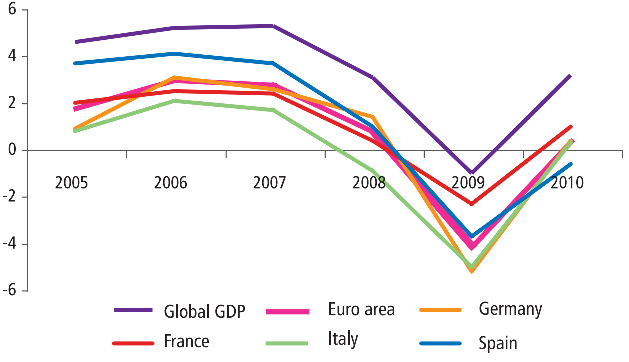
Sources : IMF. European Commission and OECD

According to a second estimation carried out by the American Department of Commerce, GDP in the United States was in the up again in the third quarter of 2009, rising by 2.8 percent year-on-year compared with a 0.7 percent decrease in the last quarter.

In the Euro Area, GDP increased by 0.4 percent in the third quarter of 2009 compared with the 0.2 percent contraction observed in the preceding quarter.

Regarding Morocco's main partners, particularly France, Germany, and Italy, growth in the third quarter recorded a positive value of 0.3 percent, 0.7 percent, and 0.6 percent in quarterly change. On the contrary, GDP in Spain dropped down, though more moderately, from 1.1 percent the previous quarter to 0.3 percent.

Chart 3.7: GDP change in the world, the Euro area and in partner countries



Source: IMF

Based on the high frequency indicators of October and November 2009, the economic activity, observed since half of the third quarter of the year, has started improving, together with stronger expectations of an economic recovery in the short term. In the Euro area, some high frequency indicators, available for the months of October and November 2009, increased. Such was the case for the Flash PMI Composite Output Index, which edged up to 53 points in October, representing a rise by

1.9 point from one month to the next and 16.8 points since its lowest historical level recorded in February 2009.

In the United States, improvement of the advanced indicators, available at the end of November foreshadows an economic upturn. In fact, advanced composite consumer confidence index reported a rise by 1.7 percent from one month to the next, moving up from 48.7 in October to 49.5 in November.

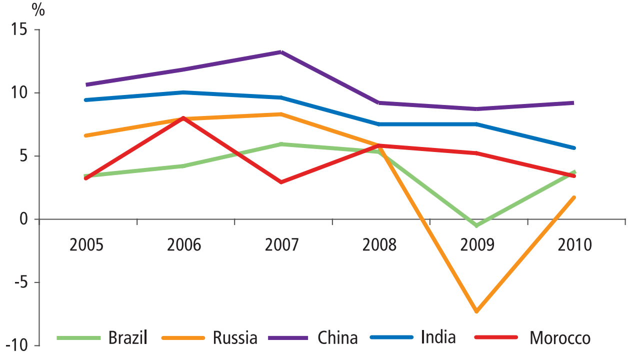
Furthermore, the advanced composite index of partner countries, elaborated by Bank Al-Maghrib as part of improving the frequency of monitoring the global economy, reached 97.5 in the third quarter compared with 94.3 the previous quarter. Hence, its trend confirms the forecasted improvement in partner countries' economy.

Despite the multiple signs of recovery emanating from various international indicators, some sources of uncertainty remain as to the vigor of this recovery, regarding the high unemployment rate, persisting both in the United States and in the Euro area. In October, this rate has reached 10.2 percent in the United States, while it stood at 9.8 percent in the Euro area, with 10.1 percent in France and 19.3 percent in Spain.

Concerning short-term perspectives, the IMF forecasts that the GDP in the euro area would shrink by 4.2 percent in 2009, and rise by 0.3 percent in 2010. For both the OECD and the European Commission, GDP would decrease by 4 percent in 2009, followed by a 0.7 percent and 0.9 percent increase, forecasted respectively, in 2010.

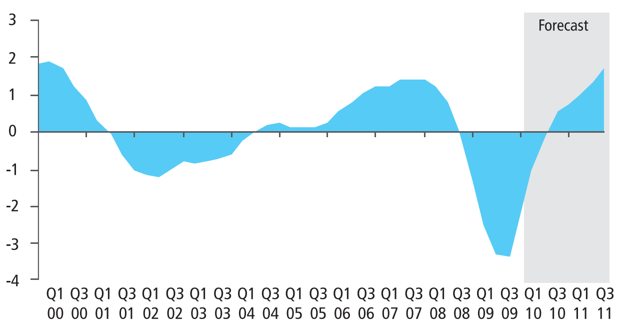
According to the same sources, Morocco's main partners expect a GDP contraction ranging between 2.2 percent and 2.4 percent in 2009, and a recovery ranging between 0.9 and 1.4 percent in 2010 in France. In Germany, activity decrease shall range between 4.9 percent and 5.3 percent in 2009, while growth in 2010 shall stand around 1.2

Chart 3.8: GDP change in emerging economies (Brazil, Russia, India, China), and in Morocco



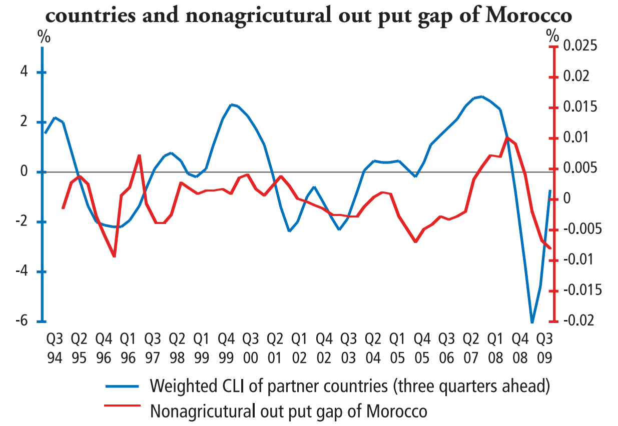
Source: IMF

Chart 3.9: Outpt gap of the main partner countries (France, Italy, Germany and Spain)



Sources: European commission, and BAM calculations

Chart 3.10: Weighted Composite Leading Indicator of partner countries and nonagricutural out put gap of Morocco



Sources: OECD, and BAM calculations

percent. In Spain, GDP contraction shall range between 3.6 percent and 3.8 percent in 2009 and between 0.3 percent and 0.7 percent in 2010. In Italy, GDP would recover somewhat in 2010 after its decrease by around 5 percent in 2009.

In emerging countries, GDP in 2009 is expected to grow from 8.5 percent to 10.2 percent in China and from 5.4 percent to 7.3 percent in India. As to Brazil and Russia, they are expected to report respective declines of the GDP by 0.7 percent and 7.5 percent in 2009.

3.2 World inflation

In an international environment of economic recovery, coupled with the short-term improvement forecasts, the preliminary assessments published by Eurostat suggest that the Euro area should witness a 0.6 percent rebound in inflation in November 2009, compared with a 0.1 percent decrease in October.

In partner countries, namely in Spain and Italy, November preliminary data reveal the same upward trend for headline inflation, standing respectively at 0.4 percent and 0.8 percent, compared with 0.7 percent and 0.3 percent the previous month. In Germany, headline inflation rose to 0.3 percent, after the zero rate observed the previous month.

Following the decrease in consumer prices, since August 2008, the rise of headline inflation, observed in November 2009, is mainly attributable to the recent increase in international commodity prices, mainly oil, and to a lesser degree, to the economic recovery that started in most developed and emerging countries.

Concerning the inflation outlook, IMF projections of October 2009 pinpoint a prices' increase in advanced countries, by 0.1

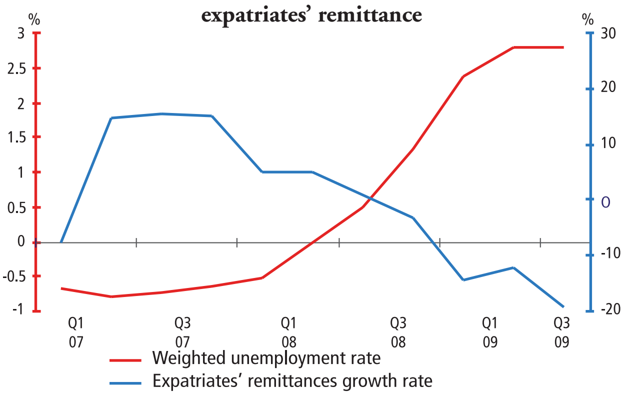
Table 3.2: Recent trend in inflation in the world, on a year-on-year basis

	Nov.	Sept	Oct.	Nov.	Forecast	
	2008	2009	2009	2009	2009	2010
United States	1.1	-1.3	-0.2	-	-0.4	1.7
Euro area*	2.1	-0.3	-0.1	0.6	0.2	0.9
Germany	1.4	-0.3	0	0.3	0.2	1.0
France	1.6	-0.4	-0.2	-	0.1	1.0
Spain	2.4	-1	-0.7	0.4	-0.4	0.8
Italy	2.7	0.2	0.3	0.8	0.7	0.9
Japan	1	-2.2	-	-	-1.2	-0.9
China	2.4	-0.8	-0.5	-	-1.1	0.1
Morocco	**3.9**	**1.4**	**0.4**	**-**	**2.8**	**2.8**

(*) Harmonized indexes

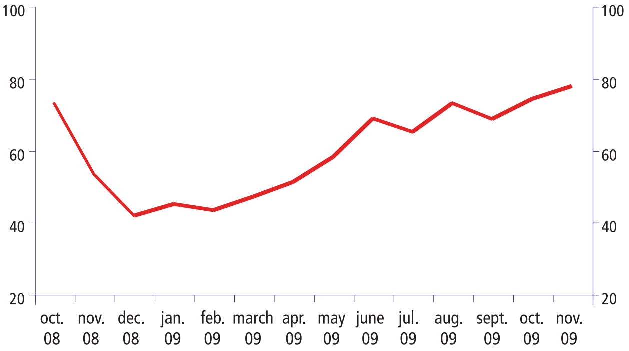
Sources : : IMF, Eurostat for historical data, and OECD for forecasts

Chart 3.11: Year-on-year change of main partner countries' weighted unemployment rate and of the growth rate of expatriates' remittance



Sources: Datastream, and BAM calculations

Chart 3.12: World price of Brent in dollars



Source: Datastream

Box 3.1: Precisions about the weighted leading composite indicator of the partner countries and about the weighted unemployment indicator

The weighted composite index of partner countries is established on the basis of the cyclical component of OECD's advanced composite indicators of Morocco's main partner countries (France, Spain, Germany, and Italy) , weighted by the share of these countries in Morocco's total exports, that is:

Advanced composite index of partner countries = 53 percent of OECD indicator France + 14 percent of OECD indicator Italy+ 13 percent of OECD indicator Germany + 20 percent of OECD indicator Spain.
It is worth noting that the OECD indicator for different countries is calculated as an arithmetic average of various reference series. The latter shall concern both financial and real spheres, but are also different for each country as shown in the table below:

Country	Reference series adopted
France	- Number of registered cars - Number of jobs created - Consumers confidence index - EONIA rate (reversed) - Interest rate spread - Anticipated trend of manufacturing production - Forecasts for the industrial sector - Finished products stocks - BF 250 index - Exchange terms.
Germany	Anticipated trend of manufacturing production - Orders book total - Finished products stocks (reversed) -Number of overnight stays (tourism) - 2-year treasury bills (reversed).
Spain	- IFO business climate index - Anticipated trend of manufacturing production - Level of export orders book - Orders book total - Finished products stocks - Interest rate spread.
Italy	Consumers' confidence index - 3-month Euribor rate (reversed) - Anticipated trend of manufacturing production - Orders book total - Anticipated demand trend - Exchange terms.

The advanced composite index of partner countries is one half-year ahead compared with the weighted output gap of partner countries, and three quarters ahead compared with Morocco's nonagricultural gap.

On the other hand, the weighted unemployment indicator is calculated on the basis of unemployment rate in Morocco's main partner countries (France, Spain, Germany, Italy, Benelux, United States, Netherlands, and the United Kingdom), which represent, by themselves, 90.1 percent of expatriates' transfers, weighted by the share of these countries in total transfers.

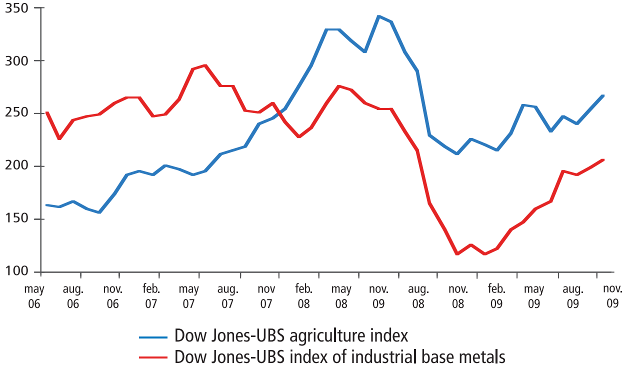
percent in 2009 and by 1.1 percent in 2010. In emerging and developing countries, inflation would reach 5.5 percent in 2009 and 4.9 percent in 2010.

For the United States, the IMF and the OECD expect a negative inflation of 0.4 percent in 2009, followed by a rise in consumers' prices by 1.7 percent in 2010.

In the Euro area, forecasts predict that headline inflation would range between 0.2 percent and 0.3 percent in 2009 and between 0.8 percent and 0.9 percent in 2010.

In the mid-term, and considering the recent development of the economic situation, world inflation would probably rise again, owing to the recovery of the economic activity and the improvement in commodity prices.

Chart 3.13: Change of the Dow Jones UBS index on non-energy commodities (base year : 2006)



Source: Datastream, and BAM calculations

3.3 Oil prices

In November 2009, Brent prices rose by 4 percent from one month to the next, to reach 77 dollars a barrel on average. Such a trend is due to the decrease of world stocks, especially in the United States, the depreciation of the dollar, and the forecasted rise of world demand on oil in 2009 and 2010, mainly China and India.

Over the first eleven months of 2009, the Brent price stood on average at $60.7 a barrel compared with $102.7 a barrel during the same period of last year, down by 69 percent year-on-year.

According to the last IMF world economic outlook of October 2009, oil prices would reach, at the end of 2009, an average of $61.5 a barrel, and then rise to $76.5 in 2010. This upward revision marks a break with the July 2009 projections, which forecasted that oil prices would reach $60.5 and $74.5 a barrel, respectively. On the futures market, oil price would average $82.1 a barrel in 2010 and $85.7 a barrel in 2011.

Table 3.3 : Quarterly change in wheat futures and forecast

Wheat (USc/ bushel)	Q4 2009	Q1 2009	Q2 2010	Q3 2010	2010
Futures	513.58	582.98	597.58	590.5	597.76
Forecasts	550	550	570	585	575

Source : Bloomberg

Overall, these forecasts regarding the oil market trends essentially incorporates the beginning of the world economic recovery, the return of investors' confidence in the oil market, and the upward revision of world demand in 2010. The forecasted rise of world demand for oil would emanate mostly from China, India, Middle East, South America, and OECD non-member countries.

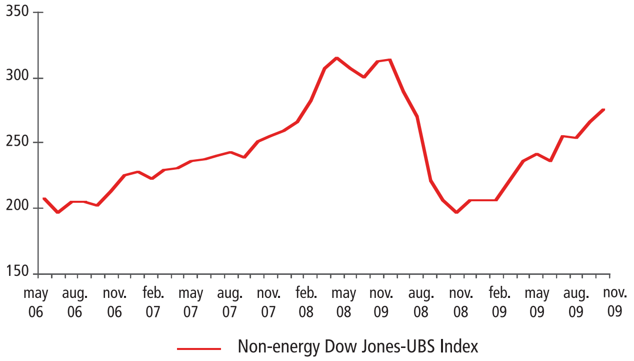
3.4 Commodity prices

Prices of non-energy commodities remain lower than the levels registered last year, but are generally up from one month to the next. Indeed, prices of the major agricultural commodities increased substantially, mainly due to the decline of the dollar and the unfavorable weather conditions that impacted American harvests. Prices of base metals rose noticeably, mostly because of the improved outlook for global recovery and the expansion of the Chinese economy.

At the end of the first eleven months of 2009, the Dow Jones-UBS index of non-energy commodity prices[1] registered a 16.8 percent decline compared with the same period of last year. However, in November it increased 4.1 percent on year-on-year basis.

The same trend was observed in the Dow Jones-UBS index of agricultural commodity prices[2] which declined 19.7 percent year-on-year and rose at a monthly rate of 4.6 percent. This trend is mainly attributable to the sizable increase in cereal prices, particularly wheat and corn, mostly because of renewed speculation, dollar depreciation and unfavorable weather conditions in the United States. Indeed, wheat and corn prices in November moved up at a monthly rate of 18.1 percent and 2.5 percent, respectively. The price for sugar, which peaked at 70 cents per kilogram during the last months, stabilized.

Chart 3.14: Change of Dow Jones-UBS index of agricultural products and industrial base metals (base year : 2006)



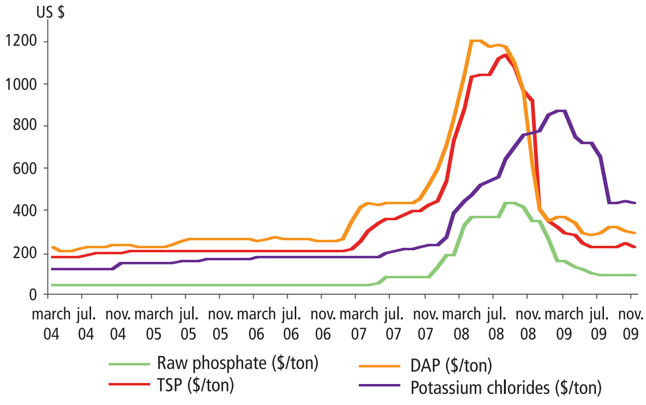
Sources: Datastream, and BAM calculations

Table 3.4 : Forecasts of the current oil (Brent) price in the futures market (in US dollars)

Q4 2009	Q1 2010	Q2 2010	Q3 2010	Year 2010	Year 2011
75.5	79.5	80.5	78.5	82.1	85.7

Source : Bloomberg

Chart 3.15: Change in the world prices of phosphate and derivatives



Source: World Bank

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[1] Dow Jones-UBS index is composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The Dow Jones-UBS non-energy index includes the following commodities: wheat, corn, sugar, cotton, coffee, soybean, aluminum, copper, zinc, nickel, gold, silver, live cattle, and soybean oil.

[2] This index is composed of wheat, corn, soybean, sugar, cotton, coffee, and soybean oil.

The DJ-UBS index of base metal prices lost 31.2 percent year-on-year, but inched up 3.2 percent from one month to the next. In fact, copper price rose at a monthly rate of 5.8 percent, owing to the deficit in production observed since the beginning of the year in the major producing countries, particularly Chile, and the strong recovery in demand from China. Following the same pattern, prices for zinc and lead went up at a monthly rate of 5.7 percent and 3 percent, respectively.

Prices of phosphate and derivatives followed diverging trends in November. In fact, the price for phosphate has remained stable at $90 per tonne since July 2009. Prices of trisodium phosphate (TSP), diammonium phosphate (DAP) and potassium chloride fell at a monthly rate of 7.3 percent, 3.3 percent and 0.9 percent, respectively.

Altogether, non-energy commodity prices are projected to remain low in the short term. According to the IMF, the decline would reach 20.3 percent in 2009, followed by gradual improvement with a limited 2.4 percent rise in 2010.

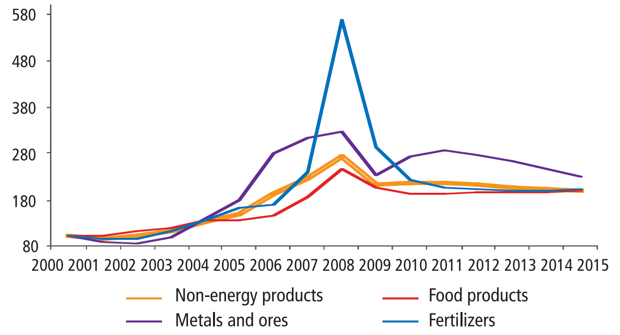
However, the still fragile balance between supply and demand and the risk of an excessive upturn in oil prices raise uncertainty about the increase in non-energy commodity prices and augment the probability of an abrupt surge.

3.5 Morocco's import unit value index

Parallel to these international developments, the latest data available at end of October show a monthly increase of 0.8 percent in the non-energy import price index (IPI), down from 1.4 percent in the previous month. The IPI of food products registered a monthly decline of 0.6 percent, mainly because of the 0.5 percent drop in the average unit import price of wheat. The average price of sugar rose 3.5 percent.

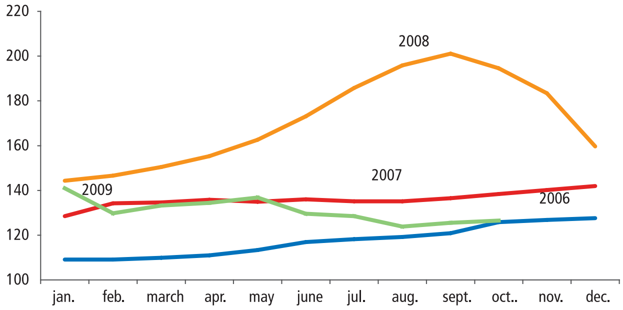
At the same time, the IPI of semifinished products remained almost unchanged in October 2009, mostly in connection with the 9.1 percent fall in the import prices of wires and bars, offset by the 7.1 percent growth in prices of plastics.

Chart 3.16: Change perspectives of commodity prices indexes



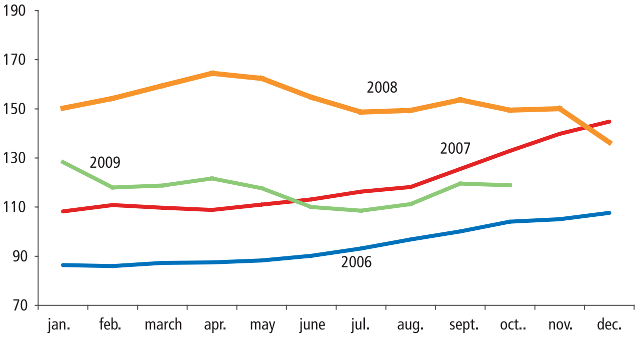
Source: World Bank

Chart 3.17: Non-energy products' import price index



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.18: Food products' import price index



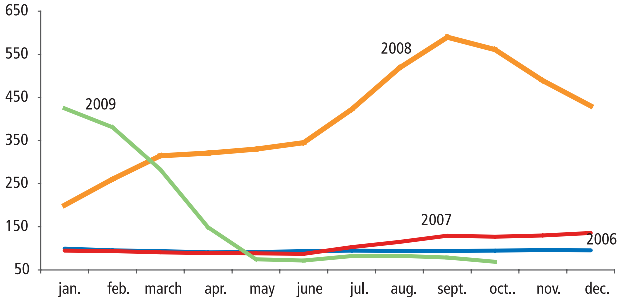
Sources: Foreign Exchange Office, and BAM calculations

Mining products' IPI lost 12.2 percent in October compared with the previous month, mainly as a result of the 24.2 percent decline in the import unit price of crude sulfur.

On a year-on-year basis, the non-energy import price index went down 35 percent, due to the decline in the IPI of food products, semifinished products and mining products. The food IPI fell 20.5 percent, because of the decline in the import unit prices of wheat and corn at 17 percent and 36.2 percent, respectively.

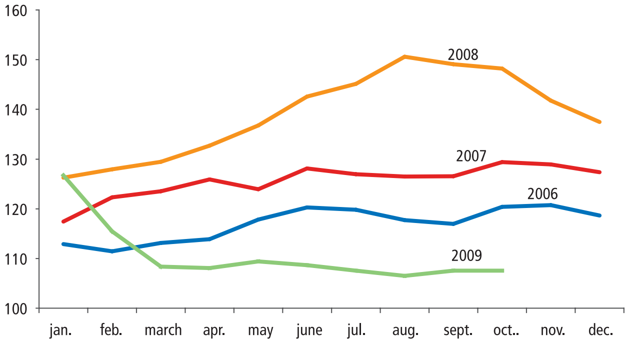
Similarly, the IPI of semifinished products posted a fall of 27.5 percent, dragged down by the decline in the import prices of plastics and wires and bars, following the contraction in demand for semifinished products, expressed by industrialists. Mining products' IPI went down 87.7 percent, mostly because of the 91.7 percent drop in the import unit price of crude sulfur.

Chart 3.19: Mining products' import price index



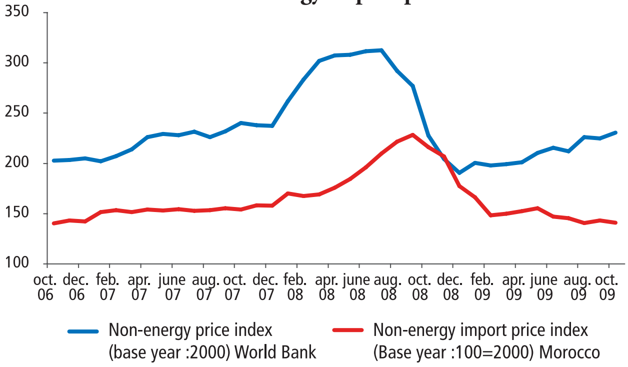
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.20: Import price index of semi finished products'



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.21: Change of world commodity price index and domestic non-energy import price index



Sources: World Bank and Foreign exchange office

4. MONETARY CONDITIONS AND ASSET PRICES

The recent developments in monetary conditions show the continued deceleration in money creation that began early 2008. Monetary surplus remained negative and the average annual growth of M3, which stood at 9.4 percent in the first quarter of 2009, stabilized at around 6.4 percent in the third quarter and October. This trend mainly reflects the gradual decrease in the annual growth rate of credit, which went down from 14.9 percent in the third quarter of 2009 to 10.7 percent in October, after the exceptional increase of 2007. Overall, despite its slowdown, linked to that of nonagricultural growth, bank credit continues to grow steadily. Moreover, Bank Al-Maghrib's survey among banks for the third quarter of 2009 shows that the weighted average lending rate stabilized at 6.53 percent, which yet includes divergent trends of lending rates on the various loan categories. The weighted average rate of deposit rates on 6 and 12-month deposits remained unchanged at 3.55 percent between the third quarter 2009 and October. Stock exchange indexes declined during the third quarter, reflecting in particular the fall in the property sector index. The effective exchange rate of the dirham appreciated by 1.07 percent in nominal terms between the second and third quarter 2009, and 1.05 percent in real terms, thus showing the absence of a significant differential impact of inflation during the third quarter of 2009. Altogether, recent developments in monetary conditions suggest that inflationary pressures of a monetary nature will remain moderate in coming quarters.

4.1 Monetary conditions

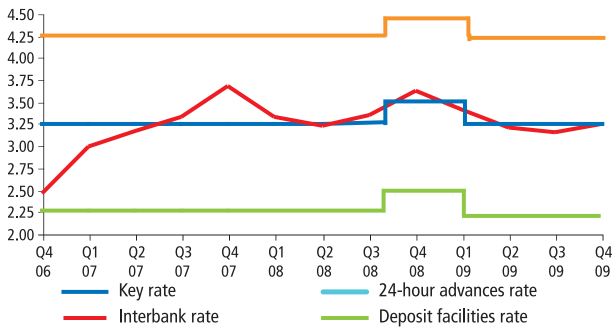
4.1.1 Interest rates

At its last quarterly meeting held on October 1, 2009, the Board of Bank Al-Maghrib decided to keep the key rate at 3.25 percent and reduce the reserve requirements ratio by two percentage points to 8 percent. In this context, the interbank rate was at a level close to the key rate, averaging 3.24 percent in October and November.

Meanwhile, rates on short and medium-term Treasury bills issued on the primary market generally stabilized in October 2009 at the same levels as the previous quarter, except the 2-year bond yield that continued to trend upward, though with a very low volume compared with other maturities. The same trend was observed on the secondary market where rate on the different Treasury bills did not change significantly.

The weighted average rate of deposit rates on 6 and 12-month deposits remained unchanged at 3.55 percent between the third quarter of

Chart 4.1: Change in the interbank rate*

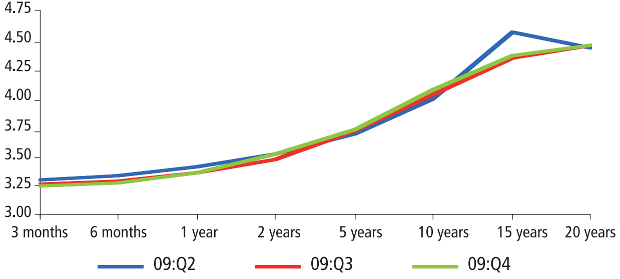


** Observation of the fourth quarter of 2009 corresponds to the daily average of the period from october 1st to november 30th, 2009.*

Table 4.1: Change in yield rates of Treasury bills on the primary market

	2008			2009			
	Q2	Q3	Q4	Q1	Q2	Q3	october
13 weeks	3.41	3.42	3.69	3.58	3.26	3.25	3.24
26 weeks	-	-	3.77	3.65	3.31	3.27	2.28
52 weeks	3.53	3.51	3.84	3.75	3.35	3.33	3.31
2 years	-	-	-	3.90	3.44	3.48	3.53
5 years	-	3.75	3.99	4.05	3.69	3.68	3.69

Chart 4.2 : Structure, by term, of interest rates on the Treasury bills market



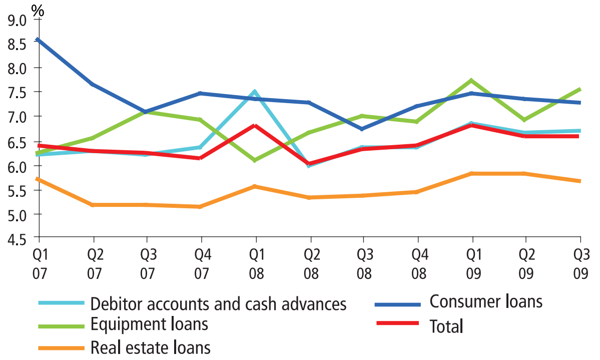
2009 and October. Its trend, however, includes an upward adjustment of interest rates on one-year deposits and the continued decline of rates on 6-month deposits, back to 3.20 percent from 3.31 percent in the last three months.

On lending interest rates, the conclusions of BAM survey among banks for the third quarter of 2009 indicate that the weighted average rate of bank loans stabilized at 6.53 percent. This situation covers diverging trends in the lending interest rates on the various loan categories. Indeed, rates on equipment loans, more volatile than others, posted the highest quarterly increase, whereas those

Table 4.2: Rates on time deposits

	2008			2009			
	Q2	Q3	Q4	Q1	Q2	Q3	october
6 months	3.55	3.50	3.90	3.61	3.52	3.31	3.20
12 months	3.82	3.89	4.23	3.91	3.96	3.68	3.72
Weighted average	3.72	3.77	4.13	3.78	3.78	3.55	3.55

Chart 4.3 : Change in lending rates



Source: BAM monthly business survey with banks on lending rates

Box 4.1: Liquidity and monetary policy implementation

In the third quarter of 2009, banks' liquidity shortage heightened, despite the decision to reduce the reserve requirements ratio by two percentage points, taken by the Board of Bank Al-Maghrib at its meeting of June 16, 2009, which led to an overall liquidity injection in amounts of 7.9 billion dirhams (4.7 billion dirhams on June 21, and 3.2 billion on July 21). Indeed, the average shortfall in banking liquidity moved up from 17.1 billion in the second quarter to 21.5 billion in the third quarter 2009.

The autonomous factors of banking liquidity continued to exert a restrictive effect on banks' liquidity during this quarter. The increase of currency in circulation reached 6.1 billion dirhams during summer vacation.

Also, Treasury operations caused a liquidity drain of 1.2 billion dirhams, mostly attributable to purchases of Treasury bills at auctions and the collection of the third installment of corporate tax for fiscal 2009.

In contrast, foreign assets operations led to liquidity injection of up to 1.7 billion dirhams. Sales of foreign banknotes, markedly higher than the previous quarter –particularly in July and August-, totaled 15.8 billion dirhams, whereas foreign currency purchases by commercial banks reached 14.1 billion dirhams, including 4 billion for SAMIR (Moroccan Oil Refining Company) and 3 billion for Maroc Telecom.

Overall, autonomous factors exerted a restrictive effect of 5.6 billion dirhams on banks' liquidity.

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

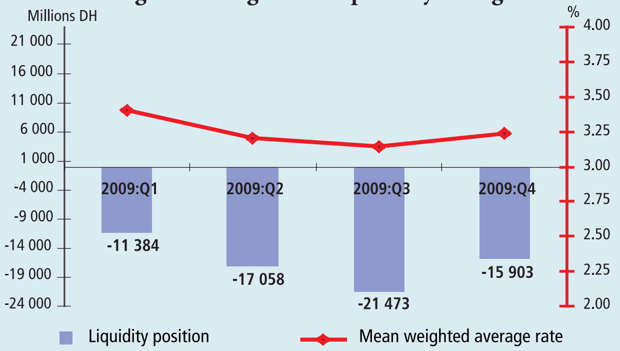
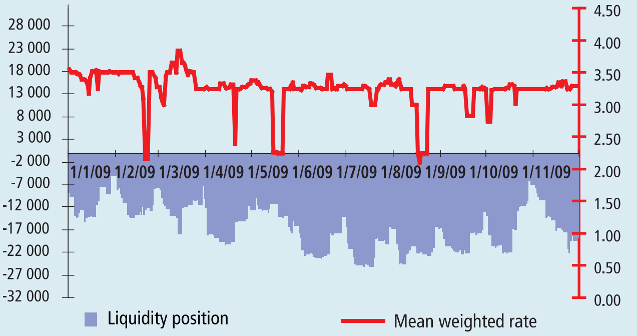


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



Given the significant tightening of bank liquidity during the third quarter of 2009, the Bank Board decided at its meeting on October 1, 2009 to cut the reserve requirements ratio by 2 percentage points to 8 percent.

Reducing the reserve requirements ratio resulted in an overall liquidity injection of 7.1 billion dirhams in September and October 2009.

Consequently, the average liquidity shortage decreased from 21.5 billion in the third quarter to 15.9 billion in the fourth quarter, in spite of the restrictive impact of autonomous factors during the quarter.

Indeed, currency in circulation negatively impacted bank liquidity by 6.1 billion dirhams, mainly in November because of Eid Al-Adha.

Treasury operations caused a drain of liquidity of 819 million dirhams. Treasury assets amounted to 48.2 billion dirhams, including 19.7 billion attributable to bank purchases of Treasury bills at auctions.

Treasury liabilities increased to 47.3 billion dirhams, of which 11.3 billion on the repayment of domestic debt installments to the banking system.

However, transactions in foreign assets led to a liquidity injection of 617 million dirhams resulting from the difference between the sales of foreign banknotes, which reached 4.4 billion dirhams, and purchases of foreign currencies by commercial banks, totaling 3.8 billion dirhams.

Chart B 4.1.3: Change in reserve requirements

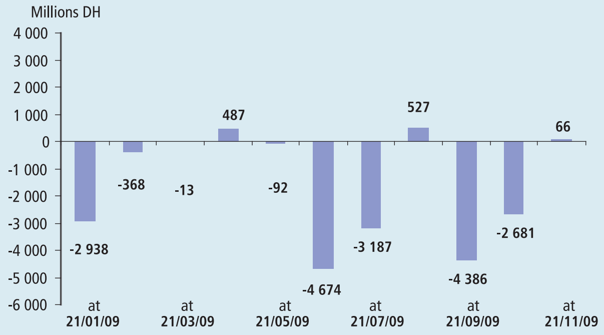
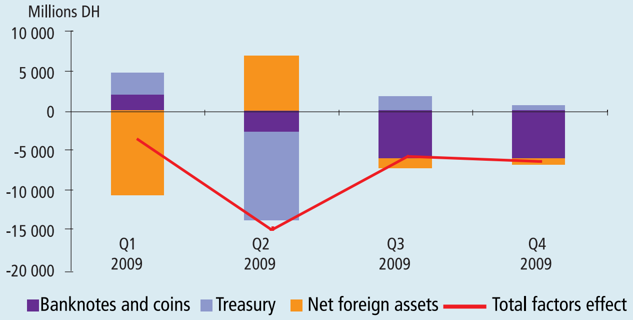


Chart B 4.1.4: Change in liquidity factors' effect



Overall, the autonomous factors exerted a restraining effect of 6.3 billion dirhams on banks' liquidity.

To fill liquidity shortfall, which averaged 15.9 billion during the quarter, Bank Al-Maghrib intervened through the 7-day advances at an average daily amount of 15.1 billion dirhams. The bank also provided liquidity through an overnight advance of an average amount of 12.3 million dirhams. Overall, daily average of BAM interventions totalled 15.1 billion.

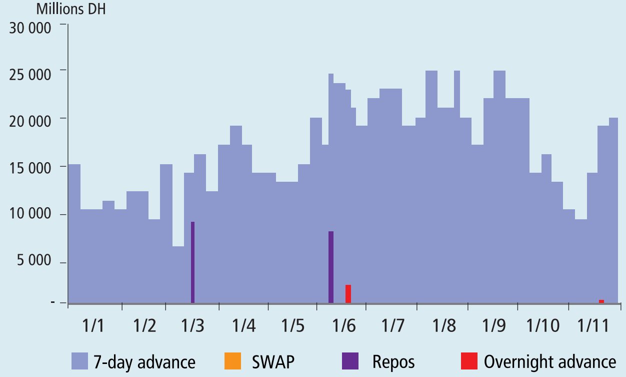


Chart B 4.1.5: Bank Al-Maghrib's interventions on the money market

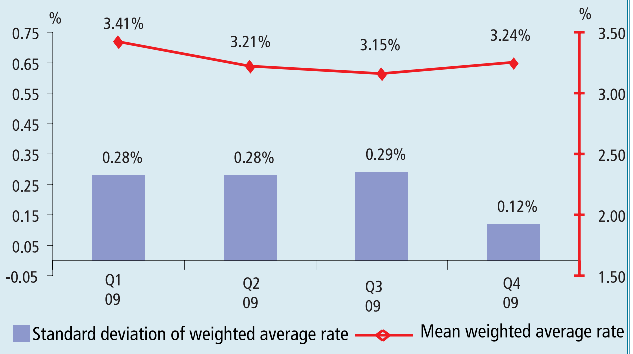


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate

During the fourth quarter of 2009[1], the weighted average rate averaged 3.24 percent up 9 basis points from the previous quarter. In this context, the volatility of TMP decreased by 17 basis points reaching 0.12% against 0.29% previously.

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[1] Data as at November 30, 2009.

on cash advances went up only slightly. In contrast, lending rates on property and consumer loans fell by 14 percent and 7 percent, respectively.

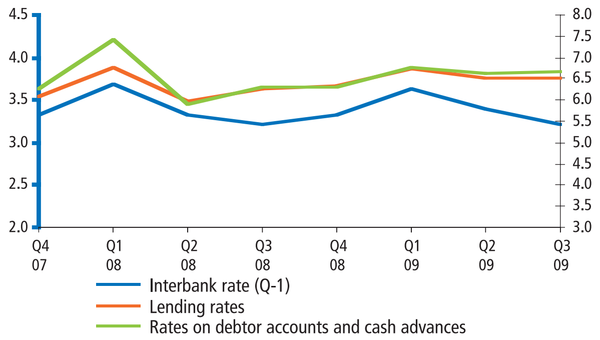
Chart 4.4: Interbank rates and lending rates

4.1.2 Money, credit and liquid investments

M3 growth

The latest data available indicate continued moderate growth of money supply, as the annual growth rate of M3 remained stable at around 6.4 percent in third quarter 2009 and in October, after an average 9.4 percent during the first half of the year. This trend mainly reflects the slowdown of credit, linked to that of the nonagricultural activity.

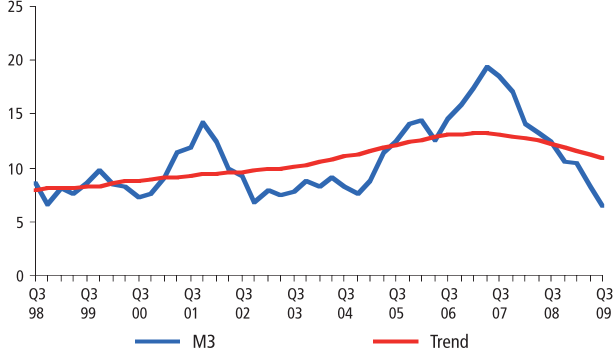
Chart 4.5: M3 annual growth and its trend

The change in the main M3 components show a monthly fall in time deposits in October compared with the previous month, mostly because of the decline of public sector time deposits11. However, on an annual basis, outstanding time deposits increased 7 percent from October 2008, owing to a

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1 The decline in the time deposits of the public sector is attributable to the non-renewal of those of the OCP, which fell due.

base effect related to the withdrawal of OCP time deposits during the same month of the previous year.

Meanwhile, bank money seems to continue its moderate growth, rising in October at an annual rate close to that observed the previous quarter, 5.2 percent compared with 5.8 percent. Its structure by depositor category shows an increase in demand accounts of nonfinancial corporations, slower than the rate reported in the third quarter. Demand deposits of private individuals did not change significantly from one month to another, and grew at almost the same annual rate compared with the average level observed since the beginning of the year.

Bank loans

The latest data available show the continued deceleration in the annual growth rate of bank credit, which went down from 14.9 percent in the third quarter of 2009 to 10.7 percent in October. Overall, despite its slowdown, linked to that of nonagricultural growth, bank credit continues to grow steadily.

The breakdown of credit by economic agent remains marked by the preponderance of loans to corporations, though the year-on-year growth rate of the latter slowdown from, 16.7 percent in the third quarter to 12 percent in October.

Loans to private individuals registered no significant changes in October, growing at an annual rate of 12.2 percent compared with the previous quarter.

Analysis by economic purpose shows that the decline in the growth rate of bank loans in 2009

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

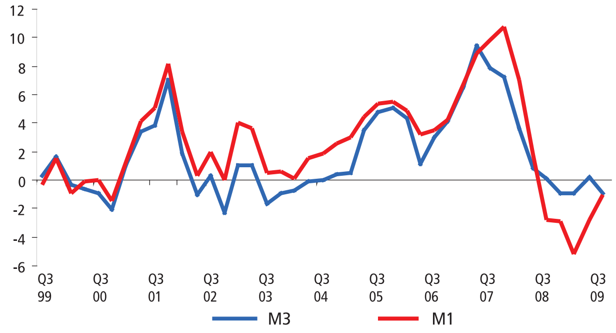


Chart 4.7: Annual change of M3 components

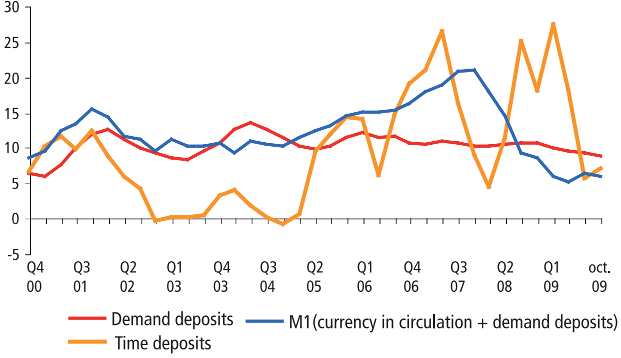


Chart 4.8: Annual growth of demand deposits per economic agent

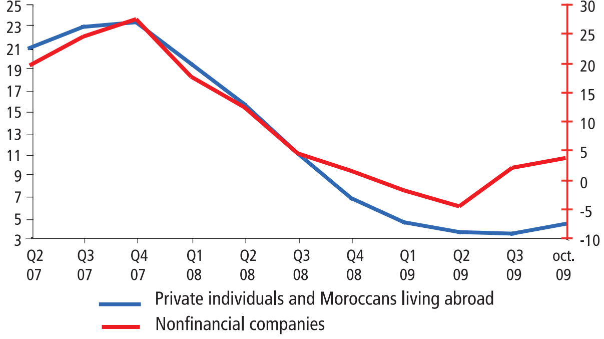
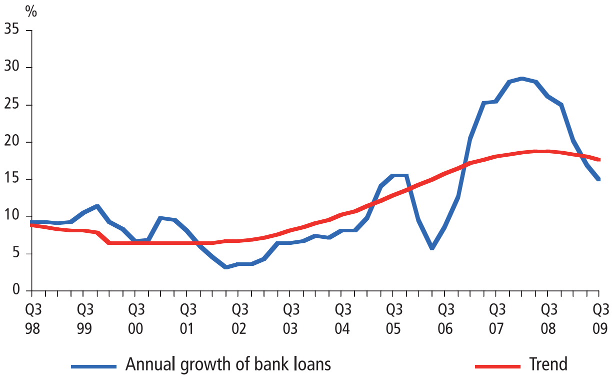


Chart 4.9: Annual growth of bank loans and its trend (in %)



covered all categories, except for equipment loans which contributed 5 percentage points to the year-on-year increase in total loans.

Equipment loans indeed continued to grow at an annual steady pace, by 24.8 percent in October after 25.8 percent in the previous quarter, reflecting investment momentum in some corporations, particularly in the sectors of mining industry, transportation, communication, electricity production and distribution, and oil products' distribution.

Concerning property loans, they were up 12.2 percent in October year-on-year, compared with last quarter. This change includes slackening in loans to property developers and slight increase in property loans. Meanwhile, consumer loans, during the same period, did not change significantly on a month-to-month basis. They continued to trend downward at 19.3 percent, down from 21.3 percent in the last three months.

Other sources of money creation

Net external assets continued to shrink in the third quarter of 2009, by 12.6 percent year-on-year from 8.8 percent in the second quarter. However, this accelerated decline is attributable to a base effect resulting from the sharp increase reported in the same period of the previous year. In October, net foreign assets continued to decrease, albeit at a lesser annual rate of 7.5 percent, especially as trade deficit narrowed somewhat and travel receipts and expatriate remittances declined less markedly.

Net claims on the Government again trended up, after several quarters of decline, as they registered an annual increase of 19.2 percent in the third quarter 2009 and 12 percent in

Chart 4.10: Loans structure by economic agent

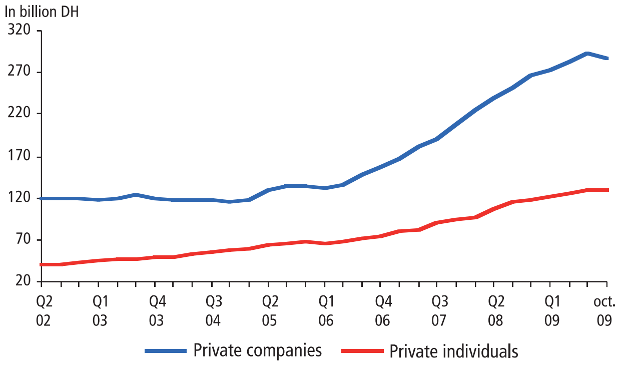


Chart 4.11: Annual growth of the main categories of bank loans

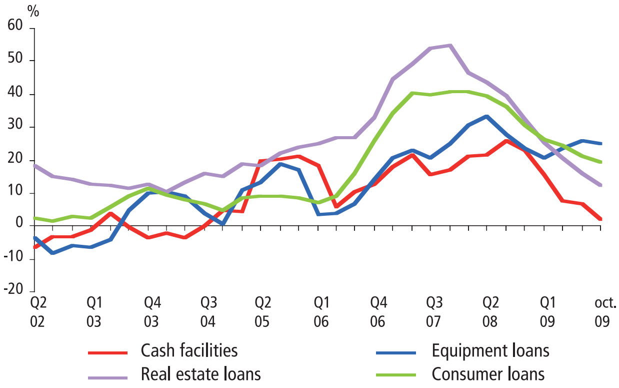
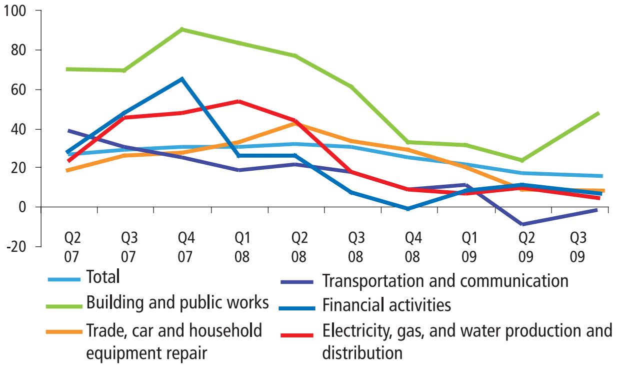


Table 4.3: Contribution of the main loan categories to the annual growth of bank loans (in percentage points)

	Year-on-year %			Contribution to growth		
	Q2:09	Q3:09	oct.09	Q2:09	Q3:09	oct.09
Bank loans Including:	16.9	14.9	10.7			
Real estate loans	20.8	16.3	12.2	6.0	4.8	3.6
Cash advances	7.5	6.5	1.8	2.1	1.8	0.5
Equipment loans	23.3	25.8	24.8	4.5	4.8	4.6
Consumer loans	24.6	21.3	19.3	1.2	1.0	0.9

Chart 4.12: Annual change in loans by sector



October, due to the drop in the net position of the Treasury with Bank Al-Maghrib and increased purchases by banks of Treasury bills.

Overall, the contribution of net foreign assets and net claims on the Government to the annual growth of M3 remains negative, to the advantage of bank credit the relative contribution of which amounted to nearly 8 percentage points in October 2009.

Chart 4.13: Annual growth of net foreign assets

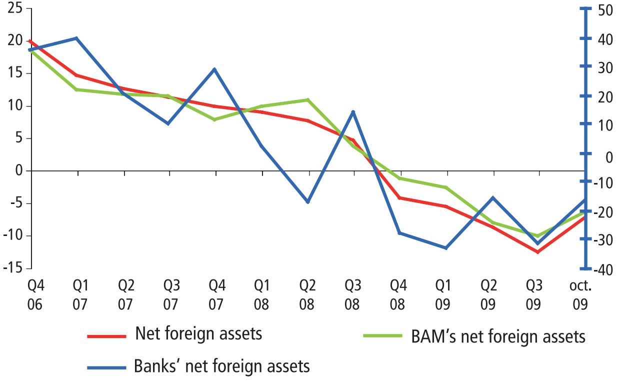
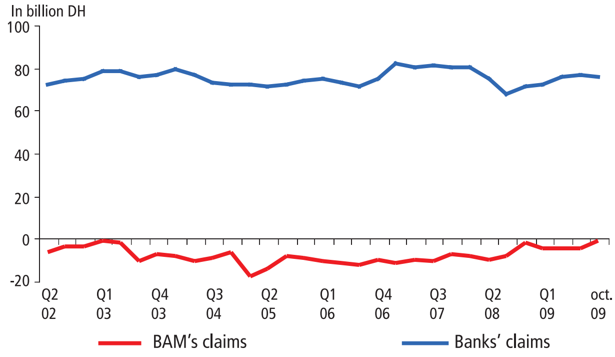


Chart 4.14: Quarterly change in net claims on the Government



Liquid investments

During the third quarter of 2009, liquid investments rose at a quarterly rate of 4 percent. However, their outstanding amount, at about 50 billion dirhams, remains lower by 2.1 percent from the same period of last year.

Growth in liquid investments was again marked by the rise in the securities of bond UCITS, the outstanding amount of which reached 23.3 billion dirhams, or half the total amount of liquid investments, up from 18 billion in the same period of 2008. This increase is mainly in response to the behavior of nonfinancial corporations, which seem to favor this category of interest-bearing investments to time deposits with banks and money market UCITS; the latter dropped again in the third quarter.

The securities of equity and diversified UCITS did not change substantially on a quarterly basis. On a year-on-year basis, they fell 47 percent, mostly because of the continued downturn in stocks performance on the Casablanca market.

Chart 4.15: Contribution of main counterparties to money supply growth

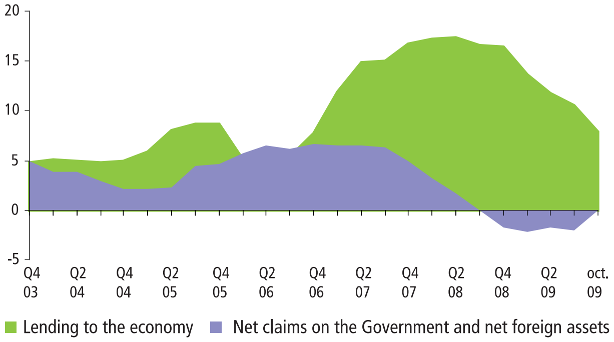
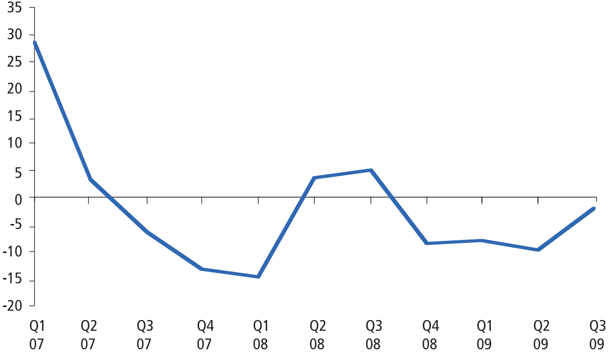


Chart 4.16: Annual change in liquid investments



4.1.3 Exchange rates

In the third quarter 2009, the dirham continued to appreciate against the US dollar, at an average exchange rate 4.1 percent higher than in the previous quarter, at a time when the dollar fell 4.9 percent against the euro. In contrast, the dirham lost 1.77 percent versus the sterling pound, and 0.83 percent versus the euro, while it did not change markedly against the yen and the Swiss franc. This trend continued in October and November 2009, as the national currency rose 3.33 percent against the dollar and depreciated 0.66 percent against the euro.

The dirham's nominal effective exchange rate, based on bilateral exchange rates with Morocco's major partners, increased in the third quarter by 1.07 percent from the previous quarter. The real effective exchange rate also climbed 1.05 percent from one quarter to the next, reflecting the absence of a significant differential impact of inflation during the third quarter of 2009.

4.2. Asset prices

At the end of the third quarter of 2009, the MASI index lost 7.10 percent from the previous quarter, mostly because of the 13.57 percent decline in the property index. Indeed, property stocks of Addoha, Compagnie Générale Immobilière and Alliances plummeted by 18.45 percent, 5.25 percent and 4.30 percent, respectively. As a result, the year-to-date negative performance of the MASI stands at 2 percent.

At end of November, the MASI fell 5.26 percent, after slight increase of 0.10 percent in October.

Chart 4.17: Change in money market and bond UCITS securities

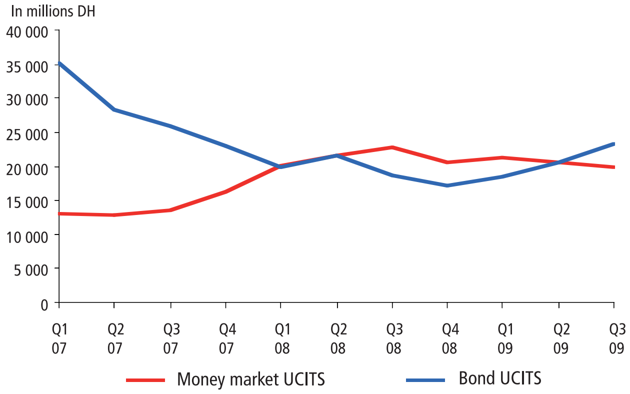


Chart 4.18: LI4 and MASI (year-on-year)

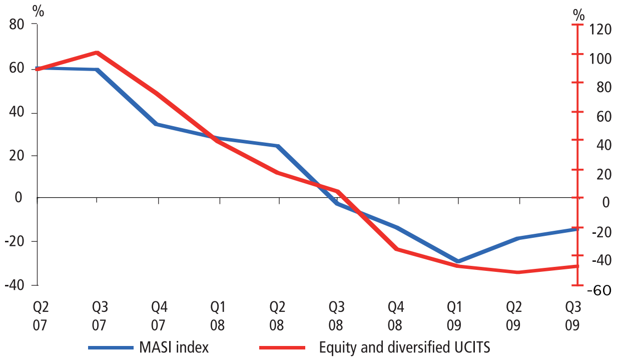
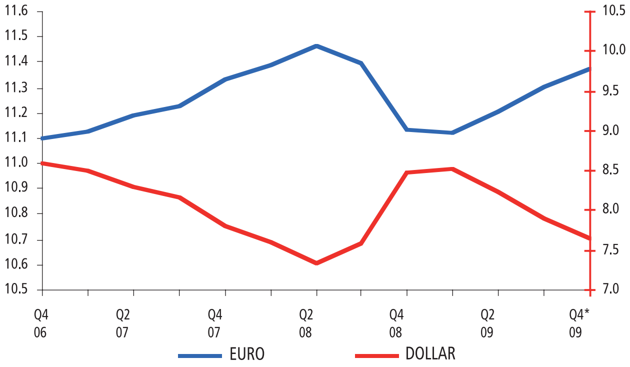
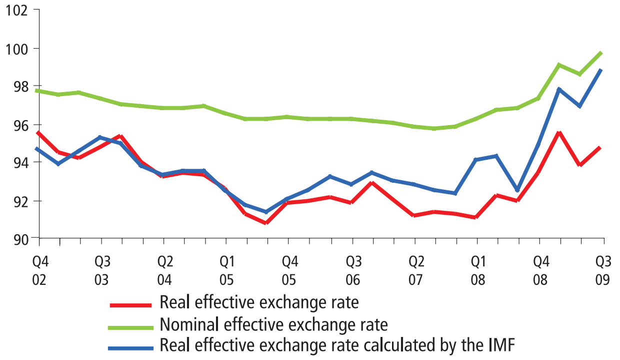


Chart 4.19: Exchange rate of the dirham (monthly averages)



* *The fourth quarter of 2009 corresponds to the arithmetic average of october and november data.*

Chart 4.20: Effective exchange rate (Base 100 in 2000)



Sources: IMF, and BAM calculations

The PER of the Casablanca stock market went up from 16.7 to 17, from one quarter to the next, and remains one the highest in the emerging countries.

At the same time, the volume of transactions decreased by 14 percent to 22 billion dirhams in the third quarter 2009.

In connection with the fall in stocks, market capitalization, 5.8 percent down from the previous quarter, reached 522 billion dirhams. This downward trend continued in November, to stand at nearly 500 billion.

In sectoral indexes, the beverages sector registered the highest increase, 70.15 percent, followed by the sectors of services to local governments and the drug industry, which grew by 14.76 percent and 4.62 percent, respectively. However, the other sectoral indexes were all down, ranging between 0.38 percent for the agrifood sector and 17.35 percent in the transportation index.

Concerning real-estate assets, their activity seems to slowdown in terms of volume and value of transactions, according to fragmented data. This trend, observed in the second quarter, seems to continue in the third quarter of the year.

Chart 4.21: Stock market indexes

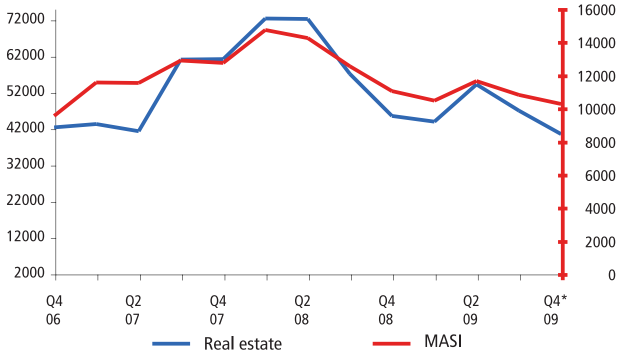
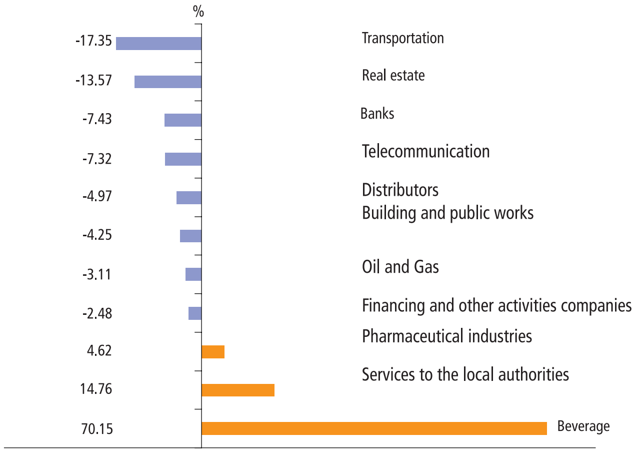


Table 4.4: Equity markets' valorization

PER*	08 :Q3	08 :Q4	09 :Q1	09:Q2	09:Q3
South Africa	10.28	9.58	10.62	16.64	19.97
Egypt	11.61	6.99	6.66	11.09	13.33
Hungary	6.63	5.83	8.01	9.45	12.48
Morocco	**17.70**	**17.40**	**15.00**	**16.00**	**17.00**
Argentina	6.75	5.68	7.05	9.77	14.62
Turkey	6.79	7.58	12.35	19.34	2.64
Taiwan	11.38	22.48	66.12	60.40	82.83
Euro stoxx 50	9.97	9.21	13.02	20.66	20.46

** PER : Price Earnings Ratio*
Sources : Bloomberg and CFG (PER Morocco)

Chart 4.22: Quarter-to-quarter change in sectoral indexes, Q2 2009/Q1 2009



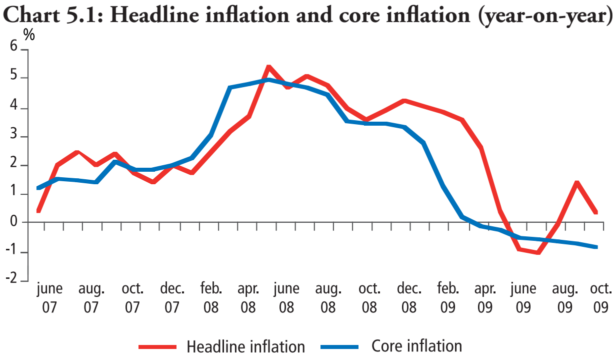
5. RECENT INFLATION TRENDS

In line with the forecasts published in the previous Monetary Policy Reports, inflation remained low overall in Q3 and October 2009, against a backdrop of continuously easing worldwide inflationary pressures and moderating internal and external pressures. However, at the very short run, headline inflation fluctuated somewhat, mainly in connection with isolated variations in fresh food prices. Core inflation, which excludes this volatile component that is very sensitive to transitory supply shocks, has remained almost stable and negative since April 2009. Annual headline inflation fell back to 0.4 percent in October 2009, compared to 0.0 percent in August and 1.4 percent in September, while core inflation was at -0.8 percent in October, compared to -0.7 percent in September and -0.6 percent in August. This inflation trend has resulted from the combined effect of a 0.2 percent decrease in tradable prices and a 2 percent slowdown in nontradable inflation in September to 1.5 percent. As to industrial producer prices, they remained largely below 2008 levels, although their decrease pace decelerated anew, from -18.8 percent to -16.9 percent.

5.1 Inflation trends

Headline inflation remained low overall, in connection with the general easing in inflationary pressures worldwide and in the absence of pressures on demand at the national level. Meanwhile, short-term fluctuations were noted from one month to the next. Headline inflation, measured by the annual increase in the cost of living index (CLI), decreased to 0.4 percent in October 2009, after 1.4 percent in September and 0.0 percent in August, which brought its average to 1.4 percent over the first ten months of the year.

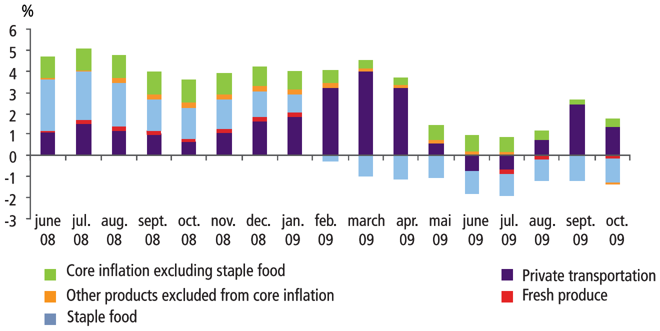
Chart 5.1: Headline inflation and core inflation (year-on-year)



Sources: HCP, and BAM calculations

The fall of headline inflation in October mainly reflects the slowdown in the growth rate of fresh food products, while the generally weak inflation observed these last months is partly due to the continued annual decrease in staple food prices. Fresh products, which constitute 20.1 percent of the general index basket, contributed 1.4 percentage point to headline inflation. The contribution of staple food, representing 15.2 percent of the CLI basket, stood at -1.2 point while nonfood products contributed 0.3 point. Private transportation rates, largely determined by pump prices, dropped by 4.5 percent year on year, notwithstanding the recent uptrend in

Chart 5.2: Contribution of the main components to year-on year headline inflation (in percentage points)



Sources: HCP, and BAM calculations

energy prices. This development is due to the freezing of the indexation mechanism which isolates the national market from international developments and re-directs the impact of oil price fluctuations toward the State's budget. (Chart 5.4 and Table 5.2).

Core inflation, which measures the underlying changes in prices, was -0.8 percent in October compared to -0.7 percent in September and -0.6 percent in August. Accordingly, the difference between headline inflation and core inflation remained significant at 1.2 percentage point in October and 2 points the month before, thus reflecting the high increases in staple food prices during the last two months.

In October, a detailed breakdown of the CLI shows a slowdown in the annual growth rate of some fresh products, particularly meat (3.5 percent down from 5.2 percent), fruits (2.9 percent from 5.1 percent) and vegetables (22.1 percent down from 35.8 percent). At the same time, it indicates a sharper fall in the prices of fish (-13.6 percent compared with -9.0 percent) and new decreases in the prices of cereals (10.7 percent) and fats (8.8 percent).

The index of nonfood prices showed a moderate growth rate of 0.9 percent in October in comparison to 1.1 percent in September and 1 percent in August. The group "leisure and culture" contributed to this slowdown, but most of the other groups registered variation rates close to those of the month before.

5.2 Goods and services

This breakdown of the CLI, which is pertinent to the analysis of the sectoral determinants of inflation, shows a decrease in the annual growth rate of unprocessed and other goods

Table 5.1 : Inflation and its components

	Monthly change (%)			Year-on-year (%)		
	August 09	Sept. 09	Oct. 09	August 09	Sept. 09	Oct. 09
Headline inflation	**1.5**	**1.9**	**-1.1**	**0.0**	**1.4**	**0.4**
- Fresh produce	7.2	8.8	-4.6	3.4	11.0	6.4
- Private transportation	0.0	0.1	0.0	-4.4	-4.4	-4.5
- Other products excluded from core inflation	0.1	0.0	0.0	0.2	0.1	0.1
Core inflation *Including:*	**0.1**	**0.2**	**-0.2**	**-0.6**	**-0.7**	**-0.8**
- Staple food	0.3	0.8	-0.8	-7.2	-7.2	-7.5
- Other food products	0.1	0.1	-0.7	0.1	-0.4	-0.9
- Clothing	0.1	0.4	0.1	1.4	1.4	1.5
- Housing	0.1	0.0	0.1	0.7	0.6	0.6
- Equipment	0.0	0.1	0.1	0.9	0.9	0.9
- Medical care	0.1	0.0	0.0	1.0	1.0	1.0
- Public transportation and communication	0.1	0.0	0.0	1.5	1.7	1.7
- Leisure activities and culture	0.0	0.6	0.1	1.7	1.6	1.3
- Other goods and services	0.1	0.2	0.1	1.8	1.9	1.9

Sources : HCP, and BAM calculations

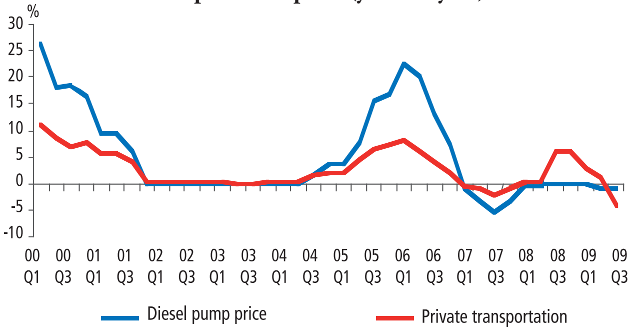
Table 5.2 : Domestic selling prices of oil products

Products (Dh/Liter)	Sept. 2008	Dec. 2008	Feb. 2008	Apr. 2008	Jul. 2009	Oct. 2009
Premium gasoline	11.25	11.25	10.25	10.25	10.25	10.25
Gasoil*	7.22	7.22	7.22	-	-	-
Diesel 350/50 *	10.13	10.13	7.50	7.15	7.15	7.15
Industrial fuel(Dh/Ton)	3374	3374	3074	3074	3074	3074

(*) 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: Diesel pump price and transportation price (year-on-year)



Sources: HCP, and the Ministry of Energy and Mining prices, from 4.8 percent in September to 1.5 percent in October, mainly under the effect of the slowdown in the growth rate of vegetable, fruit and meat prices. The contribution of unprocessed and other goods to headline inflation neared 0.4 percentage point.

On the other hand, the prices of processed goods and services excluding private transportation evolved at a quasi-stable rate during this period. The annual variation of processed goods prices remained negative at -0.3 percent in October and September. The rise of prices for services excluding private transportation remained almost unchanged at 1.3 percent. The contribution of processed goods and services excluding private transportation was -0.2 and 0.3 percentage point, respectively.

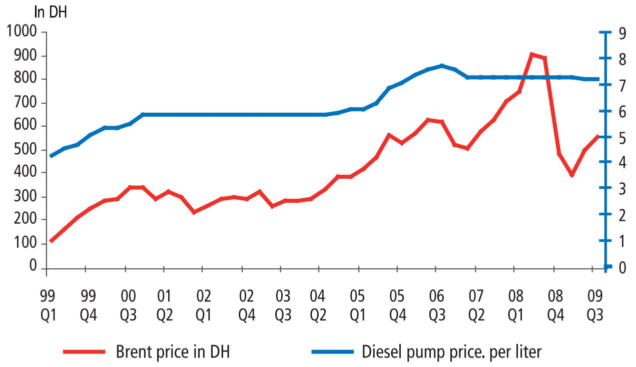
The inflation differential between services excluding private transportation and transformed goods thus stands at 1.6 percentage points. The importance of this differential is attributed to the negative annual variation in some staple food, especially cereals and fats which, together, stand for about 21.6 percent of processed goods.

5.3 Tradable and nontradable goods

Inflation can also be analyzed by breaking down the CLI into price indexes for tradables and nontradables, weighting 43 percent and 57 percent of the general index, respectively. This breakdown, which measures pressures on prices according to their internal or external origin, shows that the gap between tradable and nontradable inflation is still negative.

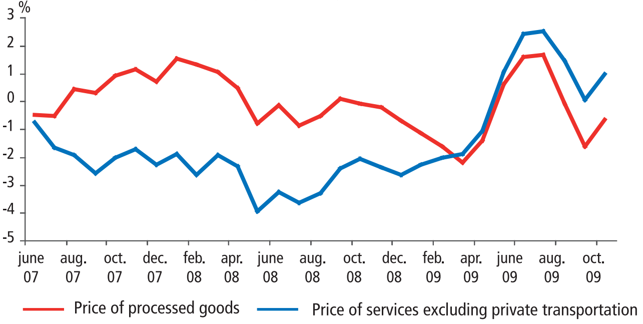
Tradable prices are largely determined by the world commodity prices which, despite a recent rise, are still below their 2008 level. Thus, tradable prices decreased 0.2 percent in October in comparison with the same month of the previous year, after gaining 1.9 percent in

Chart 5.4: World oil price and diesel pump price in Morocco



Source: IMF; Ministry of Energy and Mining

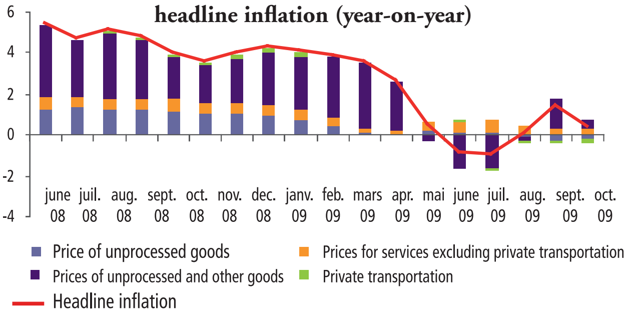
Chart 5.5: Relative prices of processed goods and services excluding private transportation compared with headline inflation (year-on-year)*



(*) Gap between the inflation rate of processed goods and services excluding private transportation and the headline inflation rate.

Sources: HCP, and BAM calculations

Chart 5.6: Contribution of goods and services prices to headline inflation (year-on-year)



Sources: HCP, and BAM calculations

Table 5.3: Price indexes for goods and services

	Monthly change (%)			Year-on-year change (%)		
	Aug. 09	Sept. 09	Oct. 09	Aug. 09	Sept. 09	Oct. 09
Processed goods	0.2	0.5	-0.3	-0.1	-0.3	-0.3
Unprocessed goods and others	5.0	6.3	-3.5	-0.4	4.8	1.5
Services excluding private transportation	0.1	0.2	0.0	1.4	1.4	1.3
Private transportation	0.0	0.1	0.0	-4.4	-4.4	-4.5

Sources : HCP, and BAM calculations

September, thus contributing -0.3 percentage point to headline inflation. This development in the annual inflation of tradable goods from one month to the next is attributable to the slowdown in the variation rate of vegetable and fruit prices, the September increase of which more than offset the negative variation of cereals and fats.

On the opposite, nontradable prices, up 1.5 percent in October compared to 2 percent in September, contributed 0.7 percentage point to annual inflation. This slackening of nontradable inflation chiefly resulted from a lower increase in meat prices.

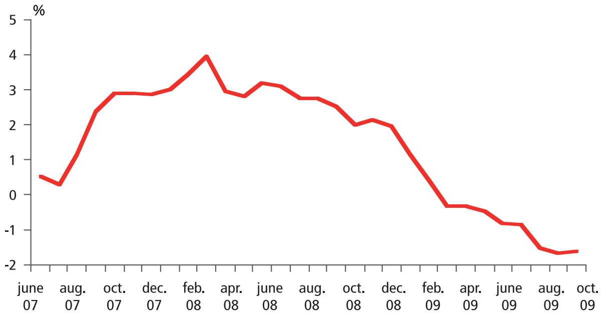
5.4 Industrial producer price index

The available data for October indicate that industrial producer prices, reflecting world commodity prices, remained lower than their 2008 level. However, their year-on-year decrease rate slackened anew, due to the gradual wearing off of the base effect, the second semester of 2008 having witnessed the start of a downtrend in these prices which peaked in July 2008. Manufacturing industries price index registered an annual fall of 16.9 percent in October, compared to 18.8 percent the month before, reflecting a 29.1 percent slowdown of prices in "Refining and Cocking" instead of 33.6 percent a month earlier.

The outlook for industrial producer prices shows that they are likely to be affected by the projected rise in energy commodities (Chart 5.12), the world market operators expecting an increase in the Brent price over the coming months and quarters (see Chapter 3).

Excluding refining and cocking, manufacturing industrial producer prices fell 12 percent instead of 12.1 percent a month before. The price index of the chemical branch decreased

Chart 5.7: Gap in inflation rates between processed goods and services excluding private transportation (year-on-year)*



(*) The gap between the inflation rate of processed goods and services excluding private transportation

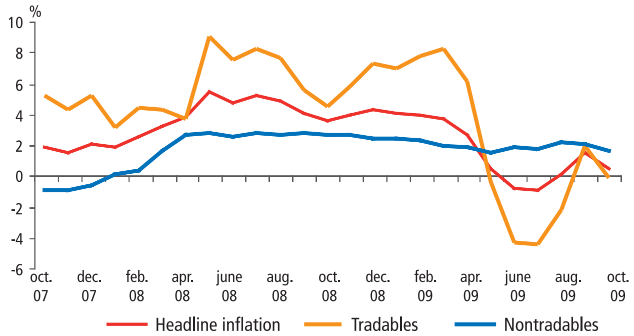
Sources: HCP, and BAM calculations

Table 5.4: Change in the price indexes of tradables and nontradables

	Monthly change (%)			Year-to-year change (%)		
	Aug; 09	Sept. 09	Oct. 09	June 09	Jul. 09	Aug. 09
Tradables	3.0	5.5	-2.6	-2.3	1.9	-0.2
Nontradables	0.7	-0.1	-0.2	2.1	2.0	1.5

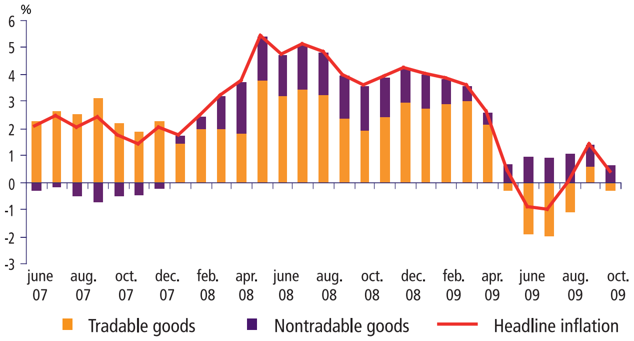
Sources : HCP. and BAM calculations

Chart 5.8: Change in price indexes of tradables and nontradables (year-on-year)



Sources: HCP, and BAM calculations

Chart 5.9: Contribution of tradables and nontradables to headline inflation (year-on-year)

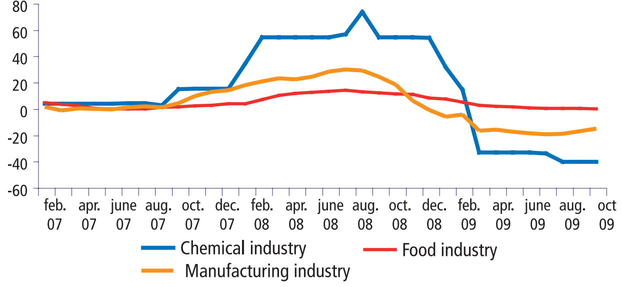


Sources: HCP, and BAM calculations

by 42.4 percent compared to 42.3 a month earlier, contributing 7.7 percentage points to the drop of the general index. Moreover, production costs in the "metallurgy" and "metal working" branches decreased by 11.7 percent and 8.8 percent, respectively. The price index of the "paper and cardboard" industry branch dropped 5.8 percent.

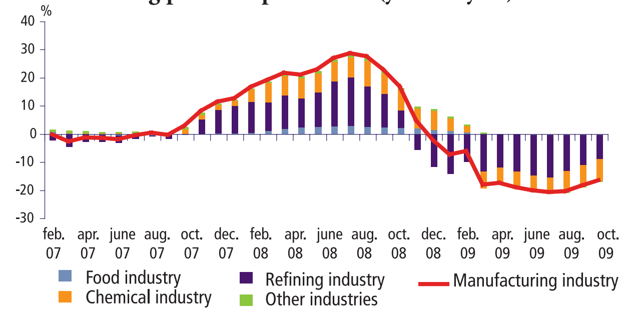
Producer prices in the food industry decreased by 1.9 percent in spite of rising food prices worldwide (Chart 5.13). In line with these developments, the results of the October 2009 monthly survey indicate a drop in the prices of finished products from one month to the next. This situation covers a rise in the prices of electric and electronic industries, stagnation in textile and leather, and a fall in the other industries. At the short run, electric and electronic industries operators were the only ones to expect a rise in finished products prices, other operators having projected their fall.

Chart 5.10: Change in industrial producer price indexes (year-on-year)



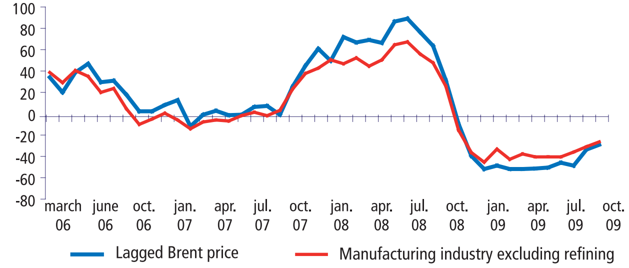
Sources: HCP, and BAM calculations

Chart 5.11 : Contribution of the main headings to manufacturing producer price index (year-on-year)



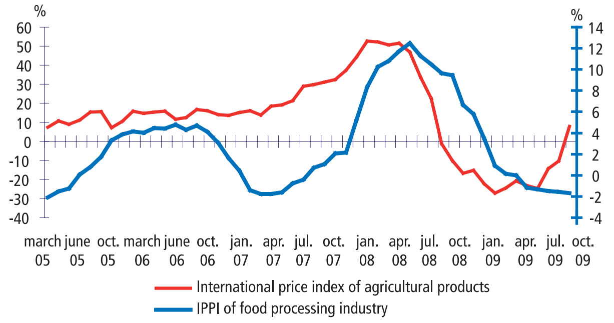
Sources: HCP, and BAM calculations

Chart 5.12: Refining indutry price index and Brent price (year-on-year)



Sources: IMF, HCP, and BAM calculations

Chart 5.13: Change in domestic and international food prices (year-on-year)



Sources: World Bank, HCP, and BAM calculations

6. INFLATION OUTLOOK

This section presents the inflation trend deemed the most probable (central forecast) over the next six quarters and examines the major associated risks (balance of risks). The central forecast scenario therefore depends on the assumptions and trends envisaged for a series of variables affecting economic activity and inflation. Assuming the non-occurrence of the major identified risk factors, the inflation trend over the coming six quarters remains in line with the price stability objective, with an average forecast of 1.9 percent. At the end of the forecast horizon, i.e. the first quarter of 2011, inflation is projected to be around 2.5 percent. Compared to the previous Monetary Policy Report, the central forecast was revised upward (1.9 percent compared to 1.1 percent) but is still in line with the price stability objective. The risks and uncertainties surrounding inflation central forecast for the next quarters are trending downward. They result from uncertainties over the exit strategies of our partners and, therefore, from the development of foreign demand for Moroccan products.

6.1 Baseline scenario assumptions

6.1.1 International environment

The latest economic and financial developments point to a moderate recovery of the world economy. Many international organizations therefore revised their growth forecasts upward. However, the strength of this growth would vary from one area to the other.

According to the OECD, the US GDP would grow by 2.5 percent in 2010 and 2.8 percent in 2011. In Europe, the sluggishness that marked a great part of the year 2009 is expected to wear off gradually, giving way to a better outlook. Growth is projected to reach 0.9 percent in 2010 and 1.7 percent in 2011.

This upturn would be in part due to the adoption of large fiscal stimulus measures and expansionary monetary policies combined with unconventional measures. It would also result from the revival of growth in emerging countries, an improved situation on the financial markets and the rise of overall exports following the recovery of world trade.

The risks associated to this outlook remain balanced overall. They are mainly related to the financial conditions. The latter could in fact continue to improve at a faster rate, leading to a better economic outlook: an increase in the value of firms and households' assets which will give rise to a bigger hike in private demand. On the other hand, the potential collapse of one or several systemically important institutions may produce the adverse effect.

Unemployment will continue to bear down on economic outlook, particularly in Europe, where growth forecasts, although on the rise, would not rein in cyclical unemployment which would, consequently, turn structural.

Hence, the fiscal and monetary policies aiming to shore up economic activity should only come into play in a gradual and orderly manner, further supporting growth outlook.

In light of these developments, we have revised our partner countries (Germany, Spain, France and Italy) growth forecasts published in the MPR of October. The latter now stand at -3.1 percent in 2009 (up from -3.6 percent), 0.7 percent in 2010 (instead of -0.2 percent) and 1.4 percent in 2011. It is worth-mentioning that the growth rate is calculated on the basis of the weighted average of these countries' respective shares in our foreign trade.

With regard to inflation, its development has been strongly influenced by the downward changes in world commodity prices. This outlook is tilted to the downside because of pressures exerted by the level of underutilized capacity. As a result, and according to the latest ECB projections, inflation is forecast to be weak in 2010, standing at 1.2 percent.

Viewing the weakness of recovery and the decrease of inflationary tensions, the ECB is likely to maintain its key rate unchanged at 1 percent, equivalent to the Euribor rate of 0.9 percent for the rest of this year. In 2010, the Euribor could progressively trend upward under the effect of the expected growth recovery and the possible appearance of inflationary, albeit low, tensions. We therefore expect the rate to be raised to 1.2 percent as of Q4-2010.

Finally, we anticipate that import price-driven inflationary pressures would remain weak in spite of a slight rise related to the increase in the commodity prices in international markets, following the global economic recovery.

6.1.2 National environment

The 2010 Moroccan economic outlook points to a continued upturn in nonagricultural activity in connection with a stronger foreign demand and a negative growth of agricultural activity following the considerable base effect of last year's exceptional crop.

The 2009/2010 crop year is still lagging because of unfavorable climatic conditions. However, it should benefit from the measures taken within the framework of the "Maroc Vert" Plan as well as from the exceptional rainfalls registered the year before. Pending a better visibility, we assume that cereal crop will reach 60 million quintals, the level of an average crop year. As a result, and after the 2008/2009 record, cereal harvest should drop markedly, which is likely to lead to a net decrease of the agricultural added value.

On the other hand, nonagricultural activity is projected to be steered by foreign demand, within a context of world growth recovery. As our European partners' economic recovery would be moderate, its impact would stay below the historical average registered in the last six years. On the opposite, aggregate demand should benefit from the efforts of the Treasury which expects a 20-percent rise in investments and a 4-percent deficit, up from 1 percent in 2009.

In this context, we anticipate a slowdown of national growth in 2010 and consider the hypothesis of a growth rate ranging between 3 percent and 4 percent.

The available data regarding the job market in Q3 -2009 point to a stability in comparison to the same quarter of the year before (-0.1 percent). The upturn of activity in the sectors of "building and public works" and services has boosted job creations, whereas a 2.3 percent fall was registered in the agricultural sector.

According to our business survey of Q3-2009, the employed workforce should stagnate during the third quarter before increasing in the fourth quarter following the upturn in electric and electronic industries.

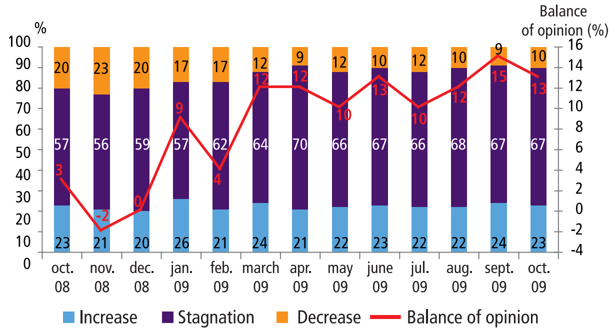
With regard to wages, and viewing the July 2009 increase in the minimum wage, we do not anticipate a change in the minimum wage in the framework of the central scenario, and its level is expected to remain unchanged at 10.65 DH/hour.

The start of a global economic recovery, particularly in emerging countries, is likely to influence international demand for hydrocarbons. Accordingly, the IMF has revised up its forecasts for oil price from last October's. The average 2009 price for the Brent barrel is now expected to average $61.5, a 36.6 percent decrease in comparison with 2008. It is projected to increase 24.2 percent in 2010, to around $76.5. The futures market expects the barrel price to be around $77 in 2009 and $79.2 in 2010.

Notwithstanding this uptrend, hydrocarbon prices remain sustainable in view of the subsidization expenses planned in the 2010 Finance Act. The latter stand at 14 billion dirhams (or 1.8 percent of the GDP), based on a $75-barrel scenario. Against this backdrop, the central forecast assumes that diesel oil pump price would stagnate at 7.15 DH/liter over the six quarters of our forecast horizon.

According to the findings of our October business survey, the percentage of corporate managers who anticipate a stagnation of inflation during the next three months remained elevated and constant between September and October 2009.

Chart 6.1: Corporate managers' perception of inflation for the next three months



Source: BAM monthly business survey in the industry

6.2 Inflation outlook and balance of risks

In the event that the main risks described hereafter do not materialize, the central forecast for the six coming quarters should stand at 1.9 percent. This level, which is higher than the 1.1 percent foreseen in the previous MPR, remains in line with the price stability objective.

For the year 2009 as a whole, inflation should be 1.3 percent, a level far below the 3.9 percent registered in 2008. Inflation is expected to reach 2 percent in 2010.

This overall upward revision concerns virtually all the quarters of the forecast horizon. Hence, inflation in Q1-2010 should be around 1.2 percent up from the 0.9 percent expected in the previous MPR. The rate forecasted for Q2-2010 moves from 1.4 percent up to 2 percent. Inflation should remain unchanged at 2.2 percent in Q3 and should move up from 2 percent to 2.5 percent in Q4.

Table 6.1: Inflation outlook For 2009 Q4-2011 Q1

Year-on-year

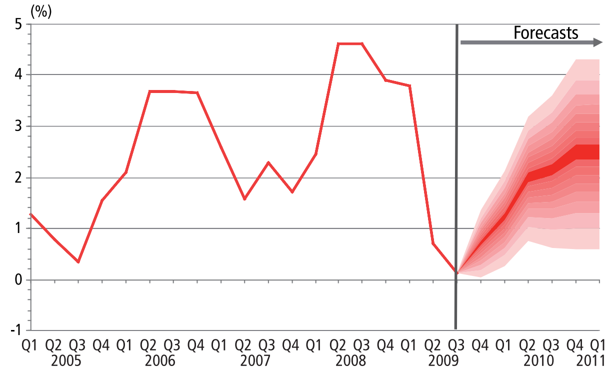
	2009	2010				2011	Average		
	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2009	2010	FH
Central forecast (%)	0.7	1.2	2.0	2.2	2.5	2.5	1.3	2.0	1.9

**Forecast horizon*

These forecasts are made on the basis of the hypotheses considered most probable. However, there are still many uncertainty sources, stemming from the future development of exogenous variables as well as from the forecasting models which can impact the projected inflation rate either upward or downward. Analysis of the balance of risks shows an asymmetric forecast range represented in the form of a fan chart (Chart 6.2).

Chart 6.2: Inflation forecast, 2009 Q4- 2011-Q1 (quarterly data)

Year-on-year



(*) This chart represents the confidence interval relative to inflation projection derived from the baseline scenario (dark red) ; Confidence intervals from 10 percent to 90 percent are also reported. Each addition of intervals of 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.

The fan chart of this forecast exercise suggests a slight downward asymmetry. The latter is due to the potential risks relating, on the one hand, to the uncertainties over the development of the international economic situation (modest recovery of Morocco's main partners' economic activity, and lack of visibility as to the development of interest rates in the euro zone) and, on the other hand, to the national environment (a possibly leaner crop year than the level on which the central scenario is based). The materialization of one or more of these risks could divert the inflation rate from the central forecast, with a value included, with a 90-percent probability, within the forecast range represented in the fan chart.

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