BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 33 / 2014

Document prepared for
the Bank Board
December 16, 2014

Monetary Policy Report

Document prepared for
the Bank Board

December 16, 2014

بنك المغرب

LIST OF ABBREVIATIONS

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

TABLE OF CONTENTS

LIST OF CHARTS

LIST OF TABLES

LIST OF BOXES

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 16, 2014

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, December 16, 2014.

2. At this meeting, the Board examined recent economic, monetary and financial developments and inflation forecasts up to the first quarter of 2016.

3. Internationally, the Board noted the slow recovery in the euro area, as GDP would grow by a mere 0.8 percent in 2014 and 1 percent in 2015, according to the latest ECB projections. In contrast, the U.S. economy continues to gain strength, as growth would reach 2.2 percent in 2014 and 3 percent in 2015, based on the Fed's forecasts published in September. This momentum has positively impacted the labor market which improved further, with an unemployment rate at 5.8 percent in November, while this rate remains elevated in the euro area, reaching 11.5 percent in October. Economic developments in major emerging countries remained broadly negative in the third quarter, as year-on-year growth slowed down in both China and India, while Brazil's GDP contracted for the second consecutive quarter. The trend in commodity prices is still marked by declining energy prices, particularly the oil Brent which was down 26 percent year on year in November. Regarding inflation, the euro area still faces deflationary risks, as the price rise fell to 0.3 percent in November from 0.4 percent a month earlier, while it stabilized in the United States at 1.7 percent in October. In this context, the ECB's Governing Council decided, at its meeting of December 4, to keep the key rate unchanged and start an asset purchase program for a period of at least two years. It also announced its unanimous commitment to use additional nonconventional measures if low inflation persists for a too prolonged period. In the United States, the Fed announced, on October 29, the end of its asset purchase program and its intention to maintain the federal funds rate unchanged for a considerable time. Overall, the low levels of growth and inflation in the euro area, Morocco's main trading partner, coupled with the downward trend in oil prices, indicate the absence of external inflationary pressures.

4. Domestically, the national economy slowed down to 2.3 percent in the second quarter, from 5 percent in the same period of last year, dampened by a 2.6 percent decrease in the agricultural value added after an increase of 20.2 percent. Conversely, nonagricultural activities broadly continued their rebound, growing by 3.2 percent from 2.6 percent a quarter earlier. For the full year 2014, GDP growth would remain around 2.5 percent. Available data show that it would reach 4.4 percent in 2015, driven by continued recovery in nonagricultural activities and higher agricultural value added. In the labor market, the unemployment rate in the third quarter was up 0.5 percentage point year on year to 9.6 percent, despite a 0.3 point decrease in the labor force participation rate. Altogether, nonagricultural output gap remains negative, suggesting the absence of demand-led inflationary pressures.

5. External accounts data at end-November show that the trade deficit continued to narrow, down 6.8 percent. Overall exports increased by 6.7 percent and those excluding phosphates and derivatives by 8.6 percent, while imports virtually stagnated, particularly with an 8.3 percent decrease in energy purchases and a 6.1 percent drop in capital goods' imports. Travel receipts stabilized at 53.6 billion dirhams, while remittances of Moroccan expatriates improved somewhat by 1.3 percent to 54 billion. Taking account of these developments and revenues from grants of GCC countries, which reached 10.8 billion at end-November,

as against 5.1 billion in 2013, and assuming that oil prices would remain at their current levels, the current account deficit would decrease to 6 percent of GDP at end-2014. It would improve further in 2015, if Morocco's foreign demand also maintains momentum, to stand around 5 percent of GDP. Latest capital account data indicate a significant expansion of 10.5 percent in net inflows of foreign direct investment. As a result, the stock of international reserves stood at 177.6 billion dirhams at end-November, providing coverage for 5 months and 5 days of goods and services' imports. It should strengthen further to the equivalent of 5 months and 10 days of imports at the end of 2015.

6. Concerning public finance, the budget deficit, excluding privatization receipts, reached 44.9 billion dirhams at end-October, as against 46.7 billion last year. Current income rose by 4.1 percent, driven mostly by higher non-tax revenues. Meanwhile, expenses increased by 3 percent, concealing a drop in subsidy costs by about 20 percent and an increase in the costs of other goods and services as well as in investment expenditure. The target deficit of 4.9 percent of GDP for 2014 would be achieved, with a view to reducing it to 4.3 percent under the Finance Bill 2015.

7. On the monetary side, M3 aggregate grew by 5.3 percent in October, as against an average of 4.3 percent in the third quarter. It is forecasted to rise by 5.1 percent for the whole year and 5.5 percent in 2015. The money gap thus remains negative, suggesting the absence of money-driven inflationary pressures. Bank credit growth improved to 4.6 percent, up from an average of 3.8 percent in the third quarter. It is expected to hover around 4.5 percent at end-2014 and 5 percent in 2015. In the interbank market, the implementation of the Bank Board's decision of September 23 to lower the key rate from 3 to 2.75 percent caused the weighted average rate to fall to 2.76 percent in October and November, from 2.99 percent on average in the third quarter. The latest available data on lending rates, which date prior to the Board's decision, show a slight increase of 5 basis points to 6.03 percent in the third quarter of 2014. The effective exchange rate of the dirham depreciated by 0.21 percent in nominal terms and appreciated by 0.4 percent in real terms in the third quarter.

8. On the property market, the Real Estate Price Index rose at a year-on-year rate of 1 percent in the third quarter, after declining 2.7 percent in the second quarter, reflecting higher prices for land and commercial property. On the contrary, residential property prices did not change markedly, year on year, for the second quarter running.

9. Regarding consumer prices, inflation remains subdued, standing at 0.3 percent in the first ten months of the year, compared to 2.1 percent over the same period of 2013. This trend is mostly attributable to the 6.6 percent drop in volatile food prices, after a 4.8 percent increase, as well as to the deceleration of core inflation from 1.5 to 1.1 percent. Industrial producer prices declined again by 2.7 percent in October, as against 2.5 percent on average in the first nine months of the year.

10. In light of these data and taking into consideration, on the one hand, the minimum wage increase of July 2014 and the one expected in July 2015, and on the other hand the review of the water and electricity pricing system and the projected oil prices, inflation would remain relatively low, with balanced risks. It is expected at 0.4 percent for the whole year 2014, 1.2 percent on average in 2015, and 1.3 percent at the end of the forecast horizon, i.e. the first quarter of 2016.

11. Considering this central inflation forecast, the objective to reduce fiscal deficit to sustainable levels and the continued improvement in foreign exchange reserves, and in order to further support economic recovery, the Board decided to lower again the key rate by 25 basis points to 2.5 percent.

12. The Board considered and approved the strategic allocation of reserves management for the year 2015.

13. After reviewing the Audit Committee report, the Board approved the internal audit program for 2015.

14. The Board also considered and approved the budget for 2015.

15. Finally, the Board agreed on the following schedule for its meetings in 2015:

    March 24, 2015

    June 16, 2015

    September 22, 2015

    December 22, 2015.

OVERVIEW

In the third quarter of 2014, economic activity remained weak in the euro area, with a stagnant growth at 0.8 percent, year on year, mainly covering a slowdown from 1.4 percent to 1.2 percent in Germany, and a relative acceleration from 0 percent to 0.4 percent in France and from 1.3 percent to 1.6 percent in Spain, while in Italy, GDP declined by 0.4 percent as against 0.3 percent. In Japan, GDP contraction increased significantly from 0.1 percent to 1.1 percent. In contrast, in the United States, economic activity continues to gain further momentum, although the growth pace decreased slightly from one quarter to another, from 2.6 percent to 2.4 percent. In major emerging economies, growth decelerated from 7.5 percent to 7.3 percent in China, from 5.7 percent to 5.3 percent in India, while in Brazil, the decline in GDP eased from 0.9 percent to 0.2 percent. Taking into account these developments and the persistence of certain risks mainly due to geopolitical tensions, the European Commission revised down its forecast in November for the euro area from 1.2 percent to 0.8 percent for 2014 and from 1.7 percent to 1.1 percent for 2015.

In the labor market, conditions continue to improve in the United States, as 321,000 jobs were created in November and the unemployment rate stood at 5.8 percent, its lowest level since August 2008. However, in the euro area, this rate was 11.5 percent, unchanged from one month to the next.

Financially, sovereign yields dropped between October and November for most developed countries. Meanwhile, in stock markets, major indexes were up and their volatility eased. Similarly, the MSCI EM rose, mainly reflecting appreciations of the indexes of China, Turkey and India.

In terms of monetary policy decisions, the ECB Council decided at its meeting of December 4 to maintain its key rate at 0.05 percent and announced that the duration of its new asset purchase program will be at least two years. The Fed ended on October 29 its bond buyback program and announced that it would maintain its key rate at current levels for a considerable time. However, it did not rule out the possibility to increase this rate sooner than expected, if progress towards the maximum use of labor market capacity and the inflation target prove faster than anticipated. Unlike the Fed, the Bank of Japan decided on November 19 to maintain its new quantitative easing measures, after having increased its asset purchases and expanded its program in October. In contrast, China's central bank lowered on November 21 for the first time in two years, its key rate by 40 basis points to 5.6 percent.

In terms of bank lending, its annual growth stabilized at 6.5 percent in October in the United States and its contraction eased slightly from 1.2 percent to 1.1 percent in the euro area.

In commodity markets, prices trended downward overall, with particularly a year-on-year decline of 26 percent in the Brent price in November. The price index of agricultural commodities showed a decrease of 9 percent, while base metal prices were up 6.4 percent. Regarding phosphates and derivatives, the price of crude phosphate moved down 4.6 percent, while that of DAP was up 28.9 percent.

Under these conditions, deflationary pressures continue to weigh on the euro area, with an inflation rate down from 0.4 percent to 0.3 percent in November, according to an initial Eurostat estimate. In the United States, inflation stabilized in October at 1.7 percent for the third consecutive month.

Overall, the economic recovery slowdown in the euro area, low inflation rates in key partner countries and lower petroleum prices suggest an absence of external inflationary pressures in the medium term.

Nationally, growth stood at 2.3 percent in the second quarter of 2014, as against 5 percent over the same period a year earlier, due to a 2.6 percent decline in the agricultural value added as against a 20.2 percent increase in the same quarter of 2013. Nonagricultural GDP grew by 3.2 percent from 2.9 percent. Throughout the year 2014, growth should remain limited to 2.5 percent, with a 2.4 percent decline in the agricultural value added and a nonagricultural growth of 3.2 percent. The expected further improvement in nonagricultural activities and the increase in the agricultural value added should bring the growth rate to 4.4 percent in 2015. In the labor market, despite a 0.3 percent decrease in the labor force participation rate in the third quarter, the unemployment rate increased by 0.5 point compared to the same quarter of the previous year, standing at 9.6 percent. It moved up from 14 percent to 14.5 percent in urban areas and from 3.7 percent to 4.1 percent in rural areas. Furthermore, data from BAM's monthly business survey in industry shows that the capacity utilization rate in the industrial sector remained stable at 69 percent in October. Under these conditions, the nonagricultural output gap would continue to be negative, indicating the absence of demand-led inflationary pressures in the medium term.

Regarding external accounts, the trade balance continues to improve, as its balance eased by 6.8 percent at end-November compared to the same period in 2013, owing to a 6.7 percent increase in exports, while imports almost stagnated. Indeed, the decline in shipments of phosphates and derivatives diminished significantly, standing at 0.7 percent from 21.5 percent, and exports of other sectors continued to improve, including respective increases of 27.5 percent, 25.3 percent and 4.6 percent in sales of the automotive industry, electronics sector and agricultural and agri-food sector. On the import side, the food bill increased by 15.6 percent and consumer goods purchases rose by 7.8 percent. In contrast, energy imports and purchases of capital goods fell by 8.3 percent and 6.1 percent, respectively. Meanwhile, travel receipts stabilized at 53.6 billion dirhams, while remittances from Moroccans living abroad increased slightly by 1.3 percent. Based on these developments, the current account deficit should be around 6 percent of GDP at the end of 2014 and should continue to improve to stand below 5 percent at the end of 2015. In terms of capital account transactions, the data available at end-November show that net flows of foreign direct investment improved by 10.5 percent to 26.1 billion dirhams. Under these conditions, the outstanding net international reserves stood at 177.6 billion dirhams at end-November, equaling 5 months and 5 days of imports of goods and services and should continue to improve in 2015 to cover nearly 5 months and 10 days of imports of goods and services.

Concerning public finance, Treasury operations resulted at end-October in a deficit of 44.9 billion, excluding privatization proceeds, as against 46.7 billion a year earlier, and a target set at 46.6 billion at end-December 2014. Current revenues rose 4.1 percent, while expenditure growth was limited to 3 percent, with particularly a decrease of 19.8 percent in the subsidy costs and an increase of 11.5 percent in investment spending.

On the monetary side, the M3 growth accelerated from 4.3 percent in the third quarter to 5.3 percent at end-October. The monetary gap is still negative and should remain so in the medium term. Bank credit grew by 4.6 percent, year on year, after averaging 3.8 percent in the third quarter, reflecting a faster growth in all its categories, particularly equipment loans, mainly loans to public nonfinancial corporations. In terms of monetary conditions, the interbank rate fell from 2.99 percent in the third quarter to 2.76 percent on average in October and November, following the decision taken on September 23 by the Bank Board, to lower the key rate from 3 percent to 2.75 percent. As to lending rates, the latest available data predate the Bank's decision and indicate a slight increase of 5 basis points to 6.03 percent in the third quarter 2014. Meanwhile, the weighted average rate of 6- and 12-month deposits was down 10 basis points between October and its average in the third quarter, reaching 3.70 percent. Moreover, the dirham's effective exchange rate depreciated in the third quarter from the previous quarter by 0.21 percent in nominal terms and appreciated by 0.4 percent in real terms.

On the asset market, the real estate price index recorded in the third quarter a year-on-year increase of 1.0 percent, after falling 2.7 percent a quarter earlier. This increase reflects a growth of 3.4 percent in urban land prices, after a decline of 8.4 percent, and a rise of 2.6 percent in commercial property prices, as opposed to 3.3 percent. Meanwhile, residential property prices did not change significantly for the second consecutive quarter. In the stock market, despite a 3.6 percent decline in November, the MASI showed a performance of 9.45 percent during the first eleven months of the year. However, liquidity at the Casablanca Stock Exchange remains low, as the volume of transactions showed since the beginning of the year a drop of 17 percent compared to the same period of the previous year, reaching 36.4 billion. These developments indicate the absence of monetary and assets market inflationary pressures in the medium term.

Against this backdrop, inflation, measured by the change in the consumer price index, continues to show low levels, but relatively higher than those recorded in the first three quarters of the year, or 0.6 percent in October as against 0.2 percent on average. Overall, in the first ten months of the year, inflation stood at 0.3 percent from 2.1 percent over the same period of 2013. This change was mainly attributed to a 6.6 percent decline, on average, in volatile food prices as against an increase of 4.8 percent over the same period of 2013. It is also due to a decrease from 1.5 percent to 1.1 percent in core inflation, mainly owing to lower prices of oils and fresh meats. Manufacturing industrial producer prices continued their decline that began since early 2013, particularly in conjunction with lower world commodity prices, thus showing an annual decline of 2.7 percent in October after a drop of 2.5 percent on average over the first nine months of the year.

Based on all of these developments and taking into account the effect of the increases in the minimum wage in July 2014 and 2015, and water and electricity prices as well as the expected changes in oil prices, inflation should remain moderate with a balance of risks at equilibrium. It would stand at 0.4 percent in 2014, at 1.2 percent on average over the next six quarters and 1.3 percent at the end of the forecast horizon (the first quarter of 2016).

1. AGGREGATE SUPPLY AND DEMAND

Economic growth stood at 2.3 percent in the second quarter 2014, from 5 percent in the same period a year earlier. This trend reflects a 2.6 percent decline in the agricultural value added and a 3.1 percent increase in the nonagricultural one. In the third quarter, GDP growth would have stood at 2.8 percent, driven by a 3.3 percent rise in nonagricultural GDP, while the agricultural value added would have decreased by 2 percent. Regarding demand, household final consumption grew by 2.7 percent in the second quarter of 2014, from 3.2 percent a year earlier, thus reducing its contribution to growth from one year to the next from 2 points to one percentage point. Considering these developments, national growth throughout the year should be around 2.5 percent, covering a decline in the agricultural value added and an increase in nonagricultural growth to 3.2 percent. In 2015, the expected improvement in both agricultural and nonagricultural activities should bring growth to 4.4 percent. However, these forecasts remain surrounded by several uncertainties, mainly in conjunction with changes in commodity prices and economic activity in Morocco's main partners.

1.1 Output

National growth stood at 2.3 percent in the second quarter 2014, as against 1.9 percent in the previous quarter and 5 percent in the same quarter of 2013. This change reflects an increase of 3.2 percent in nonagricultural growth and a decline of 2.6 percent in the agricultural value added.

The latest available data point to a faster growth to 2.8 percent in the second half of the year. This trend would reflect a stable nonagricultural growth at 3.3 percent and a decrease of 2 percent in the agricultural value added. Throughout the year 2014, the forecasts presented in the latest Monetary Policy Report were kept unchanged, as growth should be around 2.5 percent.

In the primary sector, the 2014-2015 crop year started in relatively better weather conditions compared to the previous year. Indeed, the cumulative rainfall reached 48 mm as at November 10, 2014, up 89 percent compared to the same period of 2013 and the farm dam-filling rate moved up from 69.3 percent to 86.9 percent. Regarding the activities of inshore and small-scale fishing, data for the first eight months of the year show a stagnation in marketed quantities,

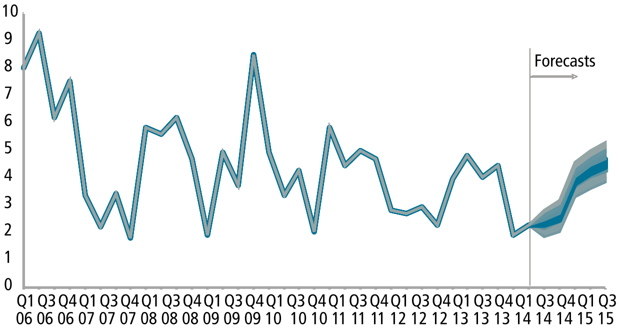
Table 1.1: YoY growth of quarterly GDP at chained prices per major sectors (%)

Activity sectors	2012	2013				2014			
	QIV	QI	QII	QIII	QIV	QI	QII	QIII$_E$	QIV$_E$
Agriculture	-11.4	15.8	20.2	18.7	21.2	-2.3	-2.6	-2.0	-2.1
Nonagricultural VA	**4.0**	**1.8**	**2.6**	**1.5**	**2.0**	**2.6**	**3.1**	**3.3**	**3.2**
Extractive industry	-3.7	-3.5	1.7	-2.9	-6.6	6.4	6.8	7.7	6.2
Processing industry	0.1	0.6	1.1	-0.7	2.3	0.9	1.3	1.3	1.5
Electricity and water	-1.3	-4.8	-1.1	1.7	5.8	3.8	5.0	3.3	3.8
Construction	-1.3	-2.7	-1.3	3.8	6.0	0.3	0.2	-0.3	-0.5
Trade	1.4	0.2	1.6	1.0	1.9	1.4	1.7	1.7	1.6
Hotels and restaurants	8.8	5.4	6.2	3.2	3.7	6.6	3.9	3.0	3.3
Transportation	4.3	-0.3	3.0	3.3	2.9	5.0	5.6	5.3	5.1
Post and telecommunication	28.6	5.9	3.2	1.4	1.4	4.9	7.0	8.5	8.5
General government and social security	6.1	6.0	6.0	1.7	0.0	2.6	2.2	3.5	4.0
Other services*	5.5	3.1	3.3	2.6	2.7	4.0	4.2	4.5	4.6
Taxes on products net of subsidies	5.0	5.1	6.4	6.8	5.8	2.7	3.7	2.5	2.5
Nonagricultural GDP	**4.1**	**2.1**	**2.9**	**2.0**	**2.3**	**2.6**	**3.2**	**3.3**	**3.3**
Gross domestic product	**2.0**	**3.8**	**5.0**	**4.1**	**4.6**	**1.9**	**2.3**	**2.8**	**2.8**

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

Sources: HCP, and BAM forecasts.

Chart 1.1: GDP projected growth Q3-2014 - Q3-2015*



(*) Fans depending on the standard deviation.

Sources: HCP, and BAM forecasts.

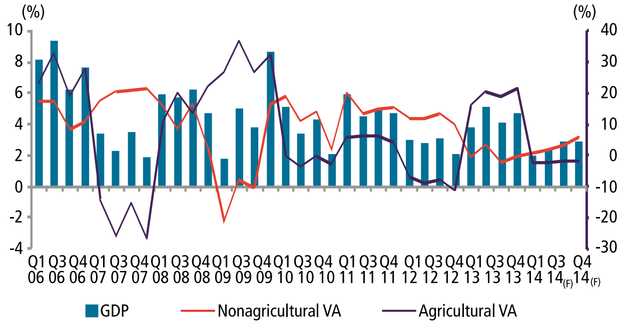
reflecting a 2 percent increase in the volume of white and pelagic fish, and a decrease of 28 percent in the volume of cephalopods.

Secondary activities should also improve in the third quarter of 2014, with a growth rate of 1.8 percent from 0.4 percent a year earlier.

The mining value added would have registered a growth of 7.7 percent in the third quarter, as against a decline of 2.9 percent in the same quarter a year earlier. According to data from the OCP, the marketable production of crude phosphate rose by 12.8 percent, year on year, at the end of November 2014, after a decline of 2.2 percent over the same period a year earlier. In addition, the volume of crude phosphate exports virtually stagnated at end-November amid further rise of prices since early 2014, to 115 per tonne in October from 102.2 dollars in the beginning of the year.

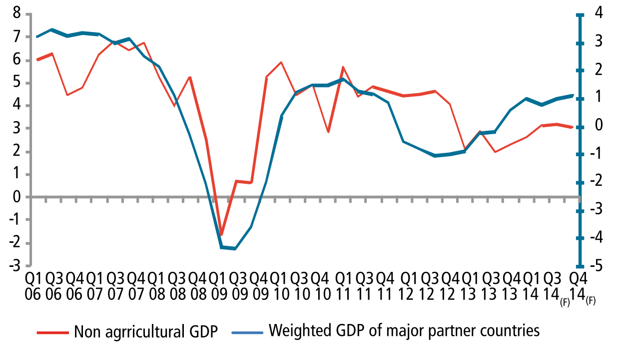
The manufacturing value added would have grown 1.3 percent, the same rate as the previous quarter. Medium and high-voltage electricity sales, intended primarily for the industrial sector, rebounded by 4.7 percent in the third quarter as against a decline of 0.4 percent a year earlier. In addition, foreign trade data as at end-November show increases in exports of 27.5 percent in the automotive sector and 25.3 percent in the electronics sector. Moreover, the capacity utilization rate in the industrial sector stood at 69 percent, the same level as the previous month. Meanwhile, employment data show that 58,000 jobs were created in the third quarter, including 31,000 jobs in the industrial sector. Taking into account these developments, the growth of the sector's value added throughout the year should stand at 1.2 percent, a rate higher than the average of the previous year, but far below its long-term performance.

Chart 1.2: YoY change in the GDP and its components (chained prices 1998)



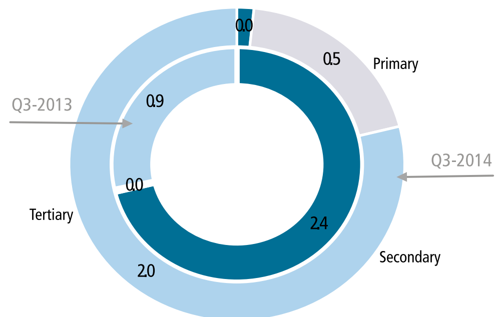
Sources: HCP, BAM calculations and forecasts.

Chart 1.3: YoY change in domestic non agricultural GDP and in partner countries GDP



Sources: HCP, IMF and BAM calculations and forecasts.

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



Sources: HCP, and BAM calculations and forecasts.

The value added of "electricity and water" would have improved by 3.3 percent in the third quarter as against 1.7 percent over the same quarter a year earlier. Overall electricity sales were up 4.4 percent as opposed to 0.6 percent a year before. Assuming that the trends observed would continue, the value added of this sector should increase by 3.8 percent in the fourth quarter.

The construction sector's value added would have declined by 0.3 percent in the third quarter 2014, after a slight increase of 0.2 percent in the previous quarter.

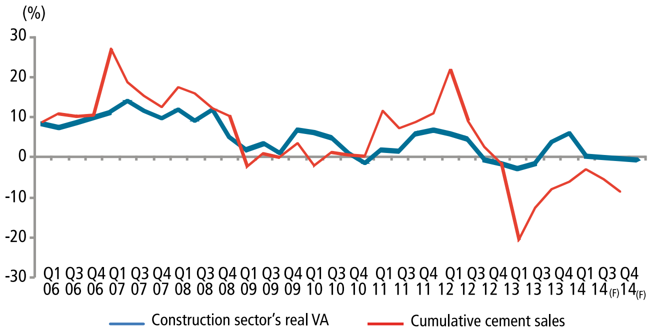
Cement sales continued to drop albeit under a net easing, with a decline of 8.7 percent in the third quarter and 5.1 percent at end-October 2014. Similarly, the decrease in loans to real estate developers eased from 6.2 percent at end-September to 4.2 percent at end-October.

Regarding the tertiary sector, the value added of posts and telecommunications would have risen 8.5 percent in the third quarter and should maintain the same growth rate for the rest of the year. Indeed, data for the third quarter of 2014 indicate increases of 7.1 percent in the number of mobile phone subscribers and 62.8 percent in that of Internet subscribers.

The trade and transport value added, largely dependent on the performance of other sectors, should rise by 1.7 percent and 5.3 percent, respectively, which is the same pace as the previous quarter.

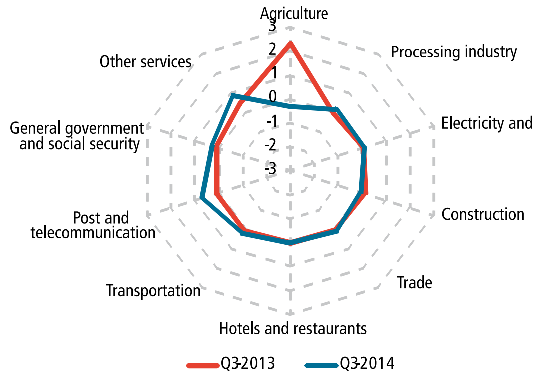
Meanwhile, the value added of hotels and restaurants should slow down slightly compared to the previous quarter and the third quarter of the previous year, with a growth rate of 3 percent as against 3.9 percent and 3 2 percent, respectively. Indeed, travel receipts dropped by 1.4 percent after a 1.5 percent increase in the third quarter 2013. In

Chart 1.5: YoY change in the construction sector's value added, cement cumulative sales



Sources: APC, BAM and BAM forecasts.

Chart 1.6: Sectoral contribution to overall growth



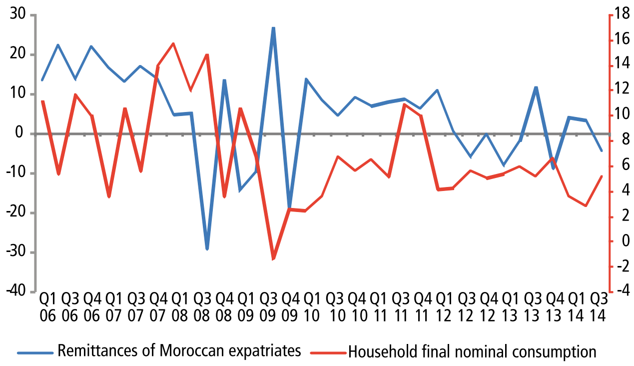
Sources: HCP, BAM forecasts and calculations.

addition, arrivals at border posts decelerated to 2.4 percent from 14.1 percent in the same quarter last year. In the fourth quarter 2014, the growth of the value added of this sector would stand at 3.3 percent.

For the full year 2014, the growth outlook remains unchanged from the last Monetary Policy Report of September 2014. National growth should be around 2.5 percent, covering a drop in the agricultural value added and an increase in nonagricultural growth, which should stand at around 3.2 percent.

In 2015, the expected improvement of both agricultural and nonagricultural activities should bring growth to 4.4 percent. However, these forecasts remain surrounded by several uncertainties, mainly in connection with changes in commodity prices and economic activity in Morocco's traditional partner countries.

Chart 1.7: YoY change in household final consumption and remittances of Moroccan expatriates (%)



Sources: HCP, Foreign Exchange Office and BAM calculations and forecast.

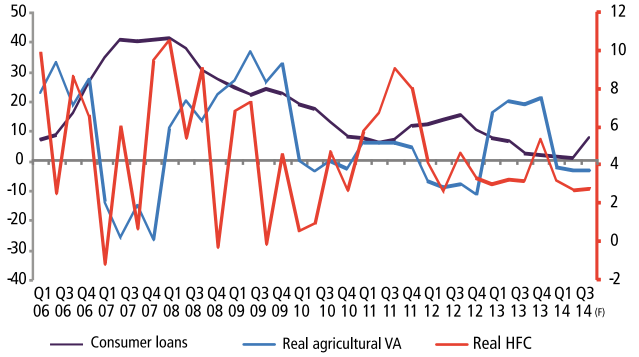
1.2 Consumption

At constant prices, household final consumption grew by 2.7 percent in the second quarter, as against 3.2 percent in the same quarter of the previous year. For the rest of the year, it should maintain a growth rate below its long-term performance. In the third quarter, according to the economic household survey, the household confidence index fell by 0.9 points compared to the previous quarter and by 2.3 points compared to the same quarter a year earlier.

In addition, the unemployment rate rose from 9.1 percent in the third quarter of 2013 to 9.6 percent in the same quarter of this year, covering a rise in both rural and urban areas. In addition, revenue from domestic VAT was down 9.5 percent.

In the second quarter 2014, change in government consumption stabilized for the third consecutive quarter at 2.9 percent,

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

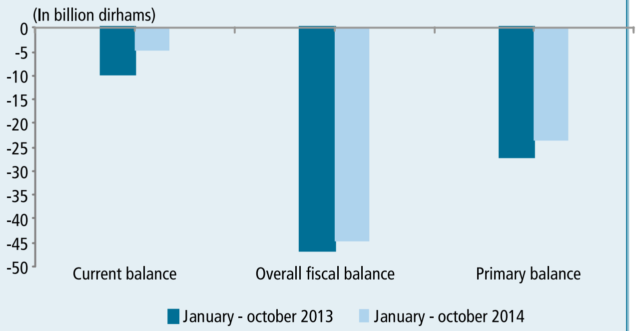


Sources: HCP, BAM and BAM calculations and forecast.

Box 1.1: Budget execution at end-October 2014

At the end of October 2014, Treasury expenses and revenues resulted in a deficit of 44.9 billion, excluding privatization, as against 46.7 billion a year earlier. This result is attributed to an increase of 4.1 percent in current revenues, in conjunction with both nontax and tax receipts, as against a more contained increase in overall expenditure, mainly in connection with the reduction in the subsidy costs. The current balance was negative at 4.7 billion, a half lower than in October 2013.

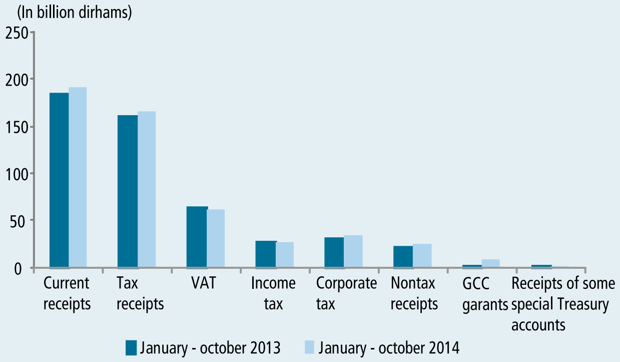
Chart B1.1.1: Budget balance



Source: Ministry of Economy and Finance

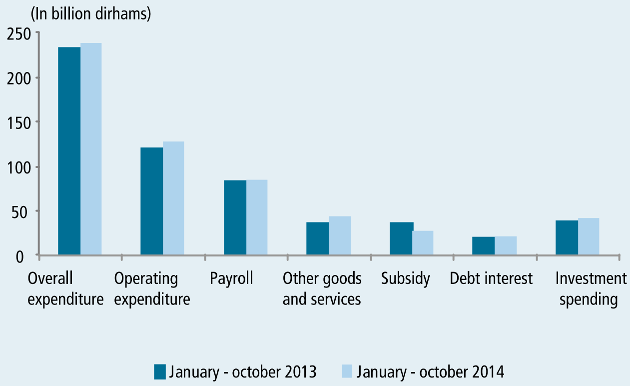
The Treasury's current revenues, up 4.1 percent, totaled 191.6 billion, resulting from increases of 2.8 percent in tax revenue to 164.8 billion and 23.7 percent in nontax receipts, excluding privatization, to 26.6 billion. The improvement in these receipts was mainly due to higher direct taxes and registration and stamp fees. Indeed, the latter generated a revenue of 12.9 billion, up 24.8 percent, partly due to an income of 1.4 billion from the sale of a share of the capital of Maroc Telecom. Direct taxes revenues rose by 3 percent to 62.8 billion, owing to increases of 1 percent in income tax receipts to 28.1 billion and 7.9 percent in corporate tax revenues to 33.6 billion, partly in connection with the corporate tax withheld at source following the sale in May of a share of the capital of Maroc Telecom. Indirect tax revenues fell slightly by 0.2 percent to 82.7 billion dirhams, covering divergent trends in the VAT and domestic consumption tax (DCT). Indeed, the VAT revenue declined by 2.2 percent to 62.6 billion, covering a decrease of 9.5 percent to 23.3 billion in domestic VAT and an improvement of 2.6 percent to 39.3 billion in import VAT. In contrast, revenues from the DCT rose by 6.8 percent, generating 20.1 billion, driven mainly by revenues from energy DCT, which increased by 9 percent to 12 billion. Similarly, revenues from customs duties moved up by 3 percent to 6.5 billion.

Chart B1.1.2: Regular income



Source: Ministry of Economy and Finance

Chart B1.1.3: Overall expenditure



Overall expenditure amounted to 238.1 billion dirhams, up 3 percent, reflecting increases of 11.5 percent in investment spending to 41.7 billion and 1.4 percent in current expenditure to 196.3, while subsidy costs dropped by 19.8 percent to 28.6 billion. Operating expenses heightened by 7.1 percent to 127.7 billion, covering increases of 19.8 percent in spending on other goods and services to 43.2 billion and 1.6 percent in staff costs to 84.5 billion. Debt interest charges rose by 8.4 percent to 21.3 billion, covering an increase of 11.3 percent to 18.2 billion in interest on domestic debt and a decrease of 6.1 percent to 3.1 billion in interest on external debt.

Given the repayment of arrears, amounting to 3.5 billion, bringing the stock to 13.8 billion at end-October 2014, the Treasury's borrowing requirement stood at 48.3 billion from 50 billion at end-October 2013. In addition to privatization receipts of 2 billion and due to a positive external net flow of 7.8 billion, the Treasury used the domestic market for an amount of 38.5 billion, as against 43 billion over the same period in 2013.

down compared to the same period a year earlier.

In the short term, it should maintain its pace of growth. Data on Treasury expenses and revenues at end-October reveal a 7.1 percent increase in operating expenses. This change reflects respective increases of 1.6 percent and 19.8 percent in personnel costs and spending on other goods and services.

1.3 Investment

After rising 0.9 percent in the first quarter, investment dropped by 0.7 percent at constant prices, in the second quarter of 2014. Throughout the year, it should register a virtual stagnation for the second consecutive year.

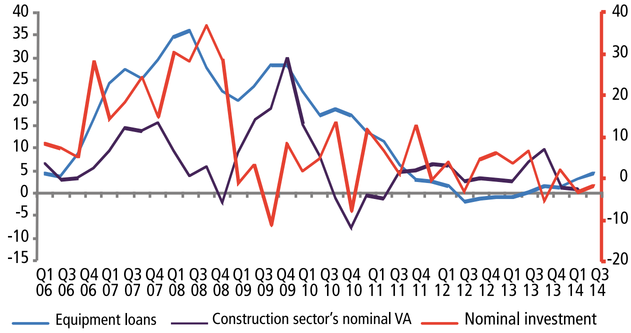
The main available indicators show divergent trends. Indeed, end-November data from the Foreign Exchange Office indicate a 6.1 percent decline in imports of capital goods and a 10.5 percent increase in FDI flows. However, the monetary data at the end of the first ten months of the year show a 6.8 percent increase in equipment loans as against a growth of 0.8 percent a year earlier.

With respect to investment in construction, real estate loans decelerated in one year from 4.8 percent to 2.6 percent, covering a slowdown from 7.5 percent to 5.2 percent in housing loans and a further decline in loans to property developers, from 2.1 percent to 4.2 percent. However, data at end-October show a relative acceleration of real estate loans and an easing in the decline of loans to property developers.

Data as at end-October on Treasury expenses and revenues show an 11.5 percent increase in Treasury investment, as against 11 percent in the previous year.

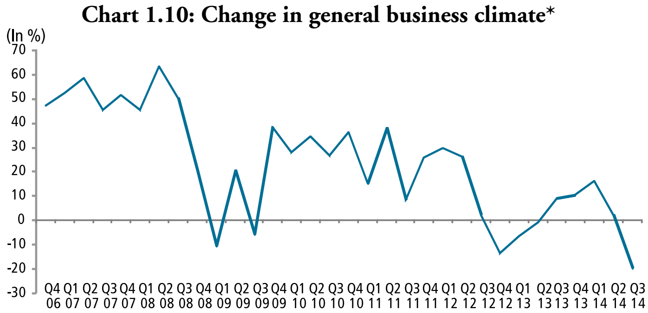
In the short term, public investment should maintain its momentum in light of the

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



Sources: HCP, Foreign Exchange Office and BAM forecast.

Chart 1.10: Change in general business climate*



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

Source: BAM monthly business survey.

materialization of the base effect caused by the budget cut in 2013.

1.4 Foreign trade

At end-November 2014, the trade deficit eased by 6.8 percent to 170 billion dirhams, compared to the same period of 2013. This change is attributed to a 6.7 percent increase in exports to 180.7 billion dirhams and a virtual stagnation in imports. Thus, the import coverage rate improved by 3.3 points from 48.2 percent to 51.5 percent.

Regarding exports, with the exception of the sales of phosphates and derivatives, whose decline eased significantly, standing at 0.7 percent from 21.5 percent over the same period of the previous year, shipments of other sectors showed improvements. Indeed, sales of the automotive sector rose by 27.5 percent to 36.9 billion dirhams, due to a 59.9 percent increase in car manufacturing sales. Similarly, exports of the electronics and agricultural sectors' exports increased by 25.3 percent and 4.6 percent, respectively, primarily due to a 6.2 percent increase in the food industry sales. Meanwhile, shipments of the textile and leather sector moved up 3.5 percent, mainly reflecting a 5 percent increase in sales of ready-made garments.

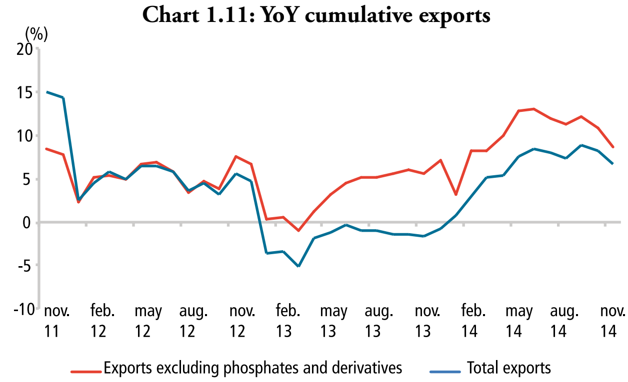
Imports remained almost stable at 350.7 billion dirhams. The food bill rose by 15.6 percent, reflecting a 49.4 percent increase in wheat supplies. Purchases of consumer goods moved up 7.8 percent to 64.2 billion dirhams, mainly owing to increases of 9 percent in passenger car imports and 16.7 percent in purchases of fabrics and yarn of fibers. Similarly, purchases of raw materials rose by 8.3 percent to 18 billion, mainly in conjunction with a 26.6 percent

Table 1.2 : Change in the trade balance at end November 2014

(In millions of dirhams)	jan.-nov. 2013	jan.-nov. 2014*	jan.-nov. 2013/2012		jan.-nov. 2014/2013	
			Amount	%	Amount	%
Exports	**169 401**	**180 692**	**9.0**	**0.0**	**11 291**	**6.7**
Phosphates and derivatives' exports	34 944	34 701	-9 594.0	-21.5	-243	-0.7
Exports excluding phosphates and derivatives'	**134 457**	**145 991**	**9 603.0**	**7.7**	**11 534**	**8.6**
Automotive	28 965	36 934	5 606.0	24.0	7 969	27.5
Electronics	6 452	8 084	-2.0	0.0	1 632	25.3
Aeronautics	6 611	6 667	360.0	5.8	56	0.8
Textile and leather	29 533	30 568	-652.0	-2.2	1 035	3.5
Agriculture and food industry	31 689	33 158	2 724.0	9.4	1 469	4.6
Imports	**351 814**	**350 697**	**-3 548.0**	**-1.0**	**-1 117**	**-0.3**
Food products	33 107	38 261	-4 869.0	-12.8	5 154	15.6
Consumer goods	59 522	64 154	-770.0	-1.3	4 632	7.8
Unprocessed goods	16 649	18 035	-4 377.0	-20.8	1 386	8.3
Semi-finished goods	74 315	74 156	2 999.0	4.2	-159	-0.2
Capital goods	75 033	70 429	7 468.0	11.1	-4 604	-6.1
Energy imports	93 163	85 441	-4 025.0	-4.1	-7 722	-8.3
Imports excluding energy	258 651	265 256	477.0	0.2	6 605	2.6
Trade deficit	**182 413**	**170 005**	**-3 557**	**-1.9**	**-12 408**	**-6.8**

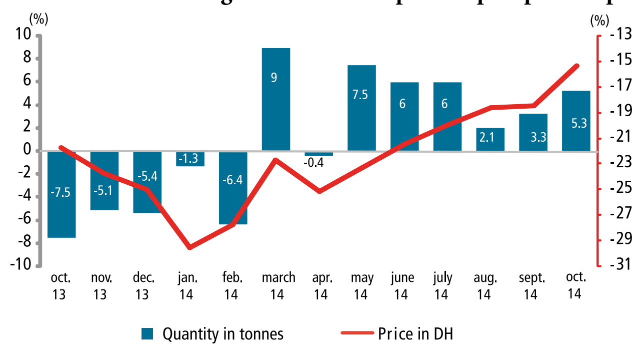
* *Provisional data.*
Source: Foreign Exchange Office.

Chart 1.11: YoY cumulative exports



Foreign Exchange Office.

Chart 1.12 : YoY change in volume and price of phosphate exports



Source: Foreign Exchange Office.

increase in crude sulfur purchases. However, energy imports fell by 8.3 percent to 85.4 billion dirhams. Particularly, imports of crude oil declined by 22.6 percent and those of diesel and fuel fell by 5.5 percent. Capital goods purchases dropped by 6.1 percent to 70.4 billion, due to respective decreases of 16.3 percent and 55.6 percent in imports of industrial cars and sorting machines.

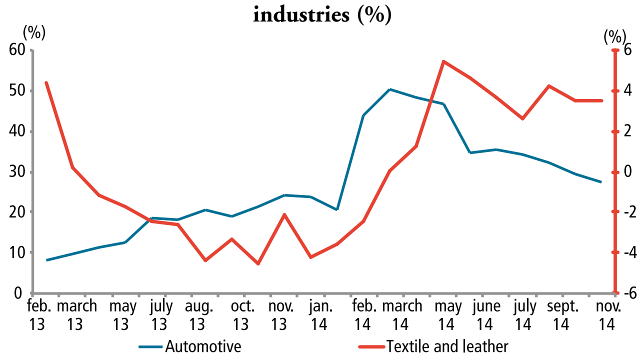
For other components of the current account, remittances from Moroccans living abroad improved slightly by 1.3 percent and travel receipts stabilized at 53.6 billion dirhams.

Given these developments and inflows of grants, the current account deficit should stand at around 6 percent of GDP in 2014 and should continue to improve to stand below 5 percent in 2015.

Regarding the capital account, data available after the first eleven months of 2014 indicate a decline of 3.1 billion in foreign direct investment inflows to 31.2 billion dirhams and a contraction of 5.5 billion in outflows to 5.1 billion. Overall, net inflow of FDI stood at 26.1 billion from 23.6 billion in November 2013.

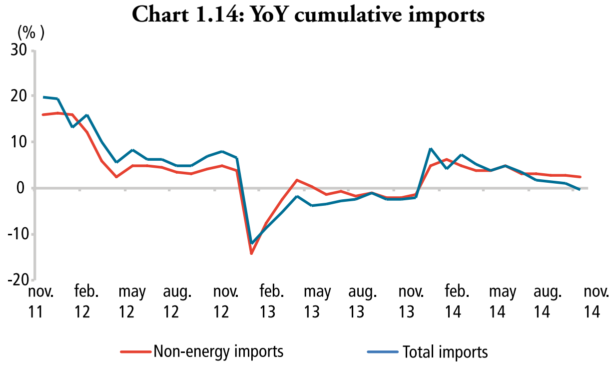
Given the other elements of the capital account, the outstanding net international reserves reached 177.6 billion dirhams at end-November 2014, equaling 5 months and 5 days of imports of goods and services. At the end of 2014, these reserves should be around 176.2 billion dirhams, or 5 months of imports of goods and services and should continue to improve to cover 5 months and 10 days of imports at the end of 2015.

Chart 1.13: YoY change in sales of automotive and textile industries (%)



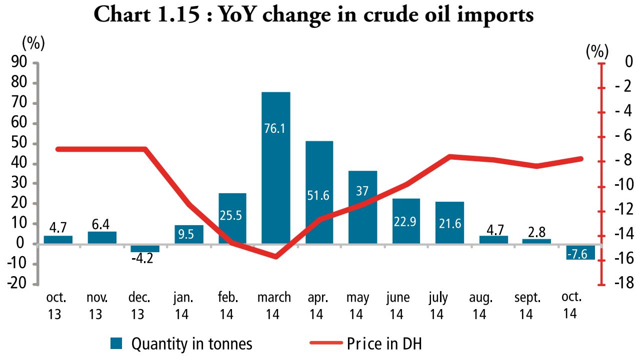
Source: Foreign Exchange Office.

Chart 1.14: YoY cumulative imports



Source: Foreign Exchange Office.

Chart 1.15 : YoY change in crude oil imports



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

According to estimates by Bank Al-Maghrib, nonagricultural output gap would remain below zero in the fourth quarter of 2014, while the capacity utilization rate (CUR) in the industrial sector stabilized at 69 percent in October. The labor market conditions were characterized in the third quarter by a year-on-year increase of 0.5 percentage point in the unemployment rate to 9.6 percent and a creation of only 58,000 jobs. With regard to labor costs, the private sector's average wage index showed in the same quarter a year-on-year increase of 6.8 percent in nominal terms and 6.6 percent in real terms.

Overall, the persistence of the level of nonagricultural activities below their potential and the deterioration of the labor market conditions do not suggest any significant price pressures in the coming quarters.

2.1 Pressures on output capacity

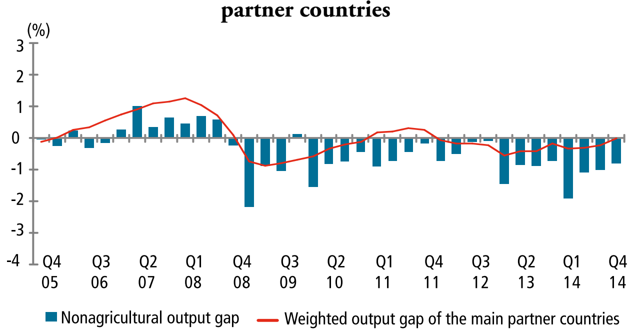
Estimates by Bank Al-Maghrib show that the output gap would remain negative in the fourth quarter (Chart 2.1), thus indicating a further moderation in pressures on prices.

BAM's monthly business survey in industry shows that the CUR stabilized at 69 percent in October, a rate still below its historical average (Chart 2.2). This stagnation covers an improvement in chemical and related industries, stabilization in the textile and leather sector and a decline in other branches.

The same survey indicates that the unit production cost would have increased overall in the third quarter of 2014 (Chart 2.3), mainly due to higher energy and labor costs.

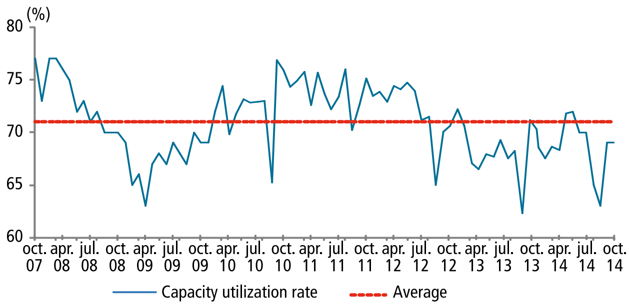
Apparent labor productivity in nonagricultural activities showed a year-on-year increase of 1.2 percent in the third quarter, as against 1.8 percent a year earlier. This change is attributed to a faster growth of nonagricultural value added from 1.5 percent to 3.3 percent and an increase of 2.1 percent in nonagricultural employment following a 0.3 percent decline (Chart 2.4).

Chart 2.1: Nonagricultural output gap and that of major partner countries



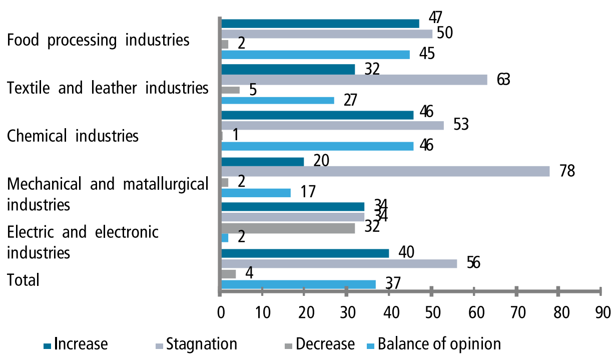
Sources: HCP, Eurostat and BAM estimates.

Chart 2.2: Industrial capacity utilization rate



Source: BAM monthly business survey.

Chart 2.3: Change in sectoral production unit cost



**Difference between the percentage of businesses reporting an increase and those reporting a decrease.*
Source: BAM monthly business survey.

2.2 Pressures on the labor market

During the third quarter, the labor force aged 15 and over increased by 1 percent to 11.9 million, up 1.2 percent in urban areas and 0.8 percent in rural ones. Taking into account the increase in the total population aged 15 and over, the participation rate fell by 0.3 point to 48.2 percent nationally.

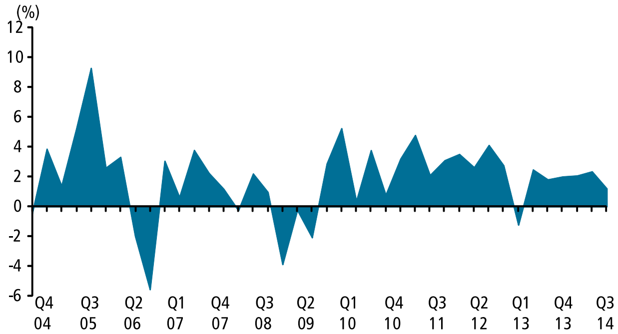
Meanwhile, only 58,000 jobs were created, as against 139,000 a year earlier, including 36,000 jobs in urban areas and 22,000 jobs in rural areas (Chart 2.5). At the sectoral level, with the exception of agriculture, which showed a loss of 75,000 jobs, other sectors were all job-providing sectors with 60,000 jobs in services, 42,000 in construction and 31,000 in industry including handicrafts.

Under these conditions, employed labor force increased by 0.5 percent to 10.75 million people. The employment rate fell from 44 percent to 43.6 percent overall, reflecting a decline of 0.5 point to 35.8 percent in urban areas and 0.2 point to 55.7 in rural areas (Table 2.1).

Overall, the unemployment rate rose 0.5 percentage point to 9.6 percent, reflecting an increase from 14 percent to 14.5 percent in urban areas and from 3.7 percent to 4.1 percent in rural ones. Unemployment was particularly high among urban youth aged 15-24 years, as the rate rose from 37.8 percent to 39.9 percent (Table 2.1).

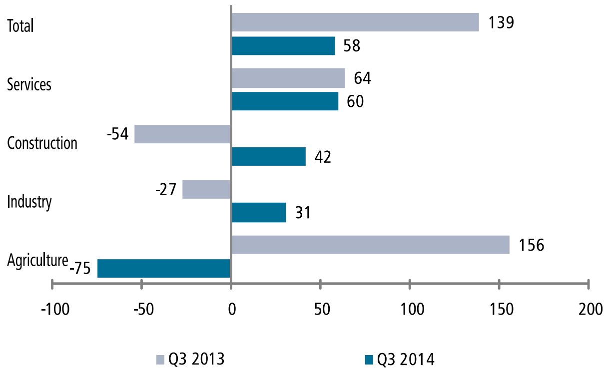
Regarding labor costs, the private sector's wage average index posted in the third quarter a year-on-year increase of 6.8

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



Sources : HCP, and BAM estimates.

Chart 2.5: Change in job creation by sector (in thousands)



Source: HCP.

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

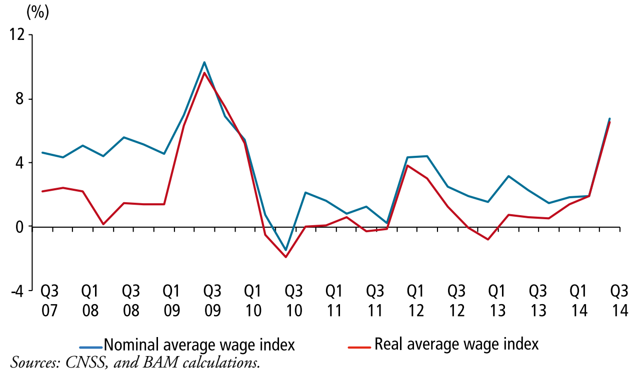
In thousands / in %	Q3- 2013			Q3- 2014		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force [(1)]	6.205	5.558	11.763	6.282	5.603	11.885
Labor force participation rate (%) [(2)]	42.2	58.1	48.5	41.9	58.1	48.2
Employed labor force	5.335	5.352	10.687	5.372	5.373	10.745
Employment rate (%) [(3)]	36.3	55.9	44.0	35.8	55.7	43.6
Unemployment						
Unemployed labor force	870	206	1.076	910	230	1.140
Unemployment rate (in %) [(4)]	14.0	3.7	9.1	14.5	4.1	9.6
By age						
.15 - 24 years	37.8	7.3	19.1	39.9	9.3	20.6
.25 - 34 years	19.3	3.9	12.8	20.5	4.3	13.6
.35 - 44 years	8.1	3.2	6.1	8.3	2.6	6.0
By degree						
. Non-graduates	7.6	2.3	4.2	7.9	2.7	4.6
. Graduates	18.4	9.8	16.5	18.9	9.7	16.8

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

percent in nominal terms and 6.6 percent in real terms (Chart 2.6).

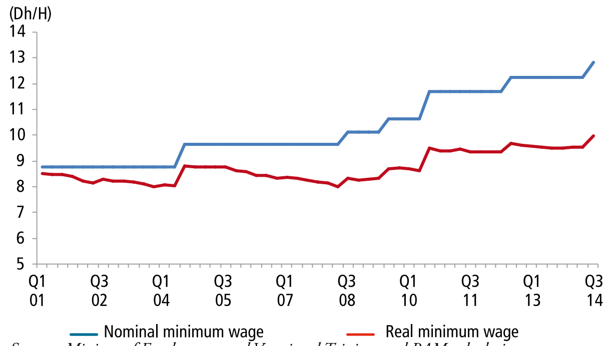
Following a 5 percent increase in early July 2014, the hourly minimum wage was up, year on year, by 4.8 percent in real terms in the third quarter (Chart 2.7).

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



Sources: CNSS, and BAM calculations.

Chart 2.7: Minimum wage in real and nominal terms



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

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

During the third quarter, the global economy slowed down in almost all advanced countries and in some emerging economies. In the United States, growth dropped slightly from one quarter to the next, but overall the economy continues to gain strength. In the United Kingdom, growth declined, while in Japan GDP contraction increased significantly. In the euro area, growth stabilized at a lower level, covering divergent trends across countries. The slowdown also affected the main emerging countries, mainly China, Brazil and Russia. In addition, the unemployment rate remains, overall, relatively high in the euro area, while in the United States, it remained unchanged at 5.8 percent from one month to another. Financial markets of advanced economies were broadly marked by lower yields, especially in the bond market. On commodity markets, prices went down. Against this backdrop, inflation declined slightly in the euro area in November, while it remained unchanged in the United States in October. Overall, external inflationary pressures are expected to remain low.

3.1 Global financial conditions and economic activity

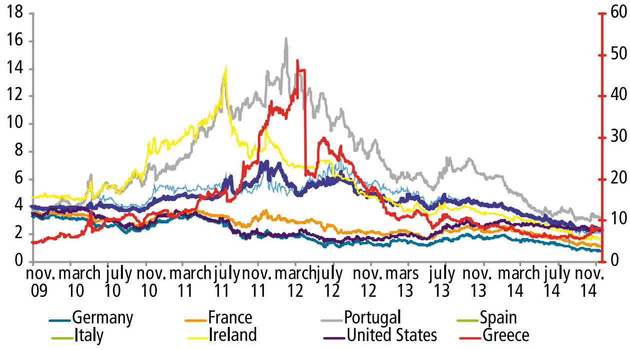
3.1.1 Financial conditions

In bond markets, sovereign yields were overall tilted to the downside. Between October and November, 10-year yields stabilized at 3.2 percent in Portugal, 2.1 percent in Spain and 2.4 percent in Italy. In contrast, Greek yields rose from 7.3 percent to 8.2 percent. In other countries of the euro area, these yields fell from 0.9 percent to 0.8 percent in Germany and from 1.3 percent to 1.2 percent in France. Yields on U.S. Treasury bills stagnated at 2.3 percent.

In key emerging economies, 10-year yields fell from 3.9 percent to 3.6 percent in China, from 8.4 percent to 8.2 percent in India, from 9 percent to 8.5 percent in Turkey and increased from 12 percent to 12.7 percent in Brazil.

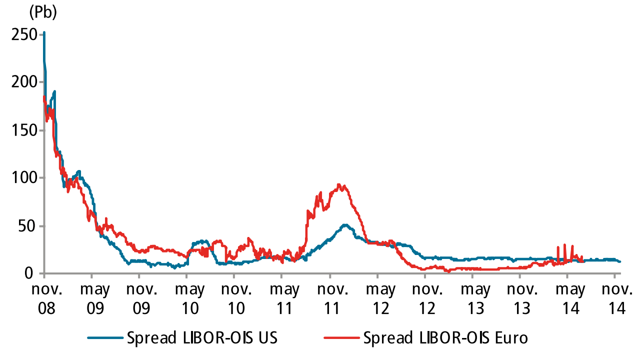
Between October and November, money markets were characterized by a stagnation of the 3-month Euribor at 0.08 percent and the 3-month Libor at 0.23 percent. Meanwhile, the dollar Libor-OIS spread fell from 14.3 basis points to 13.1 points, month on month. The annual bank lending growth in the United States moved up 7 percent in November from 6.5

Chart 3.1: Change in the yield of ten-year euro area and U.S. government bonds



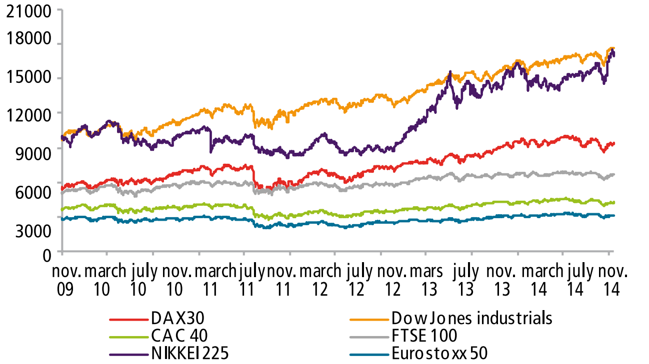
Source: Datastream .

Chart 3.2: Change in the OIS-LIBOR spread*



**Data on The «euro Libor-OIS spread» are no longer available since mid-July 2014.*
Source: Datastream .

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



Source: Datastream.

percent a month earlier, while in the euro area, its contraction eased to 1.1 percent in October from 1.2 percent.

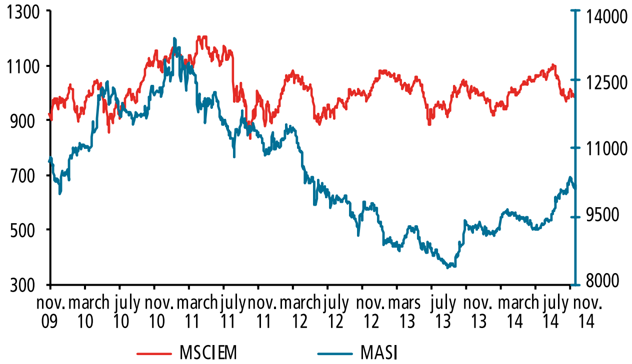
Between October and November 2014, major stock indexes trended upward, while their volatility declined. Indeed, the EUROSTOXX50, Dow Jones Industrials and Nikkei225 showed respective increases of 1.7 percent, 5.2 percent and 10.7 percent. Similarly, the DAX 30, CAC 40 and FTSE 100 were up 3.7 percent, 2 percent and 3 percent, respectively. In terms of volatility, VSTOXX dropped by 22.4 basis points to 20.3 points and VIX by 18.1 basis points to 13.7 points.

In emerging economies, the MSCI EM rose by 0.2 percent, mainly reflecting respective increases of 2.2 percent, 4.7 percent and 4.4 percent in MSCI China, Turkey and India.

In foreign exchange markets, the euro depreciated between October and November by 1.5 percent to 1.25 dollar, its lowest level in 2 years and 3 months. However, it appreciated by 5.2 percent against the Japanese yen and stagnated at 0.79 pound sterling. Currencies of major emerging economies trended differently across countries. Thus, the dollar appreciated by 4.5 percent and 0.4 percent against the Brazilian real and the Indian rupee, respectively, while it depreciated by 0.5 percent against the Turkish lira. In addition, a dollar continued to trade at 6.1 Chinese yuan.

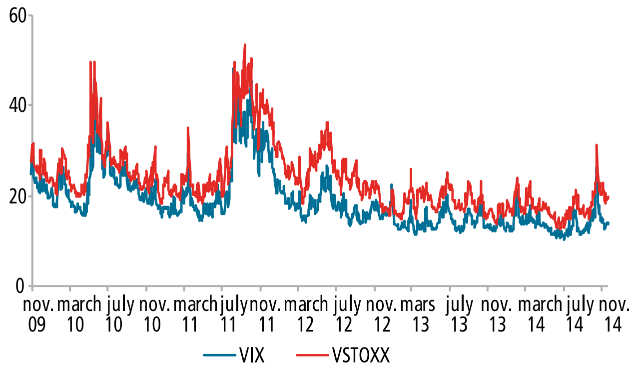
With regard to monetary policy decisions, the ECB and the Bank of England maintained, on December 4, their key rates unchanged at 0.05 percent and 0.5 percent, respectively. On October 29, the Fed ended its bond buyback program and announced that it would keep its key rate at its current level for a considerable time.

Chart 3.4: Change in the MSCI EM and MASI



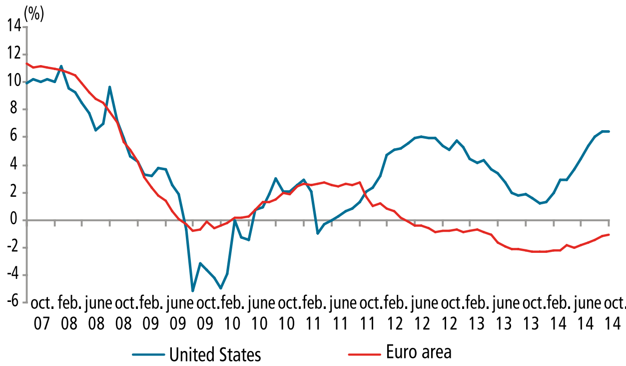
Source: Datastream.

Chart 3.5: Change in VIX and VSTOXX



Source: Datastream.

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



Source: Datastream.

However, it did not rule out the possibility to increase this rate sooner than expected, if progress towards the maximum use of labor market capacity and the inflation target prove faster than expected. Unlike the Fed, the Bank of Japan decided on November 19 to maintain its quantitative easing measures. In emerging countries, the People's Bank of China lowered on November 21 its key rate by 40 basis points to 5.6 percent, the first reduction in more than two years. However, the Central Bank of Brazil raised on December 3 its key rate by 50 basis points to 11.75 percent in order to cope with inflationary pressures, while the Russian Central Bank raised its main rate by 100 basis points to 10.5 percent, particularly to counter the depreciation of the ruble and mitigate price pressures.

Table 3.1: YoY change in quarterly growth

	2012	2013				2014		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States	1.6	1.7	1.8	2.3	3.1	1.9	2.6	2.4
Euro area	-0.9	-1.2	-0.6	-0.3	0.4	1.0	0.8	0.8
France	0.0	-0.3	0.7	0.3	0.8	0.8	0.0	0.4
Germany	0.1	-0.6	0.1	0.3	1.1	2.3	1.4	1.2
Italy	-2.5	-2.4	-2.2	-1.9	-1.2	-0.3	-0.4	-0.5
Spain	-2.1	-1.9	-1.6	-1.1	0.1	0.7	1.3	1.6
United Kingdom	0.4	0.8	1.7	1.7	2.7	2.9	3.2	3.0
Japan	-0.4	-0.1	1.3	2.5	2.4	2.6	-0.1	-1.1
China	7.9	7.7	7.5	7.8	7.7	7.4	7.5	7.3
India	4.4	4.4	4.7	5.2	4.6	4.6	5.7	5.3
Brazil	1.8	1.9	3.5	2.4	2.2	1.9	-0.9	-0.2

Source : Datastream.

3.1.2 Global economic activity

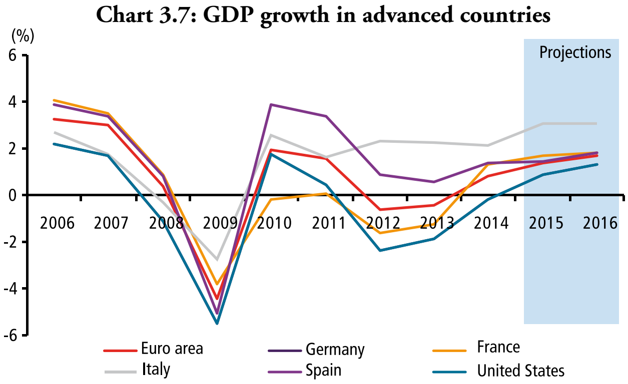
In the third quarter, economic activity slowed down almost in all advanced countries as well as in some emerging economies.

Indeed, growth decelerated in the third quarter from 2.6 percent to 2.4 percent in the United States, due to a sharp drop in the level of stocks, and to a lesser extent, lower exports. Similarly, GDP moved down from 3.2 percent to 3 percent in the United Kingdom, mainly owing to the weakness of manufacturing production, tourism services and retail sales. Moreover, GDP in Japan contracted further from 0.1 percent to 1.1 percent.

In the euro area, growth stabilized at 0.8 percent, covering a decrease from 1.4 percent to 1.2 percent in Germany and an increase from 0 percent to 0.4 percent in France. In addition, GDP grew by 1.6 percent in Spain from 1.3 percent in the previous quarter, and its contraction increased from 0.4 percent to 0.5 percent in Italy.

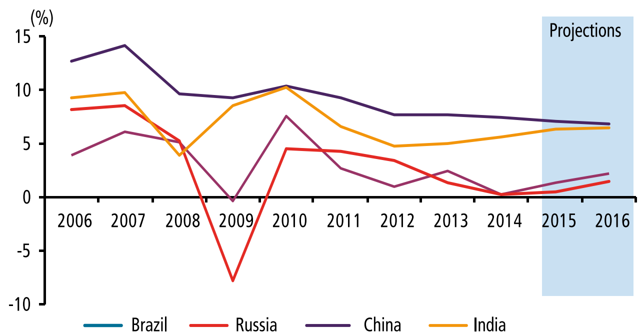
In major emerging economies, growth declined from 7.5 percent to 7.3 percent in China, from 5.7 percent to 5.3 percent in

Chart 3.7: GDP growth in advanced countries



Source: IMF (October 2014 projections).

Chart 3.8: GDP growth in emerging countries



Source: IMF (October 2014 projections).

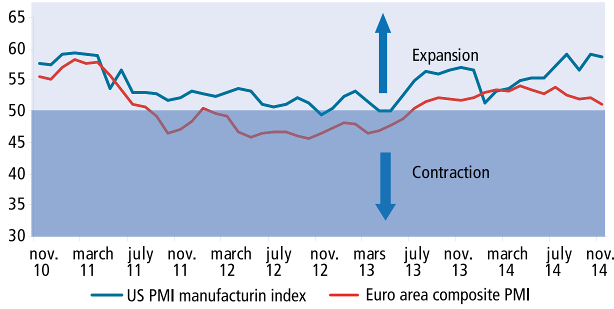
India and from 0.8 percent to 0.7 percent in Russia in the third quarter, while in Brazil, GDP contraction eased from 0.9 percent to 0.2 percent.

High-frequency indicators for November show a slight let-up in activity. Indeed, in the euro area, the composite PMI dropped from 52.1 to 51.1 points, its lowest level since July 2013. Similarly, in the United States, the ISM manufacturing index fell by 0.3 point to 58.7 points, remaining nonetheless above the 17.4 percent expansion threshold.

The sluggish activity observed in some advanced and emerging economies, as well as the intensification of geopolitical tensions in Ukraine and the Middle East led to a downward revision of the global economic outlook. Thus, the IMF now expects a global growth of around 3.3 percent in 2014 and 3.8 percent in 2015. In particular, GDP is set to grow 2.2 percent in 2014 and 3.1 percent in 2015 in the United States, 0.8 percent and 1.3 percent in the euro area and 0.9 percent and 0.8 percent in Japan. Emerging countries whose economic activity is mainly supported by the Asian countries, are likely to be affected by a gradually slow growth in China, expected to stand at 7.4 percent in 2014 and 7.1 percent in 2015.

Similarly, the European Commission expects that global growth would reach 3.3 percent in 2014 and 3.8 percent in 2015, driven by an economic recovery in non-European advanced countries. In addition, it assumes that global activity remains surrounded by downside risks, in conjunction with geopolitical tensions and potential disruptions in financial markets.

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



Source: Datastream .

Table 3.2: Global growth outlook

	Forecasts (%)					
	European commission		IMF*		OECD	
	2014	2015	2014	2015	2014	2015
Global GDP	3.3	3.8	3.3	3.8	3.3	3.7
United States	2.2	3.1	2.2	3.1	2.2	3.1
Euro area	0.8	1.1	0.8	1.3	0.8	1.1
Germany	1.3	1.1	1.4	1.5	1.3	1.1
France	0.3	0.7	0.4	1.0	0.4	0.9
Italy	-0.4	0.6	-0.2	0.8	-0.4	0.2
Spain	1.2	1.7	1.3	1.7	1.3	1.7
United Kingdom	3.1	2.7	3.2	2.7	3.0	2.7
Japan	1.1	1.0	0.9	0.8	0.9	1.1
China	7.3	7.1	7.4	7.1	7.3	7.1
India	5.8	6.4	5.6	6.4	5.4	6.4
Brazil	0.2	1.4	0.3	1.4	0.3	1.5
Russia	0.3	0.3	0.2	0.5	0.7	0.0

Sources : OECD and European Commission (November 2014) and IMF (October 2014).

3.1.3 Labor m arket

In the United States, the unemployment rate remained unchanged in November at 5.8 percent from one month to another.

In the euro area, it remained stable at 11.5 percent in October, month on month. In partner countries, this rate remained unchanged in the same month at 10.5 percent in France and slightly decreased from 5 percent to 4.9 percent in Germany. However, unemployment rose from 12.9 percent to 13.2 percent in Italy and fell from 24.1 percent to 24 percent in Spain. In the United Kingdom, the employment data are those of August and show a slight decline in the unemployment rate to 5.9 percent from 6 percent in July.

In terms of labor market prospects, the IMF, in its update of October, lowered unemployment rates for 2014 and 2015 in most developed countries. It expects unemployment in the United States to stand at 6.3 percent and 5.9 percent in 2014 and 2015, respectively, and at 11.6 percent and 11.2 percent in the euro area. In partner countries, the IMF projects a similar rate of 10 percent and 5.3 percent respectively in France and Germany over the two forecast years. In Italy and Spain, the IMF projects respective rates of 12.6 percent and 24.6 percent in 2014 and 12 percent and 23.5 percent in 2015.

The European Commission in its November projections broadly lowered unemployment rates in most developed countries compared to its projections of May 2014. Thus, it expects rates of 6.2 percent and 5.7 percent in the United States in 2014 and 2015, respectively, and 11.6 percent and 11.3 percent in the euro area. In partner countries, the unemployment rate would remain stable between 2014 and 2015 at 10.4 percent in France, 5.1 percent in Germany and 12.6 percent in Italy. In Spain, the Commission expects an unemployment rate of 24.8 percent in 2014 and 23.5 percent in 2015.

3.2 Commodity prices and inflation

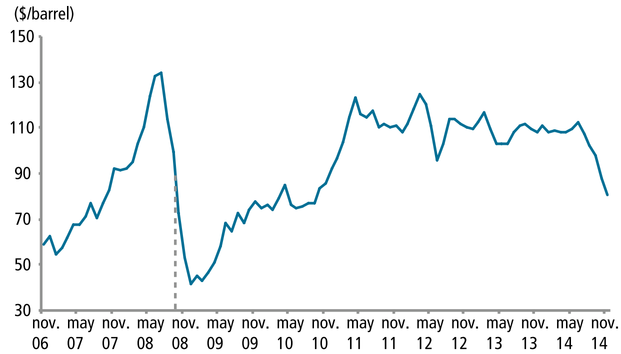
Over the last three months, commodity prices trended overall downwards, year on year. The inflation rate declined slightly in the euro area in November, while it remained unchanged in the United States between September and October.

Table 3.3: Change in unemployment rate

	2012	2013	september 2014	october 2014	november 2014
United States	8.1	7.4	5.9	5.8	5.8
Euro area	11.3	11.9	11.5	11.5	N.A
France	9.8	10.3	10.5	10.5	N.A
Italy	10.7	12.2	12.9	13.2	N.A
Germany	5.5	5.3	5.0	4.9	N.A
Spain	24.8	26.1	24.1	24.0	N.A
United Kingdom	7.9	7.6	N.D	N.D	N.A

Source : Eurostat.

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



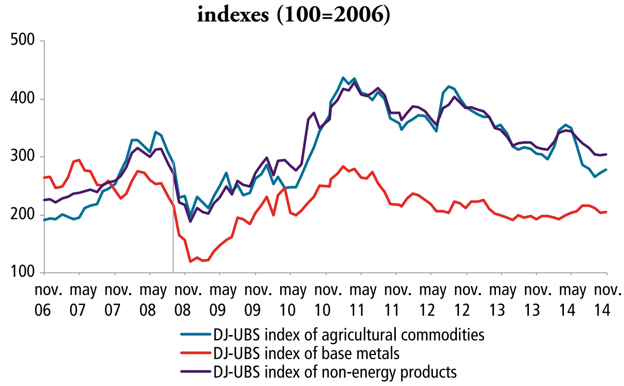
Source: Datastream.

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

	Q4:14	Q1:15	Q2:15	Q3:15	2015	2016	2017
Oil	82.29	79.41	80.77	81.71	81.13	84.38	86.15

Source : Bloomberg.

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



Source: Datastream.

3.2.1 Energy commodity prices

Brent prices recorded in November a monthly decline of 8.1 percent, averaging $80.5 per barrel, its lowest level since October 2010. This decrease was primarily due to an oversupply and weaker demand, particularly in China and Europe. Year on year, Brent prices fell by nearly 26 percent.

Regarding the outlook for oil prices1, the World Bank revised downwards its October projections, now assuming a price of $95.7 per barrel in 2015, from $104.4 in July. Similarly, the IMF expects in 2015 a price of $99.36 per barrel in its WEO of October, from $99.62 in its WEO update of July. Regarding the Brent price, the European Commission revised down its forecasts to $91 per barrel in its autumn edition as against $102.9 previously projected in 2015.

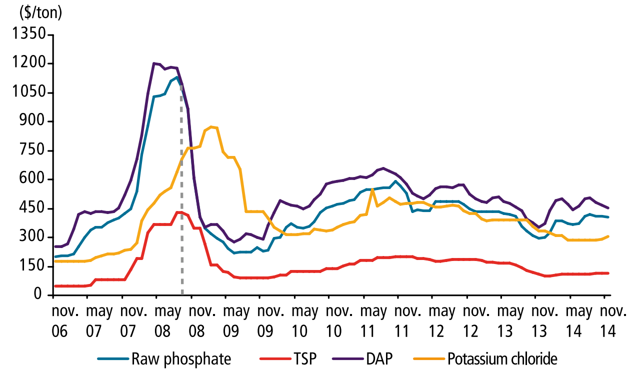
3.2.2 Non energy commodity prices

In November, non-energy prices went down, year on year, as the Dow Jones-UBS index fell by nearly 4 percent. This change reflects a net decrease of 9 percent in the agricultural commodity price index and a slight increase of 6.4 percent in the base metals price index.

The price of crude phosphate on the world market remained unchanged at $115 per tonne, between October and November. Moreover, TSP, DAP and urea prices showed respective declines of 1.2 percent, 2.9 percent and 3.1 percent, month on month. Potassium Chloride prices rose by 5.1 percent in November, after stabilizing at 287 dollars per tonne for six consecutive months. Year on year, prices fell by 0.4 percent for urea

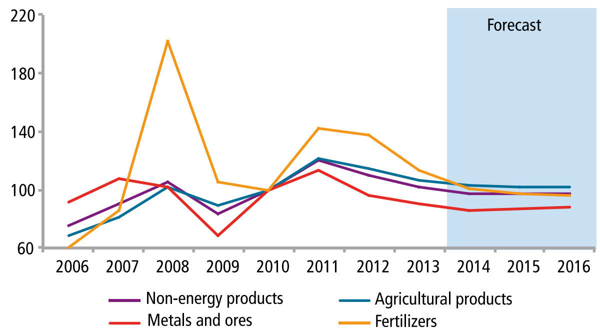
1 The World Bank and IMF make their forecasts based on the average price of the three oil categories (Brent, WTI and Dubai).

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



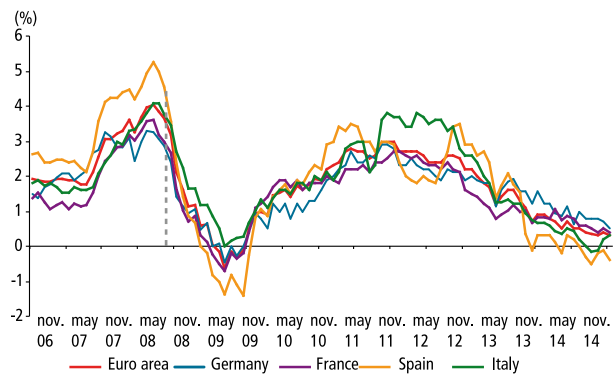
Source: World Bank.

Chart 3.13: Outlook for commodity price indexes



Source: World Bank.

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat .

and 8.5 percent for Potassium Chloride, while they increased by 6 percent for crude phosphate, 28.9 percent for DAP and 37.3 percent for TSP.

3.2.3 Inflation in the world

In October, inflation fell from 3.3 percent to 2.9 percent in Japan, while it stood at 1.7 percent in the United States for the third consecutive month. Moreover, according to an initial Eurostat estimate for November, inflation declined slightly in the euro area from 0.4 percent to 0.3 percent. In particular, consumer prices showed a further decline in Spain from 0.1 percent to 0.4 percent. In addition, inflation dropped in Germany from 0.7 percent to 0.5 percent and in France from 0.5 percent to 0.4 percent, while it rose slightly in Italy from 0.2 percent to 0.3 percent between October and November. In the United Kingdom, available data are those of October and indicate a slight increase in inflation from 1.2 percent to 1.3 percent.

In key emerging and developing economies, inflation registered a decline from 1.6 percent to 1.4 percent in China, while it remained unchanged at 6.6 percent in Brazil, between October and November.

Table 3.5 : World inflation outlook, YoY

	OECD		European Commission		IMF	
	2014	2015	2014	2015	2014	2015
United States	1.7	1.4	1.8	2.0	2.0	2.1
Euro area	0.5	0.6	0.5	0.8	0.5	0.9
Germany	0.9	1.2	0.9	1.2	0.9	1.2
France	0.6	0.5	0.6	0.7	0.7	0.9
Spain	-0.1	0.1	-0.1	0.5	0.0	0.6
Italy	0.1	-0.0	0.2	0.5	0.1	0.5
United Kingdom	1.6	1.8	1.5	1.6	1.6	1.8
Japan	2.9	1.8	2.8	1.6	2.7	2.0

Sources : OECD and European Commission (November 2014) and IMF (October 2014).

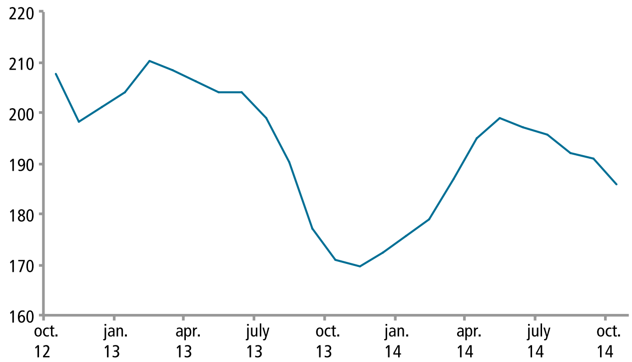
The IMF projects in its WEO of October that inflation should stand at 1.6 percent in 2014 and 1.8 percent in 2015 in advanced economies, while in emerging and developing countries it would reach 5.5 percent in 2014, before increasing slightly to 5.6 percent in 2015.

The European Commission predicts in its autumn edition an inflation rate of 0.5 percent and 0.8 percent in the euro area and 1.8 percent and 2 percent in the United States, in 2014 and 2015 respectively.

3.3 Morocco's import unit price index

Quarter on quarter, the non-energy import price index (IPI) continued to drop in the third quarter of 2014 to 3.6 percent in October. This trend reflects a 13.4 percent decrease in the food IPI, which had fallen by 7.6 percent a quarter earlier.

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



Sources: Foreign Exchange Office, and BAM calculations.

The change in the food IPI is attributed to a 25 percent decrease in the average import price of wheat, which had decreased by 10 percent a quarter earlier. likewise, the average unit price of corn dropped by 6.1 percent in October, as against 11 percent in Q3-2014.

After dropping 1.9 percent in Q3-2014, the IPI of semi-finished goods continued its downward trend with the same extent in October 2014. This change covers a 3.5 percent decline in the

IPI of rolled products of iron and steel after a 0.3 percent increase in Q3-2014 and a 2.3 percent increase in that of natural and chemical fertilizers from a decline of 9.8 percent.

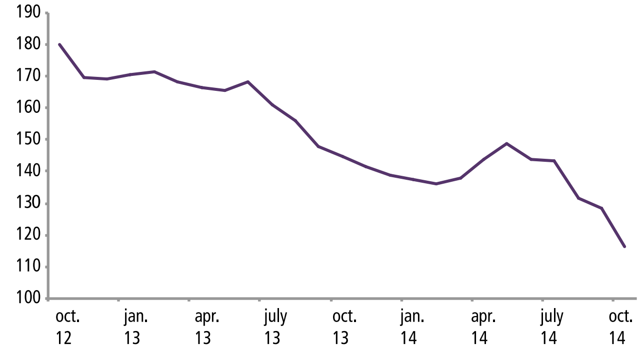
However, the mining IPI stagnated in October after rising 1.1 percent in the third quarter. This change is due to a 2.7 percent increase in the sulfur unit price after an increase of 1.7 percent, and a 3.5 percent decline in the iron and steel unit price, which has risen by 0.3 percent in Q3-2014.

The 5.6 percent decline in the energy IPI over the third quarter eased to 2.5 percent in October. This trend is attributed to a 3.5 percent decrease in the crude oil unit price in October, as against 6.8 percent in Q3-2014, as well as a slight increase of 0.6 percent in the unit price of diesel and fuel, after a drop of 3.3 percent in the third quarter.

Year on year, the non-energy IPI rose 8.7 percent in October 2014 from 2.1 percent in Q3-2014. The mining IPI rose further from 14.4 percent to 34.7 percent in October, in conjunction with a rapid increase of 37.9 percentage points in sulfur import prices to 60.1 percent. The IPI of semi-finished goods increased by 11.7 percent in October, as against 13.4 percent in Q3-2014, owing to a slower growth in import prices of rolled products of iron and steel from 28.9 percent to 26 percent. The decrease in the food IPI worsened by 6.2 percentage points to 19.5 percent in October, in connection with the unit price of wheat, which fell by one third, as against 17 percent in the third quarter. The pace of decline in the average import price of corn was eased from 15.5 percent to 10.2 percent between Q3-2014 and October.

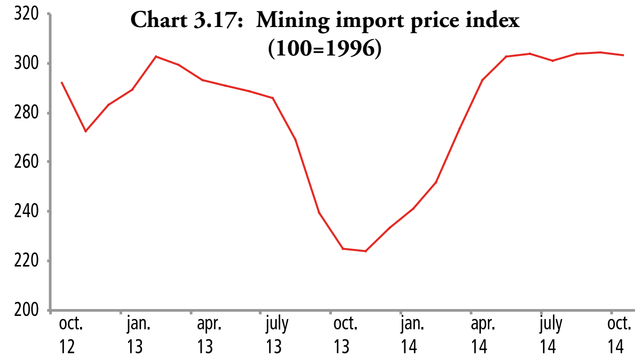
The energy IPI continued its downward trend since the second quarter of 2013, showing a

Chart 3.16: Food products import price index (100=1996)



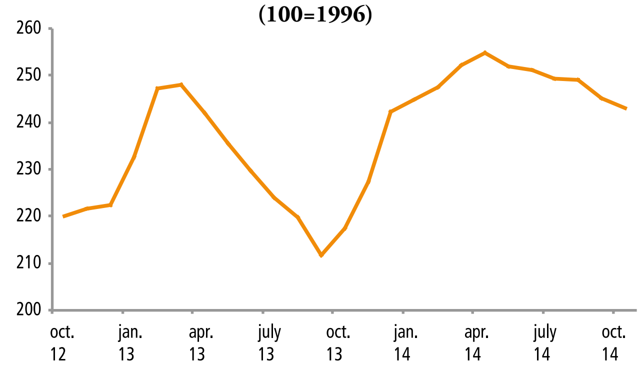
Sources: Foreign Exchange Office, and BAM calculations.

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



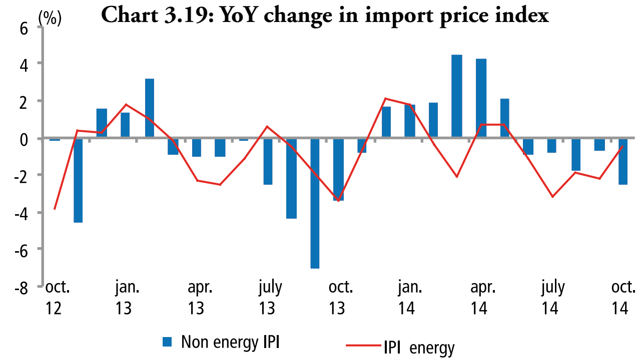
Sources: Foreign Exchange Office, and BAM calculations.

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



Sources: Foreign Exchange Office. and BAM calculations

Chart 3.19: YoY change in import price index



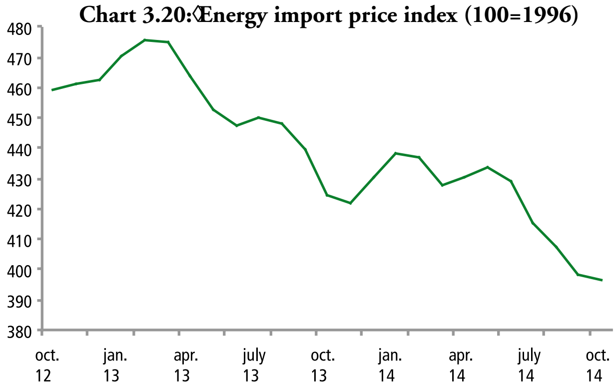
Sources: Foreign Exchange Office. and BAM calculations decrease of 6.6 percent in October 2014 from 8.8 percent a quarter earlier. By product, the crude oil import unit price decreased by 7.1 percent as against 9.9 percent in Q3-2014 and the diesel and fuel unit price was down 5.6 percent from 7.2 percent. However, the import unit price of petroleum gas declined further from 3.4 percent to 5.8 percent.

Table 3.6: Change in the IPI

	Quarterly change in %			Annual change in %		
	Q2 2014	Q3 2014	oct. 2014	Q2 2014	Q3 2014	oct. 2014
Energy IPI	**-0.7**	**-5.6**	**-2.5**	**-5.2**	**-8.8**	**-6.6**
Crude oil AUP*	2.0	-6.8	-3.5	-5.6	-9.9	-7.1
Diesel and fuel AUP	-3.4	-3.3	0.6	0.1	-7.2	-5.6
Petroleum gas AUP	-12.8	-1.8	0.2	-0.3	-3.4	-5.8
Non-energy IPI	**9.2**	**-2.1**	**-3.6**	**-3.8**	**2.1**	**8.7**
Food IPI	**6.0**	**-7.6**	**-13.4**	**-12.8**	**-13.3**	**-19.5**
Wheat AUP	9.7	-10.0	-25.0	-12.8	-17.0	-33.4
Corn AUP	3.7	-11.0	-6.1	-14.3	-15.5	-10.2
Mining IPI	**17.3**	**1.1**	**0.0**	**3.0**	**14.4**	**34.7**
Sulfur AUP	29.9	1.7	2.7	-0.7	22.2	60.1
Iron and steel AUP	4.7	0.3	-3.5	8.4	6.0	11.2
IPI of semi-finished goods	**1.8**	**-1.9**	**-1.9**	**7.2**	**13.4**	**11.7**
AUP of natural and chemical fertilizers	-10.2	-9.8	2.3	-18.4	-6.6	-1.0
AUP of rolled products of iron and steel	5.8	0.3	-3.5	20.7	28.9	26.0

NB: The indexes are calculated based on the dirham-denominated unit prices.
(*)Average Unit Price

Chart 3.20: Energy import price index (100=1996)



Sources: Foreign Exchange Office. and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

Recent money market developments reveal a decrease in the interbank rate, from 2.99 on average percent in the third quarter to 2.76 percent in October and November, following the decision taken by the Bank Board at its meeting of September 23, 2014 to lower the key rate from 3 percent to 2.75 percent. In terms of lending rates, the latest data available, which were prior to the key rate reduction, show a slight increase of 5 basis points in the weighted average rate in the third quarter 2014, to 6.03 percent, mainly reflecting higher rates on equipment loans, while rates on real estate loans and cash advances remained almost unchanged. As to deposit rates, the weighted average rate of 6- and 12-month deposits continued to decline, with a further reduction of 10 basis points from the third quarter of 2014, standing at 3.70 percent in October.

Regarding monetary aggregates, the M3 growth accelerated from 4.3 percent on average in the third quarter to 5.3 percent in October, while the monetary gap remained negative. Similarly, the bank lending growth moved up from 3.8 percent to 4.6 percent, reflecting an acceleration of all credit categories, particularly equipment loans. The dirham's effective exchange rate depreciated by 0.21 percent in nominal terms in the third quarter, while it appreciated by 0.4 percent in real terms.

In the assets market, the Real Estate Price Index rose 1.4 percent quarter on quarter, covering respective increases of 4.3 percent in land prices and 0.8 percent in real estate ones, as well as a slight decline of 0.2 percent in residential property prices. Overall, these developments indicate the absence of monetary and real estate inflationary pressures in the medium term.

4.1 Monetary conditions

4.1.1 Interest rates

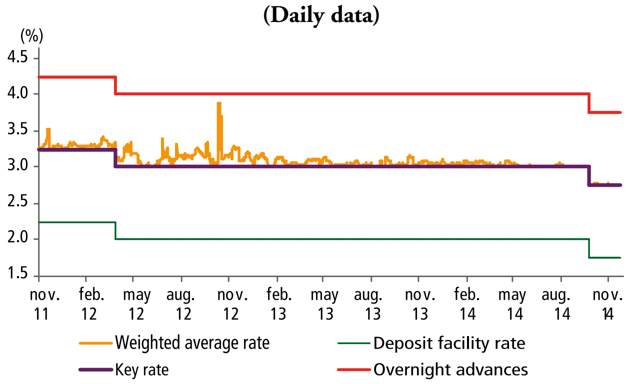
At its meeting of September 23, 2014, the Bank Board decided to lower the key rate from 3 percent to 2.75 percent. Under these conditions, the interbank market weighted average rate averaged 2.76 percent in October and November 2014, down 23 basis points from the third quarter of 2013.

As to lending rates, the latest data available are those of BAM's survey among banks for the third quarter of 2014 and indicate a slight increase of 5 basis points in the weighted average rate of bank loans, thus standing at 6.03 percent1. By credit purpose, rates on equipment loans rose by 56 basis points to 6.01 percent while those on consumer loans moved up from 7.35 percent to 7.37 percent. In contrast, rates on real estate loans and cash advances remained almost unchanged at 5.94 percent and 5.97 percent, respectively.

Regarding deposit rates, the weighted average rate of 6- and 12-month deposits continued to decline, with a further decrease of 10 basis points compared to the third quarter of 2014, thus standing at 3.70 percent in October. This change

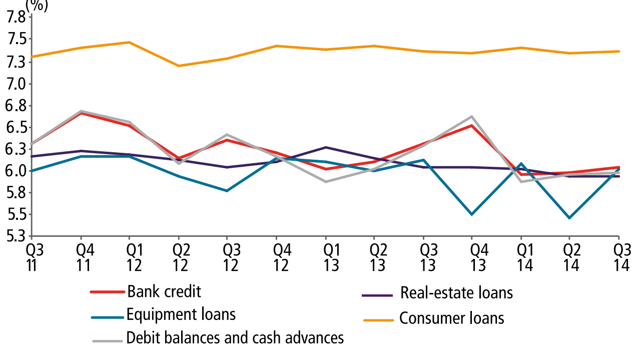
1 These changes do not include the impact of the key rate reduction decision, taken on September 23, 2014

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



**Data at November 24t, 2013.*
Source : BAM.

Chart 4.2 : Change in lending rates*



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

reflects declines of 19 basis points in the 6-month deposit rate to 3.50 percent and 4 basis points in the one-year deposit rate to 3.82 percent.

Concerning Treasury bond yields on the primary market, rates continued their downward trend since the beginning of the year. Between the third quarter and October 2014, 52-week bonds were down by 21 basis points to 2.85 percent, and 5-year ones dropped by 30 basis points to 3.50 percent. In the secondary market, the same trend pattern was also registered.

4.1.2 Money. credit and liquid investments

M3 growth

October data show a faster annual growth of money supply to 5.3 percent from 4.3 percent in the third quarter. Despite these developments, the monetary gap remained negative, thus indicating the absence of monetary inflationary pressures in the medium term.

The change in the M3 aggregate reflects an accelerated growth of bank credit and net international reserves, while net claims on central government showed a further contraction.

As to the main components of M3, differentiated trends were observed between the third quarter and October 2014. Thus, bank money grew by 5.8 percent, year on year, from 3.3 percent in the third quarter, mainly due to the acceleration from 7.1 percent to 29 percent in the growth of demand deposits with the Treasury. Similarly, despite a monthly decline of 0.4 percent, money market fund shares/units recorded an annual increase of 8.6 percent from 5.8

Table 4.1: Borrowing Rates (time deposits)

	2012		2013				2014			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	oct.
6 months	3,49	3,55	3,52	3,56	3,55	3,59	3,51	3,68	3,69	3,50
12 months	3,83	3,84	4,02	3,89	3,83	3,92	3,86	3,91	3,86	3,82
Weighted average	3,71	3,73	3,85	3,76	3,73	3,79	3,71	3,81	3,80	3,70

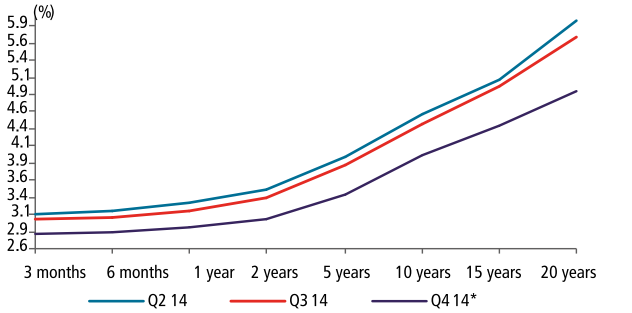
Source : BAM.

Table 4.2: Change in Treasury bond yields on the primary market

	2012	2013				2014			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	oct.
21 days	-	-	-	-	-	-	-	-	-
24 days	3,71	-	-	-	-	-	-	-	-
35 days	3,78	4,12	-	-	-	-	-	-	-
43 days	-	-	-	-	-	-	-	-	-
44 jours	-	-	-	-	-	-	-	-	-
45 jours	3,97	-	-	-	-	-	-	-	-
13 weeks	3,40	3,93	3,94	3,50	3,48	3,30	3,08	2,97	2,79
26 weeks	3,57	4,07	4,11	3,82	3,74	3,45	3,15	-	2,85
52 weeks	3,84	4,20	4,23	4,11	4,13	3,63	3,25	3,14	2,93
2 years	4,24	4,57	4,68	4,61	4,69	4,04	3,35	-	3,14
5 years	4,52	4,75	-	4,93	5,08	4,62	3,91	3,80	3,50
10 years	4,84	-	-	5,42	5,60	5,43	4,47	-	-
15 years	5,08	5,52	5,69	5,71	5,85	5,87	5,15	-	4,49
20 years	-	-	-		-	5,96	5,66	5,57	-
30 years	-	-	-	-	-	-	-	-	5,69

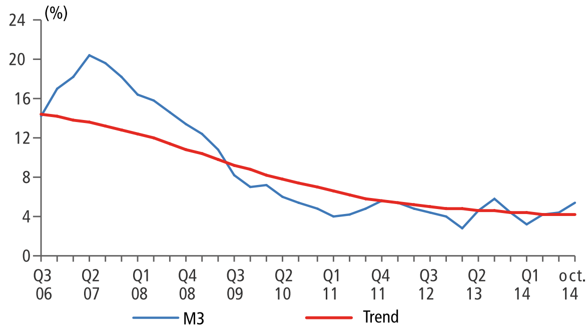
.Source : BAM

Chart 4.3: Term structure of TB interest rates in the Treasury securities market



**Observation of the fourth quarter of 2014 corresponds to the daily average of data from October 1st to November 19, 2014.*
Source : BAM.

Chart 4.4: YoY M3 growth and its trend



Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

During the third quarter of 2014, bank liquidity tightened by 9.1 billion dirhams, mainly due to a significant increase in currency in circulation. Indeed, net withdrawals of money in circulation totaled 9.5 billion dirhams in the quarter due to summer and religious holidays.

Foreign currency transactions increased this restrictive impact due to a liquidity drain of 3.3 billion dirhams, owing to a relatively large volume of foreign currency net purchases by banks (8.9 billion), partially offset by foreign banknotes sales against dirhams (5.6 billion dirhams).

In contrast, Treasury operations caused a liquidity injection of 1.2 billion dirhams, primarily due to the difference between:

- On the one hand, the repayment of domestic debt to the banking system (27.6 billion), settlement of subsidy costs (7.4 billion) as well as payment of civil service salaries (16.4 billion) and retirement pensions (5.3 billion);
- On the other hand, bank subscriptions to T-bond auctions (16.1 billion) and a decrease in the outstanding investment in the money market (-7.7 billion dirhams), plus tax and customs revenues, including the second installment of corporate taxes.

Similarly, BAM customer operations, excluding the Treasury, had a positive impact on liquidity amounting to 2.5 billion dirhams, coming mainly from "Hassan II Fund for Economic and Social Development" and the "Collective Deposit Guarantee Fund".

Chart B 4.1.1: Quarterly change in the impact of autonomous liquidity factors (in billion dirhams)

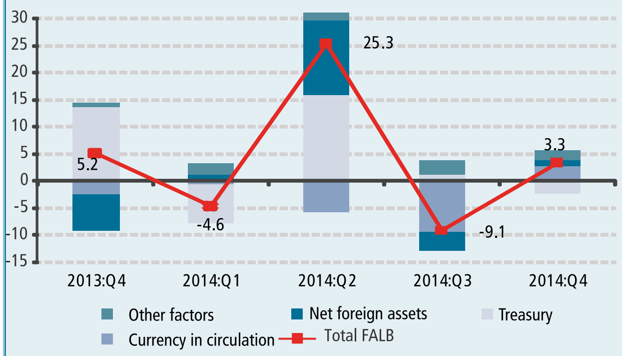


Chart B 4.1.2: Monthly change in the impact of autonomous liquidity factors (in billion dirhams)

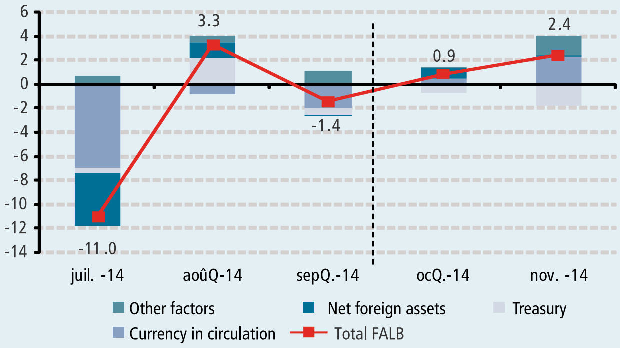


Chart B 4.1.3: Change in reserve requirements (in millions of DH)

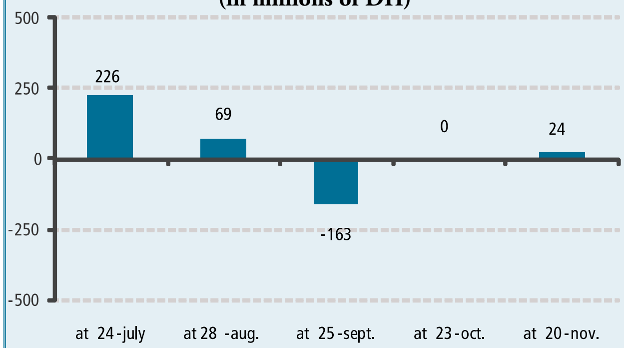
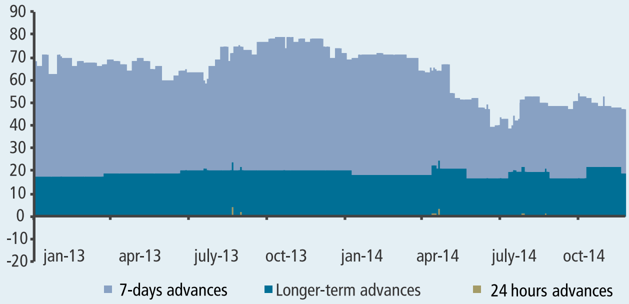


Chart B 4.1.4: BAM interventions on the money market (in billion dirhams)



During the fourth quarter of 2014*, autonomous factors had a positive impact of 3.3 billion on bank liquidity, partly due to a decline in money in circulation.

Net payments of money in circulation resulted in a liquidity injection of nearly 3 billion dirhams, due to a decline succeeding important withdrawals on the occasion of Eid Al Adha.

In addition, foreign currency transactions caused a further liquidity injection of over one billion dirhams, owing to the difference between foreign banknotes sales against dirhams (2.2 billion dirhams) and foreign currency net sales to banks (1.1 billion).

**Period from October 1 to November 24, 2014.*

In contrast, Treasury operations had a restrictive impact of over one billion dirhams on liquidity, resulting primarily from the difference between:

- On the one hand, bank subscriptions to T-bond auctions (13.8 billion) and a decline in outstanding investments in the money market (-6.3 billion dirhams), plus tax and customs revenues;
- On the other hand, the repayment of domestic debt to the banking system (11.6 billion), settlement of subsidy costs (8.8 billion) and payment of civil service salaries (5.3 billion) and retirement pensions (3.5 billion).

Given the expansive impact of autonomous factors observed throughout the fourth quarter, the outstanding amount of BAM's interventions stood at 46.9 billion dirhams as at November 24, down 4 billion compared to the end of the previous quarter.

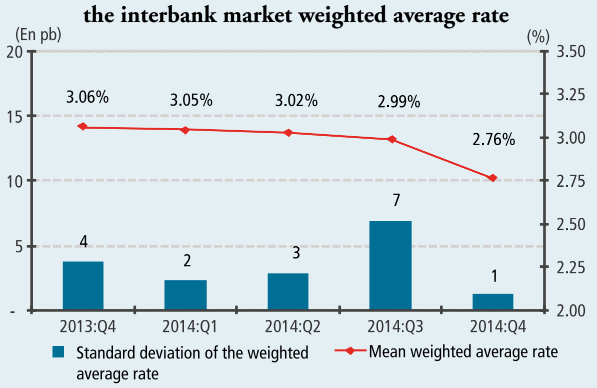
The outstanding amount of one-year secured loan operations under the VSME funding program increased by 5 billion dirhams to 18.9 billion, while the 3-month repo operations declined by 3 billion.

7-day advances dropped by 6 billion to 28 billion dirhams as at November 24, 2014.

Following the key rate reduction of 25 basis points at the end of September, the money market weighted average rate stood at 2.76 percent, which represents a stable deviation relative to the key rate at one base point.

Its volatility also remains low at one basis point, unchanged from the third quarter (adjusted for the effect of the key rate reduction).

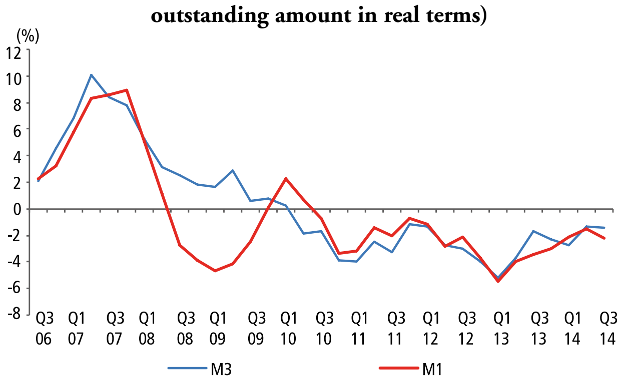
Chart B 4.1.5: Change in the mean and standard deviation of the interbank market weighted average rate



percent a quarter earlier, mainly reflecting a base effect. However, the annual growth of currency in circulation slowed down from 5 percent to 3.5 percent, following a monthly decline of 0.9 percent. The growth of demand and time deposits did not change significantly, standing respectively at 7.6 percent and 3.1 percent in October.

By economic unit, households' time deposits registered an increase of 7.5 percent from 7 percent, thus continuing their improvement that started since the second quarter of 2014. However, the growth of households' demand deposits decelerated from 6 percent to 4.7 percent and that of savings accounts remained virtually unchanged at 7.6 percent. Deposits of private corporations showed less pronounced decreases compared to the third quarter, with changes of -1.2 percent for demand deposits and -25.5 percent for time deposits, as against -7.4 percent and -29 percent, respectively. Deposits of public nonfinancial corporations increased

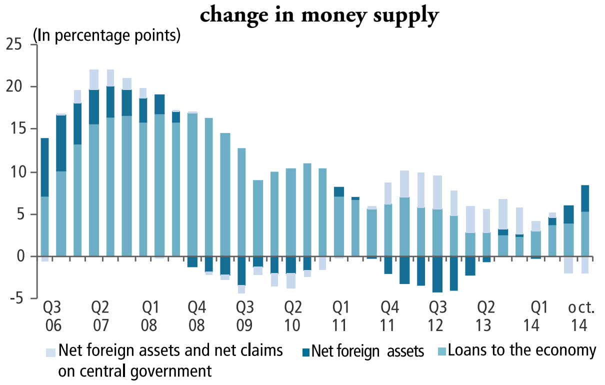
Chart 4.5: Money gap[1] (in percentage of M3 and M1 balance outstanding amount in real terms)



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

Source : BAM.

Chart 4.6: Contribution of the major conterparts to YoY change in money supply



Source : BAM.

by 0.5 percent, after a decrease of 18.6 percent, while their time deposits slowed down from 91.6 percent to 54.7 percent.

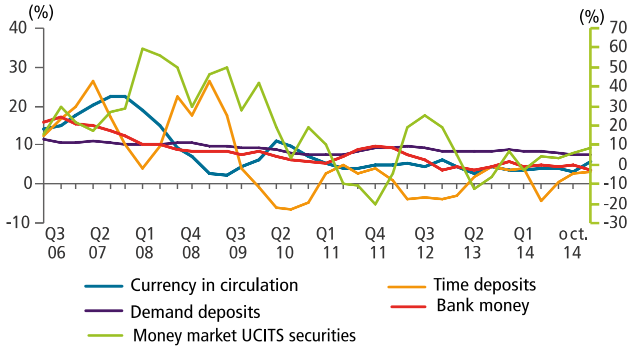
Credit

October data show a faster annual bank lending growth to 4.6 percent from 3.8 percent on average in the third quarter of 2014.

This trend reflects improved growth rates across all loan categories. Thus, equipment loans increased by 6.8 percent, as against 4.4 percent on average in the previous quarter, primarily reflecting an improvement in loans granted to local governments and public nonfinancial corporations as well as an easing of the decline in those granted to private companies. Similarly, real estate loans moved up by 2.6 percent in October, from 2 percent on average in the third quarter. This change covers an acceleration from 4.9 percent to 5.2 percent in housing loans and an easing in the decline of loans to property developers from 6.2 percent to 4.2 percent. The growth of consumer loans rose from 7.7 percent to 9 percent. Despite a monthly decline of 2.3 percent, mainly due to a decrease in credit to public nonfinancial corporations, cash advances improved by 0.8 percent in October from 0.4 percent a quarter earlier. At the same time, financial loans accelerated from 2.2 percent in the third quarter to 4.1 percent in October. The annual growth of nonperforming loans decelerated from 27 percent in the third quarter to 22.3 percent, thus maintaining their ratio to bank credit at 6.8 percent.

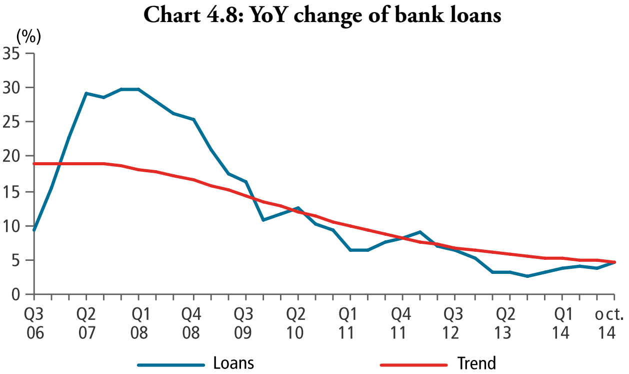
By institutional sector, loans to public nonfinancial corporations improved in October by 5.9 percent, after a decline of 3 percent on average in the third quarter. Similarly, the growth of loans to financial

Chart 4.7: YoY change in the major M3 components



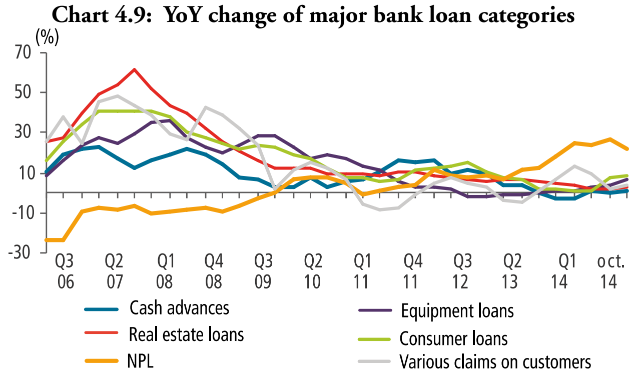
Source : BAM.

Chart 4.8: YoY change of bank loans



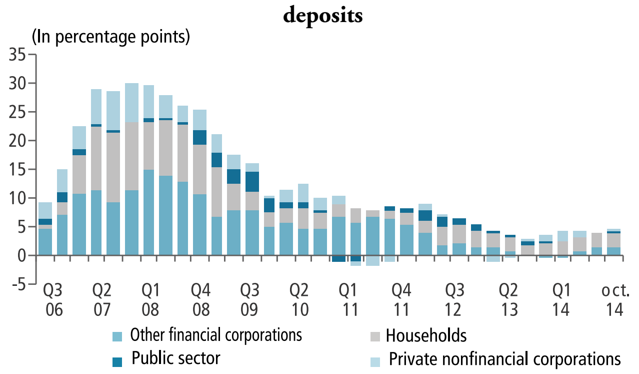
Source : BAM.

Chart 4.9: YoY change of major bank loan categories



Source : BAM.

Chart 4.10: Institutional sectors' contribution to YoY change of deposits



Source : BAM.

companies accelerated from 0.9 percent to 4.6 percent. In contrast, the growth of loans to the private sector registered a slight slowdown from 4.6 percent in the third quarter to 4.5 percent. This change covers a deceleration from 7.5 percent to 7.1 percent in loans to households and an acceleration from 2.7 percent to 3 percent in those granted to private companies.

BAM's lending conditions survey indicate slightly tighter supply conditions in the third quarter 2014, compared to the second quarter. This tightening would have affected loans to real estate development and, to a lesser extent, those allocated to treasury finance. Concerning individuals, banks would have tightened lending criteria for housing loans and relaxed conditions for consumer loans. Credit demand would have increased according to banks, due to higher demand from individuals, while demand from companies would have stagnated compared to the previous quarter.

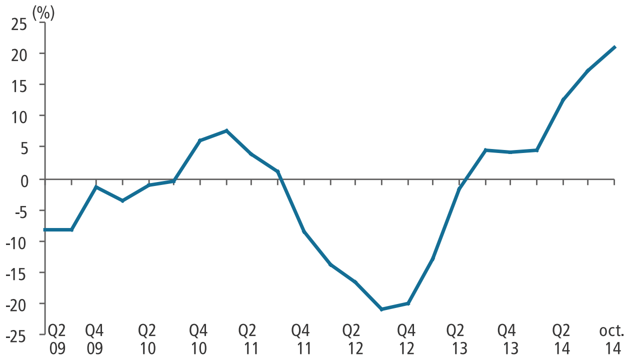
In addition, loans granted to nonfinancial sectors by other financial companies, not included in the monetary analysis, decreased in the third quarter 2014 by 0.5 percent after rising 2.4 percent a quarter earlier. In particular, the growth of loans accorded by finance companies, which account for 81 percent of total outstanding loans, slowed from 2.0 percent to 0.2 percent, quarter on quarter. By credit purpose, consumer loans recorded a decrease of 12.9 percent, more marked than 0.6 percent registered a quarter earlier. In contrast, the leasing growth accelerated from 0.1 percent to 0.7 percent, and the growth of factoring loans improved from 25.5 percent to 57.6 percent.

Other sources of money creation

Net international reserves grew by 21.3 percent in October from 17.2 percent on average in the third quarter, mainly reflecting an improved growth of direct investment flows.

Net claims on central government contracted by 13.4 percent in October, as against 12.8 percent in the previous quarter. This change is particularly attributed to a 7.2 percent decline in Treasury bills held by banks, after rising 2.3 percent in the third quarter and a further decrease in money market fund shares/units from 34 percent to 53.2 percent. However, the outstanding liabilities of other depository institutions fell from 27.2 to 13.3 billion dirhams.

Chart 4.11: Annual growth of net internationales reserves



Source : BAM.

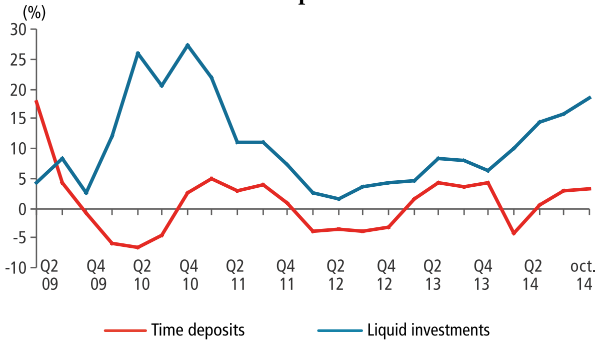
of other depository institutions fell from 27.2 to 13.3 billion dirhams.

Liquid investments

In October 2014, investment aggregates grew by 18.5 percent, year on year, as against 15.8 percent in the third quarter. This improvement was observed in all categories of liquid investments.

Indeed, the annual growth of securities included in the LI1 aggregate moved up from 11.5 percent to 13.2 percent, mainly in connection with a faster growth from 11.9 percent to 13.7 percent in outstanding negotiable Treasury bonds. Similarly, shares/units of bond fund included in the LI2 aggregate rose by 28.7 percent from 25.7 percent in the previous quarter, mainly owing to an increase in net asset value due to lower Treasury bond yields in the secondary market. Equity and diversified fund shares/units, which constitute the LI3 aggregate, grew by 24.7 percent in October, from 14.9 percent in the third quarter 2014, primarily reflecting changing prices at Casablanca Stock Exchange.

Chart 4.12: YoY change in liquid investments and time deposits



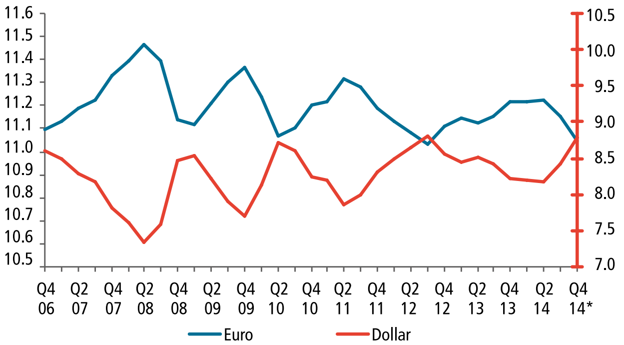
Source : BAM.

Exchange rate

Compared to the third quarter, the national currency appreciated by 0.97 percent on average in October and November against the euro, while it depreciated by 4.17 percent vis-à-vis the US dollar.

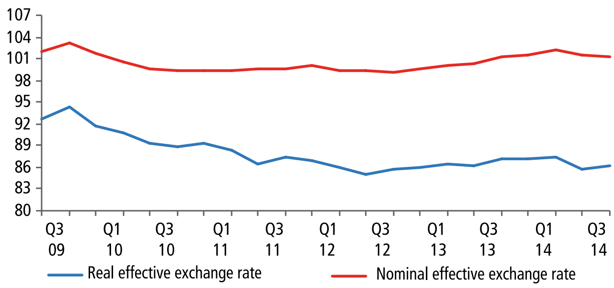
The dirham's effective exchange rate, calculated based on the bilateral exchange rates with Morocco's major trading partners and competitors, depreciated by 0.21 percent in the third quarter, in nominal terms and appreciated by 0.4 percent in real terms, due to the inflation rate of Morocco which was broadly higher than that of partners and competitors.

Chart 4.13: Exchange rate of the dirham



** Observation of the fourth quarter of 2014 corresponds to the arithmetic average from October 1st to November 25, 2014.*
Source : BAM.

Chart 4.14: Real and nominal effective exchange rate (100=2000)



Sources: IMF and BAM calculations.

4.2. Asset prices

4.2.1 Real estate assets

Quarter on quarter, the Real Estate Price Index rose by 1.4 percent after a 1 percent decline in the second quarter 2014. This change is due to respective increases of 4.3 percent and 0.8 percent in land prices and commercial property ones, after respective declines of 3 percent and 2.5 percent a quarter earlier. Residential property prices dropped by 0.2 percent after increasing by 0.4 percent. Meanwhile, the number of transactions fell by 15.1 percent after rising 18.4 percent in the second quarter of 2014. This decline affected all asset categories with rates of 16.2 percent for residential property transactions, 16.4 percent for commercial property ones and 9.8 percent for urban land transactions, after respective increases of 25 percent, 1 percent and 2.3 percent.

Year on year, the REPI was up 1 percent after falling 2.7 percent in the previous quarter, in conjunction with increases of 3.4 percent in urban land prices after an 8.4 percent decrease in the previous quarter, and 2.6 percent in commercial property prices as against 3.3 percent. Residential property prices did not change significantly for the second consecutive quarter. The volume of transactions rose by 9.3 percent, reflecting increases of 11.8 percent for residential property transactions, 6.9 percent for commercial ones and 1.1 percent for land transactions.

4.2.2 Financial assets

4.2.2.1 Shares

At the end of the third quarter of 2014, the MASI rose by 9.3 percent from one quarter to another, showing a performance of 10.6 percent since the beginning of the year. This trend continued in October bringing

Chart 4.15: Change in real estate price index

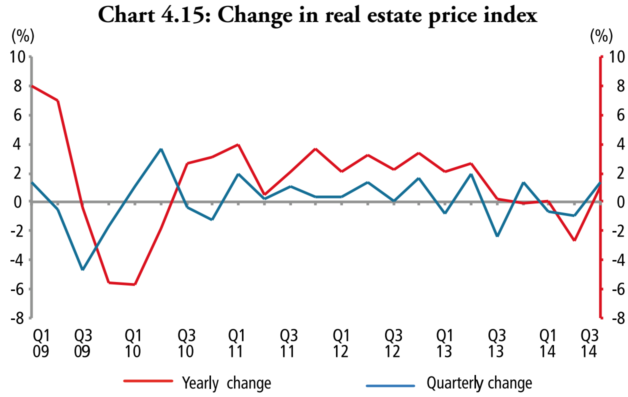
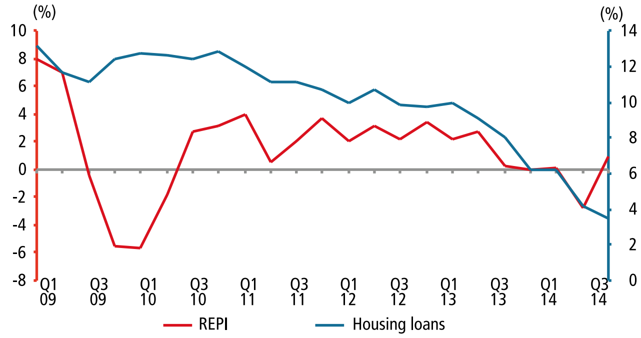


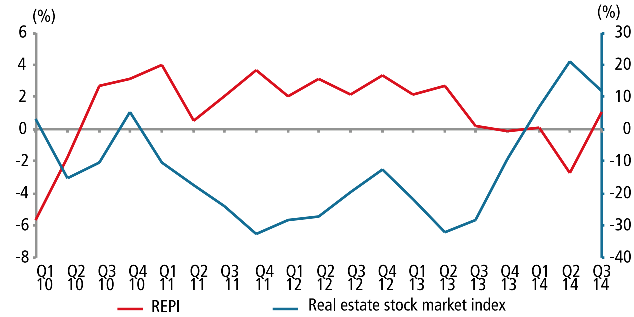
Chart 4.16: YoY change in the REPI and housing loans*



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

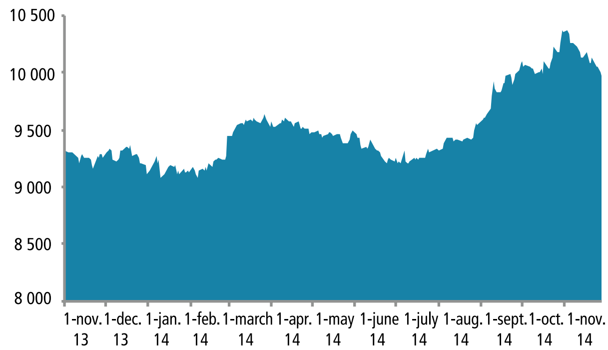
Sources: BAM, ANCFCG and Casablanca stock exchange.

Chart 4.17: YoY change in the REPI and the real estate Stock market indexes



Source: Casablanca stock exchange.

Chart 4.18:Daily change in MASI



Source: Casablanca stock exchange.

the benchmark index to 9.5 percent despite the monthly decline of 3.6 percent recorded in November. This trend is mainly attributed to the performance of the sectors of "construction and building materials" (34.1 percent), "telecommunications" (19.8 percent) and "banks" (9.3 percent), which more than offset the underperformance of the "real estate" sector (-20.1 percent).

Against this backdrop, market capitalization rose by 9 percent from one quarter to the next, and 9.5 percent since the beginning of the year, standing at 493.9 billion dirhams, reflecting a price appreciation at Casablanca Stock Exchange.

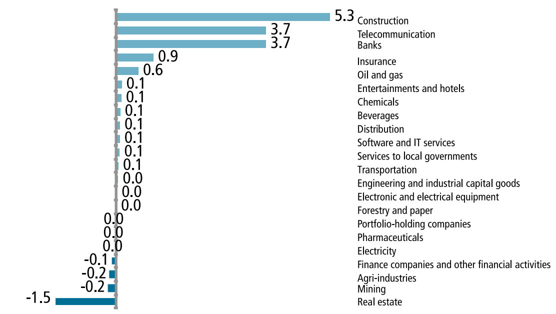
Regarding the valuation indicators of Casablanca Stock Exchange, the Price Earnings Ratio stood at 19.3 in November from 17.9 in the second quarter, while the Price to Book Ratio stood at 2.52 from 2.34.

As to stock market activities, the volume of transactions on the central market reached 5.9 billion dirhams in the third quarter from 4.9 billion a quarter earlier. This increase is particularly attributed to bond segment operations, with a total of one billion dirhams as against 520 million a quarter earlier.

In the block market, the trading volume over the same period stood at 2 billion dirhams, as against 3.4 billion recorded in the second quarter of the year.

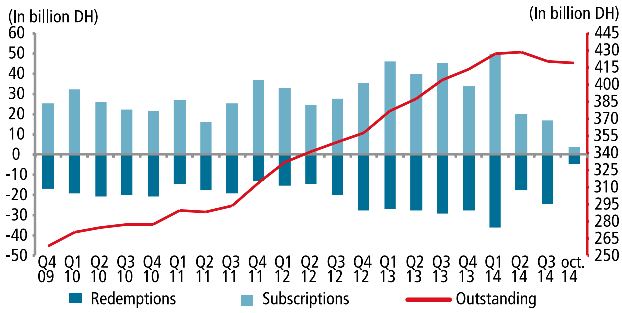
In total, the volume of transactions since the beginning of the year amounted to 36.4 billion dirhams, as against 43.9 billion over the same period of the previous year. This trend reflects a decline in the trading volume on the central market from 24.5 billion dirhams to 20.5 billion and on the block-trade market from 15 to 12 billion.

Chart 4.19: Contribution of sectoral indexes to MASI growth, in%



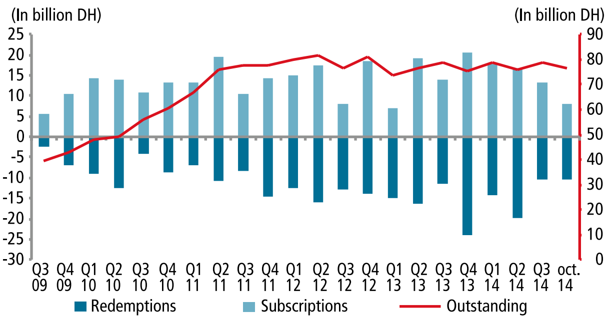
Source: Casablanca stock exchange.

Chart 4.20: Change in outstanding Treasury bonds



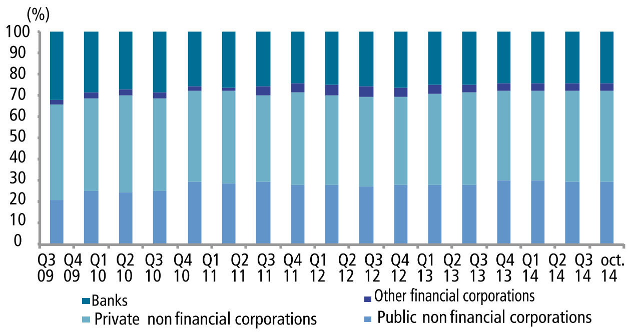
Source: Casablanca stock exchange.

Chart 4.21: Change in Treasury bonds outstanding amount



Source: Casablanca stock exchange.

Chart 4.22: Change in the structure of outstanding bonds by issuer (in%)



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

Sources: Datastream, CFG, and BAM calculations.

4.2.2.2 Debt securities

Treasury bonds

In the first ten months of the year, Treasury issues totaled 89.7 billion dirhams, as against 136.1 billion over the same period of 2013. The breakdown of these issues by maturity reveals that the Treasury has focused since the beginning of the year on medium and long terms, with respective shares of 41.1 percent and 53.9 percent. By maturity, these issues matched rates ranging from 3.10 percent to 3.30 percent for the short term, as against 3.80 percent to 4.17 percent a year earlier, from 3.54 percent to 4.06 percent for the medium term, as opposed to 4.51 percent to 4.86 percent and from 4.72 percent to 5.53 percent for the long term, as against 4.97 percent to 5.51 percent. Taking into account repayments of 83.9 billion dirhams, outstanding Treasury bills stood at 418.8 billion dirhams at the end of October, up 1.4 percent since the beginning of 2014.

Debt securities

At the end of October 2014, bond issues totaled 11.3 billion dirhams, up 6.8 billion from one year to another. 38.9 percent of these issues were performed by private nonfinancial corporations and 48.3 percent by public nonfinancial companies. Taking into account repayments, outstanding bond issues virtually stagnated, since the beginning of the year, at 91 billion dirhams, including 42.3 percent issued by private companies, 29.6 percent by public institutions and 24.3 percent by banks.

Issues of other debt securities totaled 56.1 billion dirhams in the first ten months of the year, from 47.3 billion a year earlier. Issues of certificates of deposit reached 40.1 billion dirhams, showing a virtual stagnation compared to the same period of 2013 and focused on short and medium-term maturities, with average rates ranging between 3.37 percent and 4.38 percent.

Meanwhile, finance companies have issued since the beginning of the year bills amounting to 6 billion with rates between 3.84 percent and 4.51 percent, after almost no issues over the same period of the previous year. As to commercial paper, emissions totaled 10 billion dirhams, with rates ranging from 4.63 percent to 5.29 percent.

Taking into account repayments of 54.8 billion dirhams, outstanding negotiable debt securities reached 76.5 billion dirhams, up 1.8 percent compared to the end of December.

4.2.2.3 Mutual funds

The latest data released by the Transferrable Securities Board (CDVM)[1] indicate that subscriptions to mutual fund shares/units amounted to 370.9 billion dirhams since the beginning of the year, as against 401.6 over the same period a year earlier, with a share of 69 percent in money market fund shares/units and 24 percent in bond fund shares/units. Meanwhile, redemptions reached 330.6 billion dirhams from 426.2 billion over the same period of 2013.

Taking into account an overall performance of mutual funds of 8.4 percent, net assets appreciated by 16.9 percent to 287.1 billion dirhams. This rise is mainly attributed to the year-to-date respective increases of 27.8 percent and 36 percent in net assets of bond and diversified funds, which more than offset the decrease of 7.1 percent in money market funds.

1 UCITS data as at November 14, 2014.

5. RECENT INFLATION TRENDS

October data on consumer price trends indicate that inflation remains relatively low for the eleventh consecutive month. Indeed, it stood at 0.6 percent in October and 0.2 percent on average over the first three quarters of the year, as against 1.9 percent in 2013. This trend is attributable to a year-to-date decline of 6.6 percent in volatile food prices as against an increase of 3.3 percent in 2013, as well as to a fall from 1.5 to 1.1 percent in core inflation. By component, this trend covers a stable inflation of tradables (CPIXT) at 1.2 percent, amid continued disinflationary trend in Morocco's main trading partners, and a lower inflation of nontradables (CPIXNT) from 1.7 percent in 2013 to 0.9 percent in the first ten months of 2014.

Moreover, in a context of falling world commodity prices, industrial producer prices continued the decline that began early last year, down 2.7 percent in October after dropping 3 percent in September.

5.1 Inflation trends

Inflation, as measured by the change in the consumer price index, has been impacted since the beginning of the year by the change in volatile food prices and the repricing of certain administered products, in a context of weak external inflationary pressures. Thus, after standing at 0.1 percent in September and 0.2 percent on average in the first nine months of the year, it reached 0.6 percent in October, mainly in connection lesser decline in volatile food prices from 8.2 to 4.9 percent, bringing their negative contribution to inflation from 1.1 to 0.7 percentage point. The decrease in the prices for this category of products eased from 55.7 to 44 percent for citrus fruit and from 7.1 to 4.6 percent for fresh vegetables, while prices of fresh fruit moved up by 0.3 percent after decreasing 6.3 percent a month earlier.

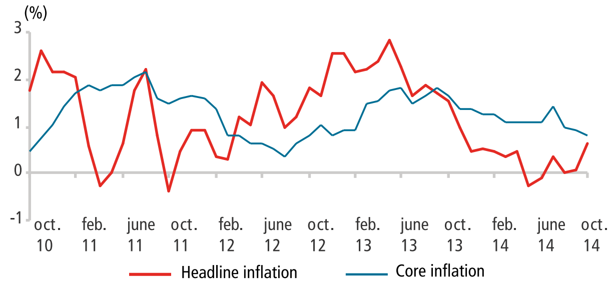
Prices of "fuels and lubricants" grew slightly to 5.6 percent from 5.2 percent, reflecting on the one hand the reduction of the per-unit subsidy on diesel and the depreciation of the national currency against the US dollar, and on the other hand the lower international prices of petroleum products. Inflation of other

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	Aug. 14	Sept. 14	Oct. 14	Aug. 14	Sept. 14	Oct. 14
Headline inflation	**0,6**	**0,1**	**0,6**	**0,0**	**0,1**	**0,6**
Including:						
- Volatile food products excluded from core inflation	1,8	-0,8	4,0	-9,9	-8,2	-4,9
- Fuels and lubricants	-2,1	0,0	-1,0	11,8	5,2	5,6
- Administered goods excluding fuels and lubricants	2,5	0,5	0,4	2,5	3,0	3,4
Core inflation	**-0,2**	**-0,2**	**0,0**	**1,0**	**0,9**	**0,8**
Including:						
- Food products	-0,3	0,1	0,0	0,3	0,4	0,4
- Clothing and footwear	0,1	0,1	0,2	2,1	1,8	1,7
- Housing. water. gas. electricity and other fuels*	0,1	0,1	0,0	1,5	1,3	1,1
- Furniture. household appliances and common house maintenance	0,1	0,0	0,0	0,9	0,8	0,8
- Health*	0,1	0,4	0,0	2,6	1,7	1,9
- Transportation*	-0,2	0,1	0,1	0,9	0,9	0,8
- Communication	0,0	0,0	0,0	0,0	0,0	0,0
- Entertainment and culture	0,0	0,0	0,0	-1,0	-1,1	-1,0
- Education	0,0	2,9	0,3	3,5	3,4	3,3
- Restaurants and hotels	0,2	0,2	0,1	2,1	2,3	1,9
- Miscellaneous goods and services	0,0	0,0	0,2	1,1	1,1	1,1

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

Chart 5.1: Headline inflation and core inflation, YoY

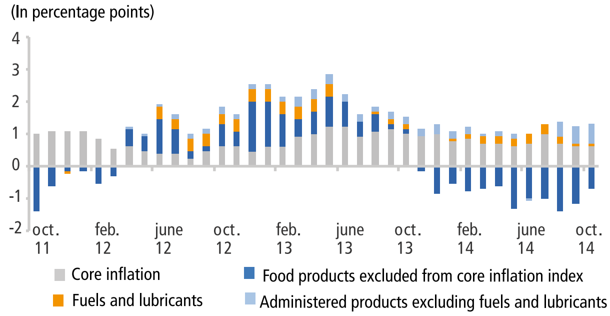


Sources: HCP, and BAM calculations.

administered products and services, which continues to be driven by the revisions of water and electricity prices, moved up from 3 to 3.4 percent in October. This acceleration was mainly due to a 3.9 percent increase in passenger road transport, from 1.5 percent a month earlier.

Excluding volatile food prices and administered products, the drop in some food prices, particularly "fresh meat" and "dried legumes", and the dissipated effect of higher "milk" prices contributed to the decline in core inflation in the last three months to 0.9 percent in September and 0.8 percent in October, while its contribution to inflation remained at 0.6 percentage point.

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



Sources: HCP, and BAM calculations.

Table 5.2: Domestic oil selling prices

Products (DH/Liter)	As from 16 sept. 14	1 oct. 14	16 oct. 14	1 nov. 14	16 nov. 14	1 dec. 14
Premium gasoline	13,06	12,87	12,80	11,97	12,05	11,78
Diesel 50	9,69	9,69	9,69	9,69	9,69	9,69
Industrial fuel (Dh/ Tonne)	5863	5787	5653	5027	4943	4 602

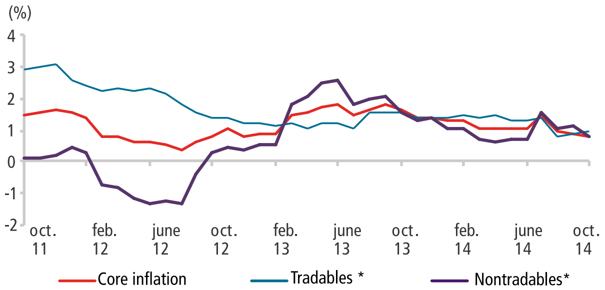
Source : Ministry of Energy and Mining.

5.2 Tradable and nontradable goods

Price trend analysis by the tradable (CPIXT) and nontradable (CPIXNT) components of the CPI reference basket shows that the year-on-year growth of prices of nontradables slowed down from 1.1 percent in September to 0.8 percent in October, and their contribution to the CPIX edged down from 0.5 to 0.4 percentage point.

Inflation of tradables remained virtually unchanged at 1 percent between September and October, with the same contribution to the CPIX at 0.5 percentage point. However, this change reflects divergent trends across components. While motor car prices slowed down between September and October, the prices of cereal-based products showed an acceleration. Meanwhile, other products, mainly oils, recorded similar price increases in the last two months.

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



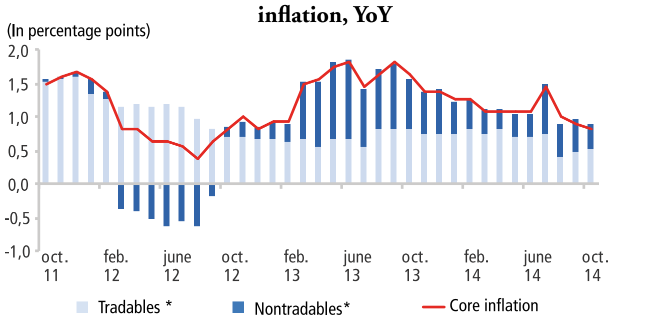
* *Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

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

	Monthly change (%) Aug. 14	Sept. 14	Oct. 14	YoY change (%) Aug. 14	Sept. 14	Oct. 14
Tradables*	-0,1	0,1	0,2	0,8	0,9	1,0
Nontradables*	-0,1	0,5	-0,1	1,0	1,1	0,8

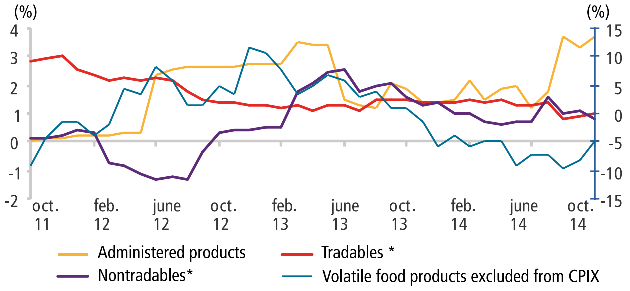
* *Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

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



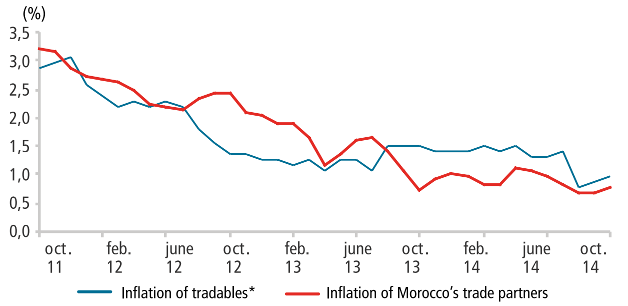
** Excluding volatile food products and administered goods.*
Sources: HCP, and BAM calculations.

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



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

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



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

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

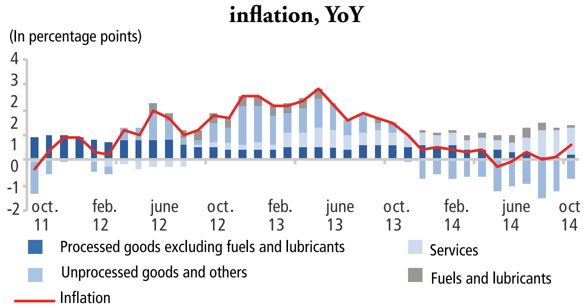
	Monthly contribution to inflation		Yoy contribution to inflation	
	sept. 14	oct. 14	sept. 14	oct. 14
Products excluded from core inflation index	0,0	0,6	-0,5	0,0
Including:				
Administered products	-0,1	0,5	-1,1	-0,7
Volatile food products	0,1	0,0	0,7	0,7
Tradables*	0,0	0,1	0,3	0,3
Nontradables*	0,1	0,0	0,3	0,3

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

5.3 Goods and services

The breakdown into goods and services indicates that the decline in prices of unprocessed goods eased from 5.1 percent to 3.4 percent, a trend that caused inflation to accelerate between September and October 2014. Their contribution to inflation increased from -1.2 percentage point in September to -0.8 percentage point in October. Prices of fuels and lubricants, albeit under slight acceleration from 5.2 to 5.6 percent, maintained their contribution to inflation at 0.1 percentage point. Services prices kept the same pace as in the previous month, or 3.2 percent, while the growth of prices of processed goods, excluding fuels and lubricants, moved up from 0.4 to 0.5 percent.

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



Sources: HCP, and BAM calculations.

Table 5.5: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	August 14	Sept. 14	Oct. 14	August 14	Sept. 14	Oct. 14
Processed goods*	0,1	0,2	0,2	0,4	0,4	0,5
Unprocessed goods and others	1,4	0,8	0,2	3,0	3,2	3,2
Services	0,5	-0,6	2,1	-6,4	-5,1	-3,4
Fuels and lubricants	-2,1	0,0	-1,0	11,8	5,2	5,6

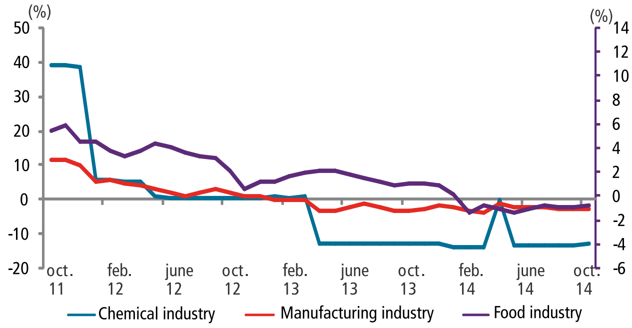
** Excluding fuels and lubricants.*
Sources: HCP, and BAM calculations.

5.4 Industrial producer price index

Industrial producer price index showed a monthly decline of 0.2 percent in October

2014 as against 0.1 percent a month earlier. This trend is mainly due to the further decline of 2.4 percent in "coke and refining" prices from 1.1 percent in the previous month. This decrease more than offset respective increases of 0.4 percent and 0.2 percent in "chemicals" and "food industries". Year on year, industrial producer price index continued to trend downward with a rate of 2.7 percent in October from 3 percent in September, in conjunction with respective decreases of 12.9 percent and 6.4 percent in producer prices of "chemicals" and "coke and refining" sectors.

Chart 5.8: YoY **change in industrial producer price indexes**

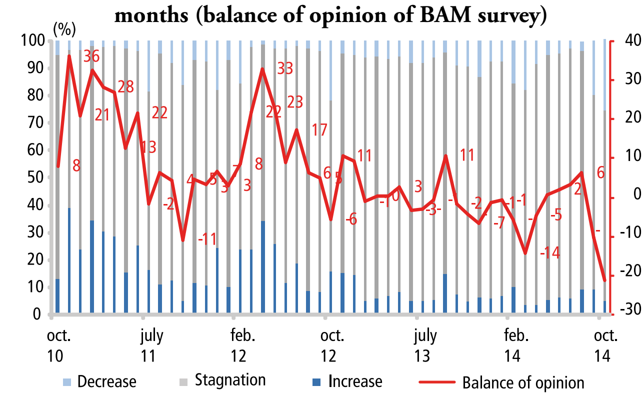


Sources: HCP, and BAM calculations.

5.5 Inflation expectations

The findings of BAM's business survey for October 2014 indicate that industrial producer prices would be tilted to the downside over the next three months. Indeed, 26 percent of corporate managers expect lower prices, while 5 percent of them project an increase, with an opinion balance of -21 percent as against -10 percent a month earlier (Chart 5.9). The remaining 70 percent of respondents expect stagnant prices of these products.

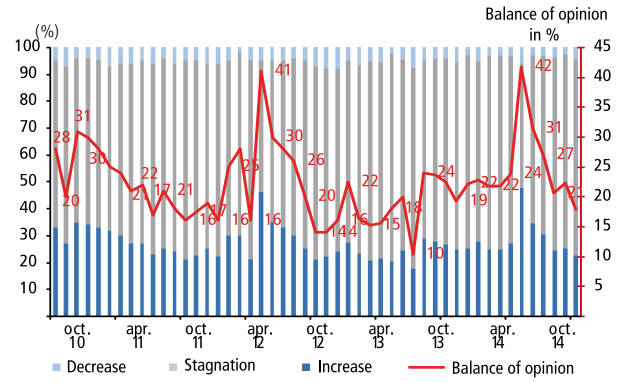
Chart 5.9: Trend in industrial producer prices in the next three months (balance of opinion of BAM survey)



Source: BAM monthly business survey.

The survey also points to an increase in inflation over the next three months. Thus, the percentage of corporate managers expecting stagnant inflation stood at 73 percent in October, while 23 percent of them forecast an acceleration of the general level of prices over this period and 5 percent expect a decrease in inflation, with a balance of opinion of 18 percent as against 22 percent a month earlier (Chart 5.10).

Chart 5.10: Corporate managers' inflation expectations for the three coming months



Source: BAM monthly business survey.

Moreover, the findings of BAM's quarterly survey on inflation expectations for the fourth quarter 2014 show that financial sector experts predict a decline from 2 to 1.8 percent in inflation during the next six quarters.

6. INFLATION OUTLOOK

This section presents the inflation trend deemed most probable (central forecast) over the next six quarters and examines the major risks associated thereto (balance of risks). The baseline forecast scenario depends on the assumptions and developments considered for a series of variables affecting economic activity and inflation. This scenario takes into account the diesel subsidy withdrawal as well as the new billing terms and pricing provisions for electricity, drinking water and sanitation provided for at the Official Gazette No. 6275a. Assuming the non-realization of the major risk factors identified, inflation over the next six quarters would average around 1.2 percent, a level below the average rate provided in the previous MPR. In 2014, inflation is expected to be around 0.4 percent, while, in 2015, it should average around 1.2 percent. For this forecasting exercise, the balance of risks is broadly neutral. Externally, risks are associated with uncertainties surrounding changes in international energy commodity prices and a lower-than-expected growth in key partner countries. Internally, they come from more pronounced-than-expected possible effects of increases in the minimum wage, as well as oil, electricity and drinking water prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

In conjunction with the gradual dissipation of temporary constraints and low impacts of geopolitical tensions in Eastern Europe and the Middle East on commodity prices and financial markets, global economic activity continues to post positive growth rates. However, the growth profile remains mixed depending on the results of the economic stimulus and on the constraints specific to each country. Indeed, among advanced economies, growth in the United States and the United Kingdom, in particular, showed a positive momentum, supported by the easing of fiscal adjustment and the continued broadly accommodative monetary policies in a context of deceleration of the private sector deleveraging process. However, a slight recovery was registered in the euro area, hampered by a persistently high unemployment, a significantly unused productive capacity, and the process of restoring fiscal sustainability. In major emerging economies, while the efforts made by the governments of China and India helped to maintain growth high, the situation in some countries (especially Brazil) remains mixed, particularly due to tighter financial conditions and worsening domestic and external imbalances.

Detailed analysis shows that economic growth in the euro area stood at 0.8 percent in the third quarter of 2014, a rate similar to that observed in the quarter before. This performance reflects a further recovery of the Spanish economy (1.6 percent in Q3 from 1.2 percent in Q2) and an improvement of economic activity in France, albeit moderate (0.4 percent in Q3 from 0 percent in the Q2), while growth in Germany posted a slight decline (1.2 percent in Q3 from 1.4 percent in Q2) and recession continued in Italy (-0.5 percent in Q3 from -0.4 percent in the Q2).

The continued growth in the euro area was mainly attributed to the relatively favorable momentum of consumption, while investment and trade showed mixed trends. Thus, household spending continued increasing in the third quarter of 2014, as evidenced by the growth in the volume of retail sales and new car registrations. In contrast, the industrial production of capital goods (leading indicator of the future development of non-construction investment) was down in the third quarter of 2014, thus confirming the trends provided in the European Commission's survey and the purchasing managers index. Moreover, recent data on the construction sector show contrasted trends. On the one hand, the purchasing managers index about this activity dropped, a trend also traced by the European Commission's indicator on confidence in the sector, which stood below its long-term trend. On the other hand, the performances point to a slight improvement in construction output in the third quarter of 2014 after its decline in the second quarter. The contribution of foreign trade in the euro area to growth would be negative in the third quarter, in line with a more dynamic increase in imports compared to exports.

The latest statistics on the labor market show that unemployment rate stabilized at 11.5 percent in the euro area between September and October, a still high level, albeit slightly down from the peak of 12 percent recorded in the second quarter of 2013. This change reflects stagnation in France (10.5 percent in September and October), a slight decline in Germany (4.9 percent in October from 5 percent in September) and Spain (24 percent in October from 24.1 percent in September) and an increase in Italy (13.2 percent in October from 12.9 percent in September).

In this context, inflation continues to show low levels in the euro area, stagnating at around 0.3 percent between September and November. This trend reflects a significant decline in oil prices internationally and moderate prices of manufactured products, which more than offset the rise in food and services prices.

As to the American economy, after a growth of 2.6 percent in the second quarter of 2014, activity still shows a positive trend in the third quarter and should grow by 2.4 percent. This momentum is particularly supported by the strong domestic demand, thanks to the weaker cost of borrowing, lower gasoline prices and improved conditions in the labor market. In addition, foreign trade contributed positively to growth in the third quarter, due to a sharp rise in exports and to imports compression, thus marking a break with the trends registered early in the year.

The good performance of the U.S. economy continues to benefit the labor market, which has confirmed its recovery since several months. Thus, unemployment rate fell again in the United States from 5.9 percent in September to 5.8 percent in October. Moreover, recent surveys showed that improvements in the labor market concerned both workers employed for half-time due to economic reasons and the long-term unemployed. In this context, unemployment insurance claims stagnated at a relatively low level.

Inflation in the United States decreased from 2.1 percent in June to 1.7 percent in October. This trend is attributed to a significant decline in energy prices, which moderated the increase in food and services prices.

Taking into account all these developments, the IMF, in its update of October, projects a growth of 0.8 percent in 2014 and 1.3 percent in 2015 for the euro area. For the United States, it anticipates a growth of 2.2 percent and 3.1 percent in 2014 and 2015, respectively. Compared with MPR of September, growth forecasts for the euro area were revised downwards (rates of 1.1 percent and 1.5 percent were expected for 2014 and 2015), while those of the U.S. economy improved (rates of 1.7 percent and 3 percent were projected for 2014 and 2015).

Downside risks to the economic outlook intensified relatively since the last quarter. In the short term, the persistence of the Ukrainian crisis and the escalating tensions in the Middle East still heighten the fears about a significant increase in energy prices and a sharp drop in prices of financial assets, which would involve further negative interactions with the real economy. Similarly, a larger-than-expected increase in U.S. long-term interest rates, in line with the monetary policy normalization process, could cause a reversal of the recent moderation in risk premiums and increase financial markets volatility. In addition, the further decline in prices, especially in the euro area, fuels concerns about a sustainable low inflation in the case of adverse economic shocks. Finally, a lower-than-expected growth in emerging economies could negatively affect international trade.

In the medium term, a prolonged cycle of moderate economic growth could weaken the potential growth in advanced countries, due to lower investment, particularly in the areas of research and development, which determine to a great extent the capital stock and total factor productivity. In emerging countries, dithering on implementing the public policies likely to accommodate structural constraints that undermine potential growth, tighter international financial conditions and sluggish recovery in advanced countries could hamper economic growth in a sustainable manner.

Against this backdrop, the weighted average growth rates of Morocco's major trading partners (Germany, Spain, France, Italy and the United Kingdom) assumed in this forecasting exercise stand at 0.9 percent in 2014 and 1.3 percent in 2015. Compared with September MPR, the growth forecasts of Morocco's main partners were revised downwards in the light of recent developments in international conditions. For the record, these rates are calculated on the basis of an average weighted by these countries' respective shares in Moroccan foreign trade.

Regarding inflation forecasts, the Fed, in its Monetary Policy Bulletin of September, anticipates inflation to range between 1.5 percent and 1.7 percent in 2014 and between 1.6 percent and 1.9 percent in 2015. Meanwhile, the ECB, in its bulletin of November, expects inflation at 0.5 percent for 2014 and 1 percent for 2015, down from the previously reported levels. In the medium term, risks to inflation in the euro area are broadly tilted to the downside due to uncertainties surrounding the economic activity, commodity prices and a possible unanchoring of inflation expectations.

Under these conditions, non-energy import prices, included in the forecasting models developed by Bank Al-Maghrib, are expected to decline in 2014. In 2015, a virtual stagnation of import prices is projected in connection with uncertainties about the prospects for demand from emerging countries, major importing countries of non-energy commodity.

6.1.2 National environment

After a significant slowdown in 2014 due to the contraction of the agricultural value added and deceleration in domestic demand, the prospects for national economic growth indicate overall a positive trend in 2015. This change would be driven by the recovery of nonagricultural activities particularly due to the positive profile of the foreign demand for Morocco and the dissipation of the negative contribution of the agricultural value added.

Indeed, although the starting conditions of the crop year were marked by a delay in the rainfall, the cumulative rainfall recorded in November and the measures taken by the Department of Agriculture should facilitate the smooth running of this crop year. In this respect, markets were supplied by 1.9 million quintals of seeds and 1.23 million tonnes of fertilizers selected to meet the needs of farmers. It was also planned to extend the drip irrigation equipment program and agricultural multi-risk insurance to new crops to reach 1 million hectares at the end of 2015. Finally, the programs of soil analysis and fertility maps development were put in place to improve production and reduce costs.

In this perspective, an average cereal production of 68 million quintals for the current crop year is assumed in the central scenario.

Nonagricultural activities would show a positive trend in 2015. This momentum is attributed to the gradual recovery of phosphate activities and the anticipated recovery, albeit moderate, of economic activity in the euro area, which should support both industrial sectors and Morocco's new global business sectors. Indeed, at the end of October 2014, textiles and leather exports rose 3.5 percent and the automotive and electronics ones grew by 29.3 percent and 25.3 percent, respectively.

Domestic demand would be driven mainly by final household consumption, which should show a stronger profile due to the expected improvement in transfers from Moroccans living abroad, rural household income and monetary policy support.

With respect to investment, the state would continue to support economic activity with an investment spending planned in the Finance Bill amounting to 49.2 billion dirhams, or nearly 5 percent of GDP. Also, private investment should show a positive trend, as evidenced by the 6.8 percent increase in equipment loans, registered at end-October 2014.

In light of these developments, a nonagricultural GDP growth of 4.5 percent is assumed in this forecasting exercise. Overall growth should stand at 4.4 percent in 2015 as against 2.5 percent in 2014.

Regarding the labor market, the latest data for the third quarter of 2014 show a year-on-year rise in the national unemployment rate from 9.1 percent to 9.6 percent, up 0.5 percentage point. This change reflects increases from 14 percent to 14.5 percent in urban areas and from 3.7 percent to 4.1 percent in rural ones. Most jobs were created in the sectors of services, construction and industry with 60,000, 42,000 and 31,000 new jobs, respectively. However, the agricultural sector showed a loss of 75,000 positions.

Tensions in the labor market remain weak, as suggested by BAM's quarterly business survey. Indeed, manufacturers expect overall a virtual stagnation in the employed workforce in all industrial branches in the current quarter, with the exception of chemical and related industries, where an increase in the employed workforce is anticipated. Under these conditions and in accordance with the decisions taken by the government as part of the social dialogue, the central scenario of this forecasting exercise includes a 5 percent increase in the minimum wage in July 2015 after 5 percent in July 2014.

Also, in connection with the consolidation of supply, the reduced demand from emerging countries and the short-term easing of geopolitical tensions, the World Bank, in its October edition, revised down its forecasts for oil prices from $106 per barrel to $101.5 in 2014 and from $104 per barrel to $95.7 in 2015. The IMF, in its update of October, also anticipated a slight decline in oil prices in 2014 to $102.8 per barrel from $104 per barrel in the previous update. The forecast of 2015 remained virtually unchanged at $99.4 per barrel.

Thus, taking into account recent developments in energy markets and provisions of the indexation system, as provided for in the decree of the Head of Government No. 03.01.14 dated January 15, 2014, as well as subsidy spending planned in the Finance Bill 2015, the diesel price at the pump should increase slightly before stabilizing over the rest of the forecast horizon.

6.2 Inflation outlook and balance of risks

Assuming the non-materialization of the major risks described below, the central forecast for the next six quarters should stand at 1.2 percent, below the rate expected in the last MPR (1.6 percent). The inflation forecast shows for 2014 an average rate of 0.4 percent, lower than the rate reported in the MPR of September (0.7 percent). This revision is due to a significant drop in food prices in the third quarter of 2014. In 2015, inflation should stand at 1.2 percent, a level more moderate than that reported in the previous MPR (1.9 percent).

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

The balance of risks to the baseline scenario of this exercise is broadly balanced. Externally, the risks are associated with uncertainties surrounding international energy commodity prices and a lower-than-expected growth in key partner countries. Internally, they come from more pronounced-than-expected possible effects of the minimum wage increase, as well as of the higher oil, electricity and drinking water prices. The materialization of one or more of these risks could cause inflation to deviate from the central forecast, at a value in the forecast range presented in the fan chart (with a probability of 90 percent).

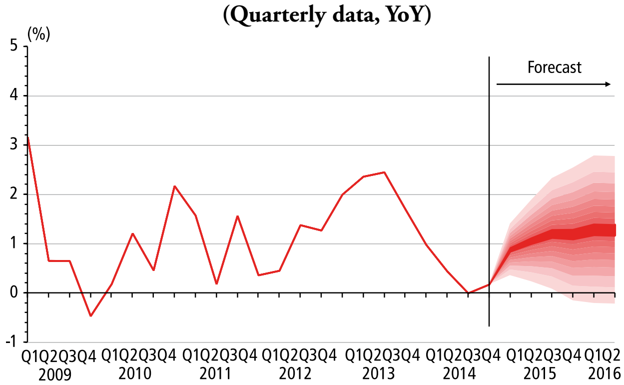
Table 6.1: Inflation outlook for 2014 Q4 –2016 Q1

	2014	2015				2016	Average		FH*
	Q4	Q1	Q2	Q3	Q4	Q1	2014	2015	
Central forecast (%)	0.9	1.1	1.2	1.2	1.3	1.3	0.4	1.2	1.2

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2014 Q4 – 2016 Q1
(Quarterly data, YoY)



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

بنك المغرب

بنك المغرب

Legal deposit: 2007/0033

BANK AL-MAGHRIB

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

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

www.bkam.ma