BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 37/ 2015

Document prepared for
the Bank Board
December 22, 2015

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بنك المغرب

LIST OF ABBREVIATIONS

ANCFCC	:	National Land Registry Office
APC	:	Cement manufacturers professional association
BAM	:	Bank Al-Maghrib
CFG	:	Casablanca Finance Group
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	:	Consumer Price Index
CPIX	:	Core inflation indicator
CPIXNT	:	Consumer price index of nontradables
CPIXT	:	Consumer price index of tradables
CUR	:	Capacity utilization rate
DAP	:	Diammonium Phosphate
DH	:	Dirham
ECB	:	European Central Bank
ESI	:	Economic Sentiment Indicator (Indicateur de climat économique)
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
MSCI EM	:	Morgan Stanley Capital International, Emerging Markets
NPL	:	Nonperforming loans
OCP	:	Office chérifien des phosphates (Moroccan Phosphates Office)
OECD	:	Organization for Economic Cooperation and Development
ONEE	:	Office national d'électricité (National Electricity Office)
OPEC	:	Organization of the Petroleum Exporting Countries
PER	:	Price Earning Ratio
PMI	:	Purchasing Managers Index
REPI	:	Real estate price index
SMIG	:	Salaire Minimum Interprofessionnel Garanti (minimum wage)
TSP	:	Triple superphosphate
QoQ	:	Quarter-on-quarter
YoY	:	Year-on-year
UCITS	:	Undertakings for collective investment in transferable securities
UPC	:	Unit production cost
VA	:	Value added

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 22, 2015

1. The Board of Bank Al-Maghrib held its last quarterly meeting of the year on Tuesday, December 22, 2015.

2. At this meeting, the Board reviewed recent economic, monetary and financial developments as well as inflation forecasts up to the first quarter of 2017.

3. Internationally, the Board noted that growth in the third quarter remained moderate in the advanced countries, particularly as year-on-year growth in the euro area stabilized over the previous quarter at 1.6 percent and the U.S. economy slowed down from 2.7 to 2.2 percent. In the labor market, unemployment continues to fall in the euro area but stays high, reaching 10.7 percent in October, while the momentum seen in the United States in recent months was sustained, with a stable rate at 5 percent and a robust job creation in November. In the major emerging economies, activity continues to slow in China and to shrink in Brazil and Russia, whereas India's growth continues to accelerate. Looking ahead, the IMF lowered in October its forecast for global growth to 3.1 percent in 2015 and 3.6 percent in 2016, with respective GDP increases of 1.5 percent and 1.6 percent in the euro area and 2.6 percent and 2.8 percent in the United States. In commodity markets, prices generally remained on a downtrend. In particular, the price of Brent averaged $45.1 per barrel in November, down 7.8 percent on a monthly basis and 43.1 percent on a yearly basis. Under these conditions, inflation remained low in developed countries, reaching in November 0.2 percent in the euro area and 0.5 percent in the United States, and is projected by the IMF to remain moderate in 2016. In this context, the ECB announced at its meeting of December 3 several measures to further ease monetary policy, particularly by lowering interest rate on the deposit facility to -0.30 percent, running its asset purchase program until March 2017 and extending it to other assets. In contrast, the Federal Reserve has started the gradual normalization of its monetary policy, raising on December 16 the target range for the federal funds rate by 25 basis points to 0.25-0.5 percent. However, it maintained its existing policy of reinvesting principal payments from its holdings of securities in order to ensure accommodative financial conditions.

   Overall, the outlook for the economy and inflation in major partner countries and the trend in energy prices indicate the absence of medium-term external inflationary pressures.

4. Nationally, second quarter data indicate a 4.3 percent expansion in GDP, mainly driven by a record cereal production. For the full year 2015, growth would reach 4.5 percent, with a 14.6 percent increase in the agricultural value added and a limited rise of nonagricultural GDP to 3.3 percent. For 2016, growth is revised downward to 2.1 percent, with a deceleration of its nonagricultural component to 2.7 percent and a contraction in the agricultural value added to 4.3 percent under the assumption of a moderate cereal output. In the labor market, despite a decrease by 0.3 point in the labor force participation rate in the third quarter, unemployment rate increased 0.5 point to 10.1 percent, as jobs created did not exceed 41,000. Overall, nonagricultural output gap is still negative and would remain so in the medium term, suggesting the absence of demand-driven inflationary pressures.

5. External accounts continued to improve, as the trade deficit narrowed by 19.7 percent year on year at end-November. This result is mainly due to a decline by 29 percent in the energy bill and an increase by 18.5 percent in shipments of the automotive industry and by 20.6 percent in phosphates and derivatives' exports. Expatriate remittances rose by 3.6 percent to 56.7 billion, while travel receipts dropped slightly by 0.9 percent to 54.7 billion. In light of these developments and on the basis of an average oil price of $52.5 per barrel in 2015 and $51.4 in 2016 and an estimated total amount of GCC grants of 4 billion dirhams in 2015 and 13 billion in 2016, the current account deficit is expected to reach 2.2 percent of GDP in 2015 and to ease further in 2016 to around 1 percent. Concerning financial account transactions, FDI inflows in the first eleven months of the year amounted to about 34 billion dirhams, up 6.8 percent on an annual basis. Under these conditions, foreign exchange reserves rose

23.9 percent to 220.8 billion at end-November, the equivalent of 6 months and 26 days of goods and services' imports. They are projected to further improve to ensure coverage of almost 7 months of imports at end-December 2015 and nearly eight months at end-2016.

6. Regarding public finances, current expenditures fell 6.7 percent, reflecting mainly a decrease by 59.1 percent in subsidy costs to 12.8 billion, while investment rose 1.8 percent to 47.1 billion dirhams. Meanwhile, current revenues fell 2.5 percent, primarily because of a decline in grants from partner GCC countries to about 2 billion dirhams at end-November as against 10.7 billion in the same period of 2014. Conversely, tax receipts improved by 2.3 percent, including a 9.3 percent rise in income tax revenues and a drop by 2.4 percent in corporate tax returns. Overall, fiscal deficit, excluding privatization receipts, stood at 37.8 billion, down 12.4 billion compared to the same period of 2014. Under these circumstances, the fiscal deficit would remain in line with the target of 4.3 percent of GDP at end-2015 and is expected, under the Finance Bill, to further narrow to 3.5 percent of GDP at end-2016.

7. On the monetary side, the annual growth rate of M3 stabilized at 5.6 percent in October, compared to its average in the third quarter. As a result, money gap was negative, suggesting the absence of inflationary pressures driven by monetary conditions. Bank credit growth slowed down from 1.8 percent on average in the third quarter to 0.7 percent in October, reflecting a further drop of loans to private nonfinancial corporations from 2.5 to 3.9 percent and an almost stagnant growth of loans to households at 3.6 percent. Taking into account these developments and the nonagricultural growth forecast, bank lending growth was revised down to 0.5 percent at end 2015 and is expected to improve to 3 percent in 2016. The weighted average interbank rate remained close to the key rate, averaging 2.51 percent in November. Regarding lending rates, BAM survey among banks for the third quarter indicates a new quarterly decrease in the overall lending rate by 26 basis points to 5.67 percent, including declines of 30 points in cash advances, 24 points in real estate loans and 10 points in consumer loans. Meanwhile, 6 and 12-month deposit rates fell from 3.71 percent on average in the second quarter to 3.66 percent in the third quarter. Finally, the effective exchange rate of the dirham appreciated 1.5 percent in real terms in the third quarter, due to a 0.9 percent rise in nominal terms and to a generally higher inflation rate in Morocco compared to its main partners and competitors.

8. In the assets' market, the Real Estate Price Index posted a quarterly decrease of 1.5 percent, including price declines of 1.1 percent in residential property, 2.4 percent in urban land and 1.3 percent in commercial properties. In the stock exchange market, the MASI lost 0.2 percent at end-November, compared to the end of the third quarter, steepening its year-to-date underperformance to 5.5 percent.

9. In this context, inflation, measured by the year-on-year change in the consumer price index, stood at 0.9 percent in November, down from 1.4 percent in October. This change results mainly from the slowdown in core inflation from 1.4 to 0.9 percent, primarily due to the dissipation of the impact of the rise in prices of cereal-based products in November 2014. The decline in inflation is also the result of the less rapid increase in volatile food prices from 6.3 to 4.7 percent. The decrease in fuel and lubricant prices slightly eased from -22.4 to -20.7 percent, while the rate of increase in prices of regulated goods excluding fuels and lubricants was essentially unchanged at 1.2 percent.

10. Based on all these elements, and considering the oil price projections and the liberalization of the domestic oil market, inflation is expected to average 1.6 percent in 2015, 1.2 percent in 2016 and 1.5 percent at the end of the forecast horizon (first quarter of 2017). However, these forecasts do not take into account the decision to remove sugar subsidy as of January 1st, 2016, whose upward impact on inflation would be 0.27 point in 2016 and 0.48 point in the first quarter of 2017.

11. Taking into account the inflation projection that is consistent with the objective of price stability and the uncertainties surrounding national but also international economic outlook, the Board decided to maintain the key rate at 2.5 percent, while keeping close attention to all these developments.

12. The Board also adopted the Bank's Strategic Plan 2016-2018, and examined and approved the budget for 2016.

13. The Board then reviewed and approved the strategic allocation of reserves management for 2016.

14. After reviewing the Audit Committee report, the Board approved the internal audit program for 2016.

15. Finally, the Board agreed on the following schedule for its meetings in 2016:

March 22

June 21

September 27

December 20

OVERVIEW

In the third quarter, global growth remained more subdued than expected. In advanced countries, growth decelerated to 2.2 percent in the United States, from 2.7 percent a quarter earlier, and from 2.4 to 2.3 percent in the United Kingdom. In the euro area, the recovery was still slow, as GDP grew by 1.6 percent for the second consecutive quarter. Similarly, the Japanese economy expanded from 0.7 to 1.7 percent, after contractions of 0.3 percent and 1.5 percent in the same quarters a year earlier, respectively. In emerging countries, the economic activity continued to decelerate overall, showing in particular a slowdown from 7 to 6.9 percent in China and a further GDP contraction of 4.5 percent in Brazil, while India's growth accelerated from 7.1 to 7.4 percent. Looking ahead, the IMF lowered in October its global growth prospects to 3.1 percent for 2015 and 3.6 percent for 2016, due to the continued economic slowdown in emerging and developing countries and the weak recovery in advanced countries. For the euro area in particular, projections were kept at 1.5 percent in 2015 and revised downward by 0.1 percentage point to 1.6 percent in 2016.

Labor market conditions continue to improve in advanced economies. The unemployment rate stabilized in the United States at 5 percent month on month in November, with a significant creation of 211,000 jobs, and declined slightly in the euro area to 10.7 percent in October, the lowest level since February 2012.

In stock markets, developed countries' indexes appreciated overall in November, with monthly increases of 5 percent in the EUROSTOXX50, 3.2 percent in Dow Jones and 6.4 percent in NIKKEI 225. In contrast, in emerging economies, the MSCI EM fell by 1.5 percent, mainly reflecting respective declines of 0.4 percent and 5.7 percent in China's and India's indexes. In bond markets, sovereign yields were up in advanced economies, as 10-year yields rose from 0.5 percent in October to 0.6 percent in November in Germany, from 0.8 to 0.9 percent in France and from 2.1 to 2.3 percent in the United States. Annual growth in bank lending accelerated from 7.1 percent in September to 7.4 percent in October in the United States and from 0.6 to 1 percent in the euro area.

In currency markets, the euro depreciated markedly in November, losing 4.6 percent against the dollar to 1.07 dollar on average, 3.6 percent versus the pound sterling and 2.5 percent against the yen. In emerging markets, the Brazilian real appreciated by 2.5 percent against the dollar, while the Indian rupee and Chinese yuan depreciated by 1.7 percent and 0.3 percent, respectively.

In commodity markets, prices were down in November. The Brent price averaged $45.1 per barrel, down 7.8 percent month on month and 43.1 percent year on year. For non-energy commodities, the base metals index fell by 7.4 percent in November, steepening its year-on-year decline to 29.8 percent. Similarly, the agricultural commodity index edged down by 1.7 percent compared to October and 12.7 percent from the previous year. Despite a 2.4 percent monthly increase, durum wheat prices in particular fell sharply by 31.6 percent compared to the same month of the previous year, reaching $176.9 per tonne. Phosphate prices registered a year-on-year increase of 7 percent for crude phosphate to $123 per tonne, but were down for derivatives, with declines of 8.1 percent for DAP to $416 per tonne and 6.2 percent for the TSP to $380 per tonne.

Under these conditions, inflation remained very low in advanced economies, moving up from 0.1 percent in October to 0.5 percent in November in the United States and from -0.1 to 0.1 percent in the United Kingdom. In the euro area, inflation edged up from 0.1 to 0.2 percent in November. In terms of outlook, the IMF in October expected inflation in the euro area to stand at 0.2 in 2015 and 1 percent in 2016 and in the United States at 0.1 percent and 1.1 percent, respectively.

Against this backdrop, the ECB, at its meeting of December 3, announced several measures to strengthen its accommodative monetary policy. It lowered the deposit facility rate by 10 basis points to -0.30 percent, extended its asset purchase program (APP) to run until March 2017 instead of September 2016 and expanded it to other securities. The ECB also decided to reinvest the principal payments on the securities purchased under the APP as they mature and to continue conducting its main refinancing and longer-term operations as long as necessary. The Fed decided, at the meeting of its Monetary Committee on December 16, to raise its policy rate by 25 basis points to a range of 0.25 percent to 0.5 percent.

All these developments indicate continued absence of medium-term external inflationary pressures.

Nationally, GDP growth reached 4.3 percent in the second quarter 2015, due to a 14.9 percent increase in the agricultural value added and a limited 3 percent rise in nonagricultural GDP. For the full year 2015, growth forecasts were revised down to 4.5 percent from the 4.6 percent published in the Monetary Policy Report (MPR) of September, mainly reflecting a slight downward adjustment of its agricultural component. For 2016, the growth forecast was lowered from 2.4 to 2.1 percent, covering a revision from 3.3 to 2.7 percent for nonagricultural GDP and from -6 to -4.3 percent for agricultural added value, while maintaining the assumption of an average cereal production.

In the labor market, third quarter data show a decline of 0.3 point in the participation rate and a limited creation of 41,000 jobs, including 27,000 positions in services, 25,000 in construction and 16,000 in industry, while the agricultural sector lost 27,000 jobs despite a bumper crop year. Under these conditions, the unemployment rate rose from 9.6 to 10.1 percent, with an increase from 14.5 to 15.1 percent in urban areas and from 4.1 to 4.3 percent in rural ones.

Based on all these elements, the nonagricultural output gap is still negative and should remain so in the medium term, suggesting the absence of demand-led inflationary pressures.

In terms of external accounts, end-November data indicate further easing of the trade balance deficit. It was down 19.7 percent, mainly owing to a 29 percent decline in the energy bill, a continued uptrend of exports of phosphates and derivatives, which increased by 20.6 percent, and an 18.5 percent increase in shipments of automotive industry. Regarding other items of the current account, remittances from Moroccan expatriates rose 3.6 percent to 56.7 billion, while travel receipts were slightly down by 0.9 percent to 54.7 billion. Based on these developments and assuming an average oil price of $52.5 per barrel in 2015 and $51.4 in 2016, as well as GCC donations at 4 billion in 2015 and 13 billion in 2016, the current account deficit should stand at 2.2 percent of GDP in 2015 and narrow further to 1 percent in 2016. Regarding financial transactions, FDI inflows in the first eleven months of the year reached 33.9 billion, showing an annual increase of 6.8 percent. Under these conditions and given the trend of other financial account components, international reserves strengthened by 23.9 percent to 220.8 billion at end-November and should improve further to equal 6 months and 24 days of goods and services' imports at end-December 2015 and 7 months and 27 days in late 2016.

Concerning public finances, budget execution in the first ten months of 2015 resulted in a deficit of 31.7 billion, excluding privatization, down 13.3 billion compared to the same period of 2014. Current receipts fell 2.7 percent, covering a 1.1 percent increase in tax revenues and a 28.4 percent decrease in nontax receipts, mainly in connection with lower donations from GCC partners, whose amount fell back from 9.7 billion to 1.7 billion at end-October 2015. At the same time, current expenditure dropped by 7.3 percent, mainly due to a 58.9 percent decrease in subsidy costs to 11.7 billion, whereas investment spending rose 1.8 percent to

42.6 billion dirhams. Taking account of these developments, the budget deficit should stand at 4.3 percent at end-2015 and should, based on the Finance Bill 2016, decline further to 3.5 percent at end-2016.

On the monetary side, the M3 annual growth remained almost unchanged in October at 5.6 percent compared to its average in the third quarter, thus maintaining the monetary gap negative and suggesting the absence of monetary inflationary pressures. The annual growth of bank lending moved down to 0.7 percent from 1.8 percent on average in the third quarter, reflecting a steeper decline in loans to private nonfinancial corporations from 2.5 to 3.9 percent and a virtual stagnation in the growth of loans to households at 3.6 percent. Considering these data and the revision of nonagricultural growth forecasts, the bank lending growth outlook was revised down to 0.5 percent at end-2015 and to 3 percent in 2016. Regarding monetary conditions, the interbank rate remained aligned with the key rate and the average rate of 6- and 12-month deposits decreased from 3.71 percent in the second quarter to 3.66 percent in the third quarter. Lending rates decreased during the same period by 26 basis points on average, from 5.93 to 5.67 percent, with decreases of 30 points in cash advances, 24 points in real-estate loans and 10 points in consumer loans. The dirham's effective exchange rate appreciated in the third quarter by 1.5 percent in real terms, reflecting an appreciation of 0.9 percent in nominal terms and an inflation in Morocco broadly higher than that of key partner countries and competitors.

In the assets market, real estate prices showed a new quarterly decrease of 1.5 percent, with declines of 1.1 percent in residential property prices, 2.4 percent in urban land ones and 1.3 percent in commercial property prices. In the stock market, the MASI fell slightly in November by 0.2 percent compared to end-September, bringing its year-to-date underperformance to 5.5 percent. The trading volume stood at almost 3 billion in November, representing a cumulative amount of 31.8 billion since the beginning of the year, as against 36.4 billion a year earlier.

Against this backdrop, inflation, as measured by the change in the consumer price index, stood at 1.4 percent in October, from 1.9 percent on average in the third quarter. This change primarily reflects a further decline in prices of fuels and lubricants and the dissipated effect of the first increase in water and electricity prices. It is also attributable to a slower increase from 7.1 to 6.3 percent in food volatile prices. Core inflation remained stable at 1.4 percent, covering a slight increase in inflation of nontradable goods from 1.3 percent to 1.4 percent and a decline in that of tradable goods from 1.6 percent to 1.5 percent. Meanwhile, manufacturing industrial producer prices showed a further decline of 5.3 percent in October, as opposed to 5.5 percent in September.

Based on all of these developments and taking into account oil price projections and domestic oil market liberalization, inflation should average 1.6 percent throughout 2015, 1.2 percent in 2016 and 1.5 percent at the end of the forecast horizon (the first quarter of 2017). However, these forecasts do not take into account sugar non-subsidies to be implemented as of January 1, 2016. The impact of the latter is estimated at 0.27 additional point of inflation in 2016 and 0.48 point in the first quarter of 2017.

1. AGGREGATE SUPPLY AND DEMAND

In the second quarter of 2015, national growth stood at 4.3 percent from 2.6 percent in the same period last year, thanks to an expansion of 14.9 percent in the agricultural value added. However, nonagricultural growth decelerated to 3 percent from 3.4 percent. In the third quarter, domestic growth should improve to 4.7 percent, driven by increases of 15.7 percent in the agricultural value added and 3.2 percent in nonagricultural growth. Throughout 2015, the growth forecast was slightly revised downward to 4.5 percent from 4.6 percent as reported in the MPR of September. In 2016, nonagricultural GDP is expected to slow to 2.7 percent from 3.3 percent in 2015, as subsidy costs should remain at a level close to that expected in 2015. The agricultural value added is expected to fall to 4.3 percent, assuming an average cereal production, thus bringing GDP growth to 2.1 percent from 2.4 percent as stated in September.

1.1 Output

Driven by an improvement of 14.9 percent in the agricultural value added, national growth stood at 4.3 percent in the second quarter of the current year, as against 2.6 percent in the same period of 2014. Meanwhile, nonagricultural activities continued to grow at a moderate pace of 3 percent.

In the third quarter, GDP would have grown by 4.7 percent, reflecting increases of 15.7 percent in the agricultural value added and 2.2 percent in nonagricultural activities. Taking into account taxes on products net of subsidies, growth of nonagricultural GDP would have stood at 3.2 percent. In the last quarter of the year, GDP should almost remain at the same pace of growth as in the third quarter, thus standing at 4.6 percent. This change reflects increases of 15.4 percent in agricultural activities and 3.1 percent in nonagricultural ones.

By sector, taking into account trends of the four quarters of the year, growth in the agricultural value added is projected at 14.6 percent, reflecting a record grain output of 115 million quintals, up nearly 13 percent compared to 2009 and 19 percent compared to 2013.

With regard to secondary activities, the value added of processing industries should grow by 1.2 percent, a rate lower than that

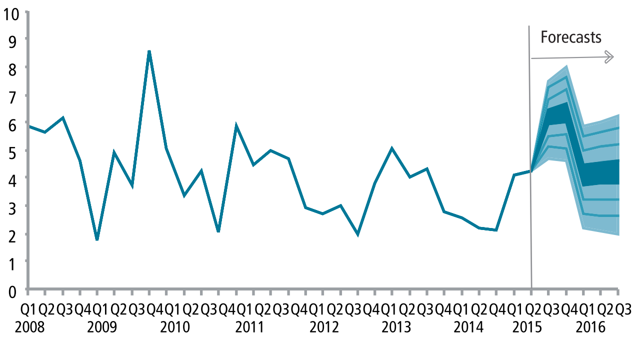
Table 1.1: YoY change in GDP by major sector (Previous year's prices chained, base 2007)

Activity sectors	2014				2015			
	QI	QII	QIII	QIV	QI	QII	QIII$_F$	TIVP$_F$
Agriculture	-1.6	-3.6	-3.5	-1.3	12.0	14.9	15.7	15.4
Nonagricultural VA	**2.9**	**2.5**	**1.7**	**0.8**	**2.0**	**1.6**	**2.2**	**2.1**
Extractive industry	12.3	6.2	2.5	-3.5	-10.9	-3.8	-1.0	-0.3
Processing industry	1.7	1.5	1.1	-0.5	1.8	1.5	1.2	1.3
Electricity and water	5.1	6.3	3.1	3.6	10.1	5.4	5.1	5.1
Construction	2.1	1.7	1.0	0.9	1.3	-0.3	0.7	0.9
Trade	2.3	2.4	-0.6	-0.4	2.7	2.7	2.6	2.5
Hotels and restaurants	4.8	3.3	1.9	-0.3	-1.0	-3.4	0.2	-1.5
Transportation	5.4	6.4	5.1	5.3	0.6	0.8	0.7	0.8
Post and telecommunication	7.2	5.7	6.3	6.2	4.7	5.3	4.5	4.5
General government and social security	3.0	2.6	2.4	2.3	2.1	2.0	2.6	2.4
Other services*	2.5	2.0	1.6	0.3	2.1	2.0	2.0	2.1
Taxes on products net of subsidies	8.1	11.8	13.9	19.0	13.0	14.4	12.3	12.3
Nonagricultural GDP	**3.4**	**3.4**	**3.0**	**2.7**	**3.1**	**3.0**	**3.2**	**3.1**
Gross domestic product	**2.8**	**2.6**	**2.2**	**2.2**	**4.1**	**4.3**	**4.7**	**4.6**

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

Sources: HCP, and BAM forecasts.

Chart 1.1: GDP projected growth Q3-2015 - Q3-2016



Sources: HCP, and BAM forecasts.

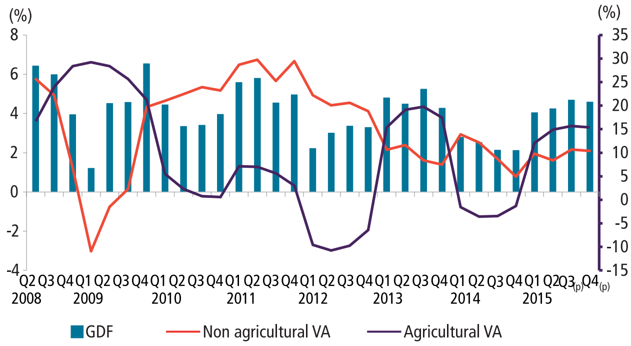
recorded one quarter earlier. The mixed trend of available indicators suggests a virtually stable growth of this sector over the rest of the year. Indeed, BAM's survey among manufacturers for the third quarter indicates that the capacity utilization rate (CUR) remained almost unchanged from the previous quarter at 71 percent, albeit covering divergent trends across branches.

In addition, high and medium voltage electricity sales slowed down, year on year, to 0.1 percent from 4.7 percent in the third quarter of 2014. In contrast, foreign trade data, at current prices, reveal positive changes in the automotive industry, with an increase of 17.9 percent in exports in the third quarter and 17.8 percent at end-October 2015.

The decline in the mining value added should ease in the third quarter to 1 percent from 10.9 percent in the first quarter and 3.8 percent in the second quarter. These developments would reflect a slower decline in the saleable production volume of crude phosphates to 1 percent from 12.3 percent and 7.1 percent in the previous two quarters, respectively. Meanwhile, exports of crude phosphates were down 2.8 percent in the third quarter, as against 25.4 percent in the first quarter and an increase of 1.7 percent in the second quarter of the year. However, this decline was offset by an improvement of 21.2 percent in local sales. Taking into account price changes, foreign trade data at the end of October indicate a 17.2 percent increase in exports of phosphates and derivatives as opposed to a fall of 0.8 percent.

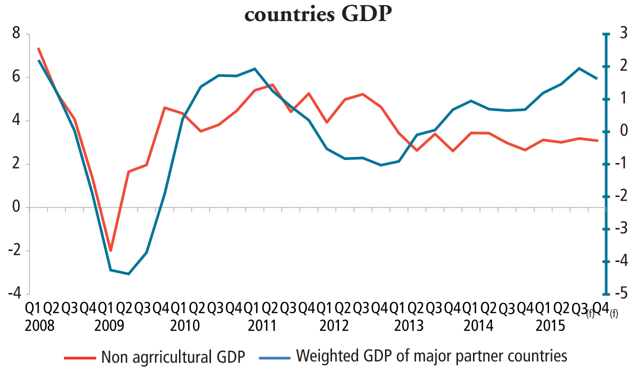
The growth of the electricity and water value added should accelerate to 5.1 percent in the third and fourth quarters of 2015 from 3.1 percent and 3.6 percent in the same quarter of the previous year. This trend would reflect an improvement of 8.2 percent in the local net production in the third quarter, as opposed to 0.7 percent a year earlier. In the same

Chart 1.2: YoY change in the GDP and its components (chained prices2007)



Sources: HCP, BAM calculations and forecasts.

Chart 1.3: YoY change in nonagricultural GDP and in partner countries GDP



Sources: HCP, IMF and BAM calculations and forecasts.

vein, although under a slowdown compared to the previous year, the volume of overall electricity sales of the National Electricity and Water Office posted a rise of 1.9 percent in the third quarter, as against 4.4 percent in the same quarter of the previous year.

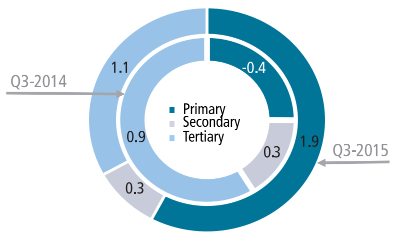
The construction value added should register a relatively small increase of 0.7 percent in the third quarter as against 1 percent in the same quarter last year. In the last quarter of 2015, the sector's value added should stand at 0.9 percent. Indeed, cement sales were down 1.5 percent as opposed to 8.7 percent and loans to property developers dropped by 5.2 percent as against 6.2 percent in the third quarter of 2014.

Meanwhile, job creation improved in the last two quarters from 16,000 jobs in the second quarter to 25,000 jobs in the third quarter, but remained at a level lower than 42,000 jobs created in the third quarter of the previous year.

As to the tertiary sector, the posts and telecommunications sector should grow at a rate below that of the previous year. Indeed, after rising 5.3 percent in the second quarter, the sector's value added should slow down to 4.5 percent in the second half of the year. At end-September 2015, available data indicate increases of 23.5 percent in the number of Internet subscribers from one quarter to another and 63.5 percent from one year to the next. However, the number of subscribers to the fixed telephony continues to decline since June 2011, to 10.8 percent, while that of mobile phone subscribers grew slightly by 0.4 percent.

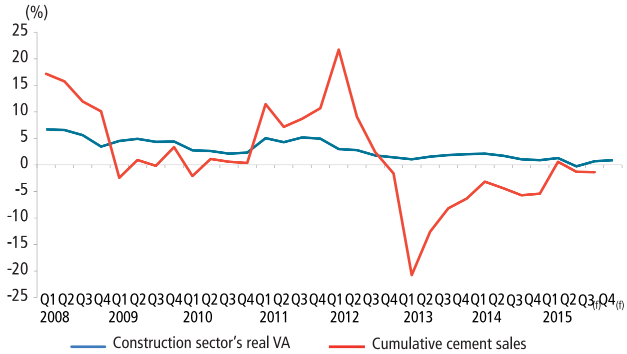
Regarding the tourism sector, the value added of hotels and restaurants should record a slight increase in the third quarter after three consecutive declines. Indeed, year on year, travel receipts were up 13.6 percent in the third quarter after successive declines

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



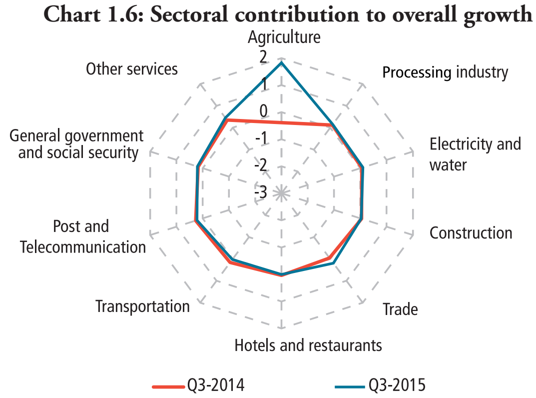
Sources: HCP, and BAM calculations and forecasts.

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



Sources: APC, HCP and BAM forecasts.

Chart 1.6: Sectoral contribution to overall growth



Sources: HCP, BAM forecasts and calculations.

as of the fourth quarter 2014. In the same vein, after an average decrease of 3.3 percent over the three previous quarters, tourist arrivals returned to positive growth of 2.1 percent. In the fourth quarter, this branch should evolve negatively, in connection with the insecurity climate in some countries of the region.

The value added of trade and transport, dependent on the performance of other sectors, should increase by 2.6 percent and 0.7 percent, respectively, in the third quarter, and 2.5 percent and 0.8 percent in the fourth quarter.

For the full year 2015, the growth forecast was slightly revised downward to 4.5 percent from 4.6 percent reported in the MPR of September. This adjustment reflects the downward revision of growth of the nonagricultural value added to 2 percent from 2.5 percent.

In 2016, nonagricultural GDP should decelerate to 2.7 percent, suffering mainly from higher taxes on products net of subsidies, as subsidy costs remained at a level close to that of 2015. After a record cereal production and assuming an output of 70 million quintals, growth of the agricultural value added would be negative at 4.3 percent, bringing GDP growth to 2.1 percent. These forecasts are still surrounded by significant uncertainties, mainly due to growth in partner countries.

1.2 Consumption

Household final consumption expenditure[1] should grow 3.1 percent in 2015, due to the combination of several factors. On the one hand, it should suffer the effects of weak recovery in nonagricultural activities and conditions of the job market, where the unemployment rate rose to 10.1 percent in the third quarter. On the other hand, rural income benefited from an exceptional cereal harvest in 2015.

The household confidence index, published by the HCP, continues its upward trend since the last quarter of the previous year. It rose in the third quarter by 0.2 point from the previous quarter and by 3.2 points compared to the same period of 2014.

Similarly, foreign trade data highlight an improvement of 3.6 percent in remittances from Moroccan expatriates at the end of October, totaling 52.4 billion dirhams from 50.6 billion in the same period a year earlier. Moreover, monetary statistics show a slowdown in consumer loans from 9 percent at end-October 2014 to 5.1 percent in the same period this year.

Public finance data show a decline of 0.5 percent in operating expenses at end-October 2015, covering a 1.3 percent increase in personnel costs and a decrease of 3.9 percent in spending on other goods and services.

In 2016, domestic final consumption would be marked by the effects related to the continued fiscal consolidation, lower agricultural incomes and weaker performance of nonagricultural activities. Against this backdrop, its growth should decelerate to 2.6 percent from 2.8 percent in 2015.

1 It should be noted that the quarterly national accounts relating to the demand items are not yet available.

1.3 Investment

In light of developments in various available indicators, the contribution of investment to economic growth would be neutral or even negative in 2015. Investment seems to suffer from economic conditions marked particularly by low nonagricultural growth and a persistent wait-and-see climate in the real estate sector. Indeed, the number of transactions recorded a further decline of 8.7 percent as against 7.4 percent in the previous quarter.

Regarding external accounts data, capital goods imports at end-October were up 10.2 percent. Excluding exceptional operations, growth of capital goods imports is limited to 2.2 percent. Furthermore, net flows of foreign direct investment rose 13.2 percent, reflecting an increase of 24.4 percent in expenditure to 5.8 billion dirhams and 15.2 percent in revenue to 29.6 billion.

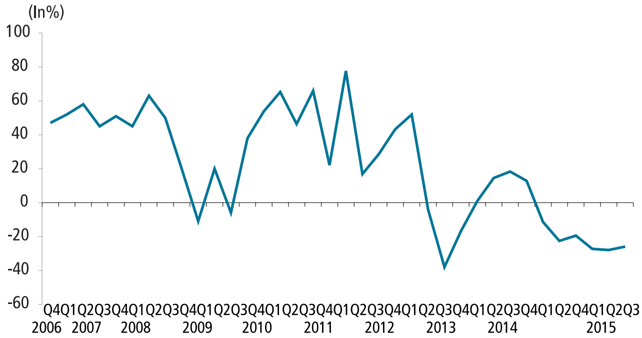
In late October, the Treasury's investment stood at 42.6 billion dirhams, slowing from one year to another.

In terms of outlook, investment trends remain dependent on the economic operators' reaction to the climate of uncertainty about change in foreign demand and weakness in construction activities.

1.4 External accounts

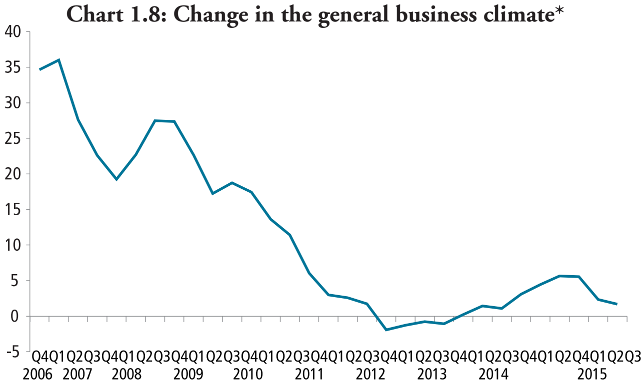
At the end of November 2015, the trade deficit was reduced by 19.7 percent to 140 billion dirhams compared to the same period of 2014. This trend is attributed to the combined effect of a 6 percent decline in imports to 335.3 billion dirhams and a 7.1 percent increase in exports to 195.3 billion dirhams. Thus, the import coverage ratio improved by 7.1 percentage points to 58.2 percent.

Chart 1.7: YoY change in equipment loans (%)



Sources: HCP, BAM and BAM calculations.

Chart 1.8: Change in the general business climate*



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

Source: BAM monthly business survey.

Table 1.2 : Change in the trade balance at end of november

(In millions of dirhams)	nov. 2015*	nov. 2014	change aug. 2014/2013		change Aug. 2015/2014	
			Amount	%	Amount	%
Exports	**195 296**	**182 377**	**12 976**	**7.7**	**12 919**	**7.1**
Phosphates and derivatives' exports	40 939	33 937	-1 007	-2.9	7 002	20.6
Agriculture and food industry	38 373	34 168	2 479	7.8	4 205	12.3
Automotive	44 442	37 500	8 535	29.5	6 942	18.5
Electronics	7 236	7 386	934	14.5	-150	-2.0
Aeronautics	6 740	6 422	-189	-2.9	318	5.0
Textile and leather	30 451	30 974	1 441	4.9	-523	-1.7
Imports	**335 321**	**356 766**	**4 952**	**1.4**	**-21 445**	**-6.0**
Energy imports	61 694	86 948	-6 215	-6.7	-25 254	-29.0
Imports excluding energy	273 627	269 818	11 167	4.3	3 809	1.4
Food products	32 824	38 686	5 579	16.9	-5 862	-15.2
Consumer goods	64 050	64 712	5 190	8.7	-662	-1.0
Unprocessed goods	19 267	18 249	1 600	9.6	1 018	5.6
Semi-finished goods	78 406	75 013	698	0.9	3 393	4.5
Capital goods	78 991	72 930	-2 103	-2.8	6 061	8.3
Trade deficit	**140 025**	**174 389**	**-8 024**	**-4.4**	**-34 364**	**-19.7**

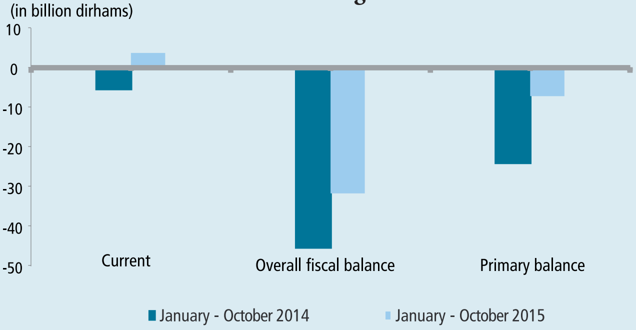
** Provisional data*

Source: Foreign Exchange Office.

Box 1.1: Budget execution as at end-October 2015

Two months before the end of the 2015 budget execution, data on Treasury expenses and revenues revealed a deficit of 31.7 billion, excluding privatization, down 13.3 billion compared to October 2014. This improvement reflects a more moderate decline in revenues than in expenditure. Current revenue fell 2.7 percent to 186 billion, covering a 1.1 percent increase in tax receipts to 166 billion, and a 28.4 percent decline in nontax ones to 17.7 billion, mainly in connection with lower grants from the Gulf Cooperation Council (GCC) countries, which were limited to 1.7 billion at end-October 2015, as against 9.7 billion a year earlier. Excluding these grants, current revenues were up 1.5 percent. Current expenditure dropped by 7.3 percent to 182.4 billion, following a decline in subsidy costs and, to a lesser extent, spending on other goods and services. Thus, the ordinary balance was positive at 3.6 billion, as against a negative balance of 5.4 billion at end-October 2014. The balance of Treasury special accounts was positive at 7.2 billion, up 5 billion from one year to another.

Chart B1.1.1: Budget balance

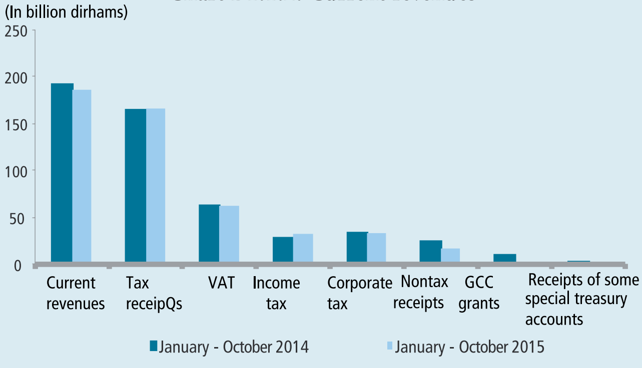


Source: Ministry of Economy and Finance

Change in tax revenue shows higher proceeds from direct and indirect taxes, while customs duties and registration and stamp fees trended downward. Indeed, direct tax receipts rose by 2.4 percent to 64.4 billion, mainly covering a 7.3 percent increase in income tax revenues to 30.1 billion and a drop of 2.5 percent in corporate tax revenues to 32.7 billion. The decrease in the latter is mainly attributed to the exceptional receipts in 2014 following the sale of Centrale Laitière and a share of the capital of Maroc Telecom. Indirect tax revenues increased slightly by 0.5 percent to 82.4 billion dirhams, while the VAT receipts decreased by 0.3 percent to 61.7 billion, covering an increase of 6.2 percent to 24 billion in domestic VAT and a decrease of 4.1 percent in import VAT to 37.7 billion. Proceeds from the domestic consumption tax (DCT) stood at 20.7 billion, up 3.2 percent, mainly thanks to increases of 3.7 percent in energy DCT and 2.4 percent in manufactured tobacco one. Revenues from customs duties fell by 1.5 percent to 6.4 billion, while registration and stamp fees were down 0.7 percent to 12.8 billion, particularly due to a base effect related to receipts of 1.4 billion in 2014 from the sale of a share of the capital of Maroc Telecom. Concerning nontax revenues, in addition to the consequent drop in donations from GCC countries, monopoly receipts also decreased by 14.1 percent to 6.5 billion, including 1.7 billion from 4G licenses, 1.6 billion from Maroc Telecom, 1 billion from OCP and 590 million from Bank Al-Maghrib.

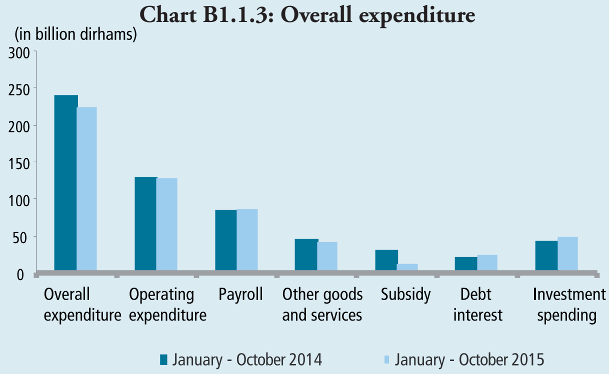
Overall expenditure were down 5.7 percent to 225 billion, covering a decrease in current expenditure and a 1.8 percent increase in investment spending to 42.6 billion. Spending on goods and services fell slightly by 0.5 percent to 127.7 billion, covering a 1.3 percent rise in payroll to 85.6 billion and a 3.9 percent drop in spending on other goods and services to 42 billion. In addition, debt interest charges rose 15.2 percent to 24.5 billion, reflecting an increase of 16.4 percent to 21.2 billion in interest on domestic debt, while those on external debt rose 8 percent to 3.3 billion. Price subsidy system expenses were limited to 11.7 billion, showing a sharp decrease of 58.9 percent compared to end-October 2014, with a monthly flow of 1 billion dirhams.

Chart B1.1.2: Current revenues



Source: Ministry of Economy and Finance

Chart B1.1.3: Overall expenditure



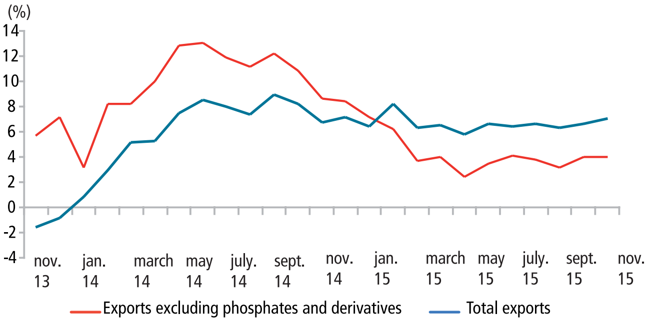
Source: Ministry of Economy and Finance

Given the repayment of arrears, amounting to 10.2 billion, the cash deficit stood at 42 billion, showing an easing of 6.6 billion compared to end-October 2014. This borrowing requirement and the negative external net flow of 1.4 billion dirhams were covered by domestic market for an amount of 43.4 billion, up 4.8 billion.

The import decline is largely due to a decrease of 29 percent in the energy bill, in conjunction with declines of 58.7 percent in crude oil purchases and 22.1 percent in diesel and fuel oil and, to a lesser extent, a decrease of 15.2 percent in food imports, particularly wheat supplies. Similarly, consumer goods purchases fell slightly by 1 percent to 64 billion. In contrast, capital goods imports rose 8.3 percent to 78.9 billion dirhams, but excluding purchases of aircrafts, the increase would have been 4.9 percent. Imports of semi-finished goods grew 4.5 percent to 78.4 billion dirhams and raw materials supplies rose 5.6 percent to 19.3 billion.

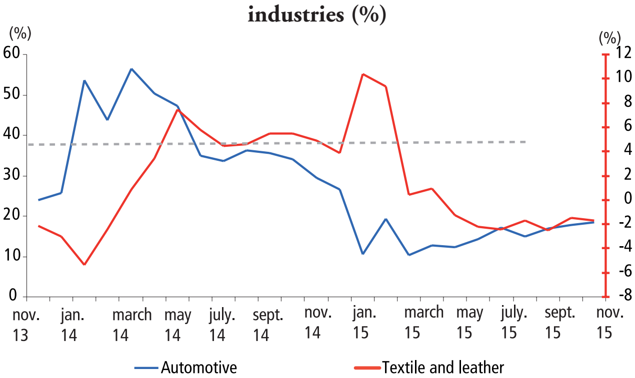
Meanwhile, export growth reflects a continued uptrend in exports of phosphates and derivatives, and automotive and agribusiness sectors. OCP shipments rose 20.6 percent to 40.9 billion dirhams. Similarly, the automotive sector sales improved by 18.5 percent to 44.4 billion dirhams, mainly in connection with an increase of 23.8 percent in exports of car manufacturing exports. Meanwhile, exports of agricultural and agri-food sector moved up 12.3 percent, driven particularly by an increase of 14.4 percent in the food industry sales. For other

Chart 1.9: YoY cumulative exports (%)`



Source: Foreign Exchange Office.

Chart 1.10 : YoY change in sales of automotive and textile industries (%)



Source: Foreign Exchange Office.

sectors, supplies of aeronautics and the pharmaceutical industry recorded respective increases of 5 percent and 7.3 percent. Conversely, sales of the textile and leather sector continued to show a poor performance for the seventh consecutive month, down 1.7 percent at end-November 2015. This decline is mainly due to the decrease of 6.1 percent in sales of hosiery items.

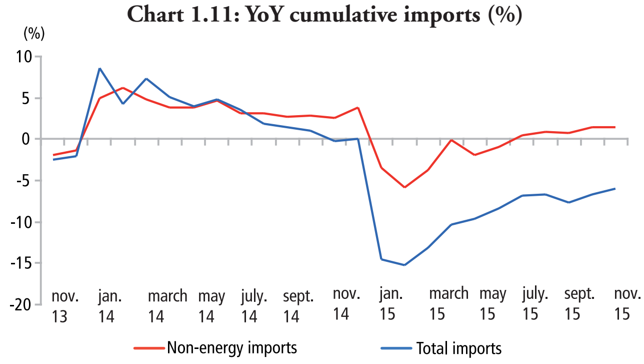
For other components of the current account, the decline in tourism receipts continued to ease since July to 0.9 percent. Remittances from Moroccan expatriates grew 3.6 percent, faster than 2.5 percent recorded in the same period of 2014.

Taking into account these developments, the current account deficit at end-2015 should stand at 2.2 percent of GDP, from 2.8 percent reported in the MPR of September 2015. This projection mainly reflects a downward revision of oil price prospects from $57.5 to $52.5. For 2016, this deficit should ease further to 1 percent of GDP.

Regarding the capital account, net FDI flows stood at 27.7 billion, up 4.1 percent compared to November 2014, following an increase of 2.2 billion dirhams in investment inflows, while investment outflows rose by 1.1 billion.

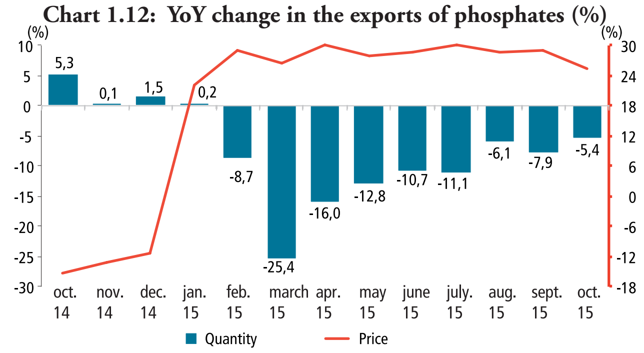
Against this backdrop, the outstanding international reserves grew by 23.9 percent, year on year, at end-November 2015, to 220.8 billion dirhams, equaling 6 months and 26 days of imports of goods and services. They should provide coverage for nearly 7 months of imports of goods and services at end-2015 and improve further in 2016 to almost 8 months.

Chart 1.11: YoY cumulative imports (%)



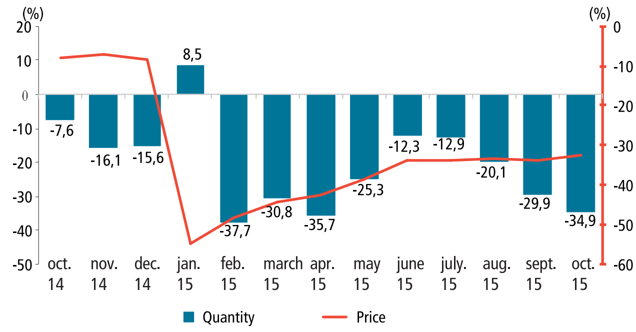
Source: Foreign Exchange Office.

Chart 1.12: YoY change in the exports of phosphates (%)



Source: Foreign Exchange Office.

Chart 1.13 : YoY change in crude oil imports(%)



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

The output gap evolved as expected in the latest MPR of September. It remained negative in the second quarter and is expected to continue so in the second half of 2015, according to estimates by Bank Al-Maghrib. Indeed, the business survey in industry shows a virtual stagnation, between September and October, of the capacity utilization rate in the industrial sector at 72 percent. Meanwhile, labor market conditions were marked in the third quarter by a limited creation of 41,000 jobs, as against an additional demand for employment from 107,000 persons, which resulted in a 0.5 percentage point increase in the unemployment rate to 10.1 percent. Regarding labor costs, the minimum wage was raised by 5 percent in July and the private sector's average wage index showed in the third quarter a year-on-year increase of 3.4 percent in nominal terms and 1.6 percent in real terms.

The analysis of all the indicators shows that due to the persistence of an excess capacity, inflationary pressures from the real economy remain moderate.

2.1 Pressures on output capacity

Estimates by Bank Al-Maghrib show that nonagricultural activities would have continued to evolve below their potential level in the third and fourth quarters 2015 (Chart 2.1), thus suggesting the absence of demand-led inflationary pressures.

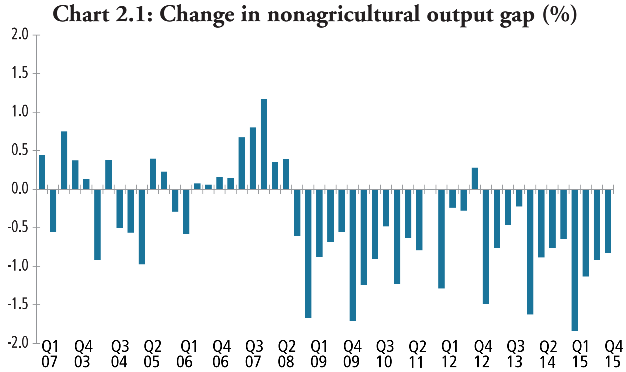
Meanwhile, the latest business survey indicates that the CUR virtually stagnated at 72 percent between October and September (Chart 2.2). This trend is due to a higher CUR in mechanical and metallurgical industries, a decline in textile and leather industries as well as electrical and electronic industries, and stagnation in other branches.

According to the same survey, the unit production costs would have increased overall in the third quarter of 2015, mainly reflecting higher prices for energy and non-energy commodities. By industry, this increase involved all industries, with the exception of mechanical and metallurgical ones, where costs decreased (Chart 2.3).

2.2 Pressures on the labor market

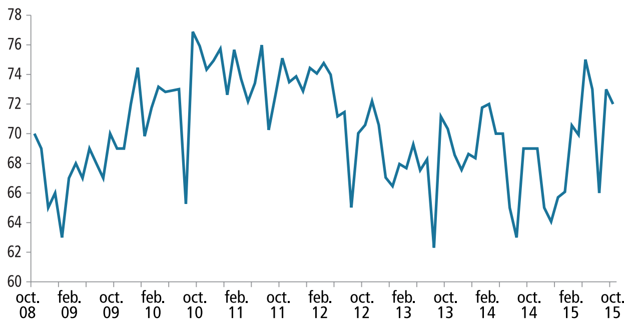
In the third quarter, labor market conditions were marked by increases of 0.9 percent in

Chart 2.1: Change in nonagricultural output gap (%)



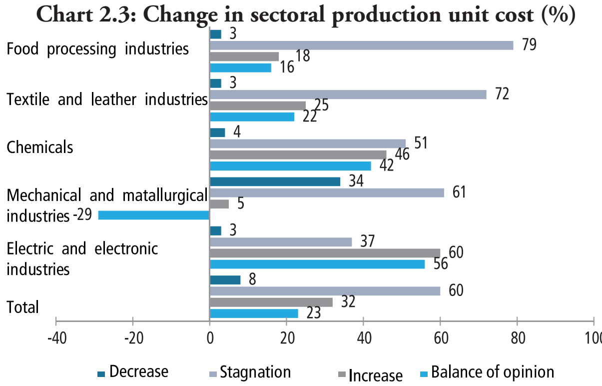
Sources: BAM estimates based on HCP data.

Chart 2.2: Industrial capacity utilization rate (%)



Source: BAM monthly business survey.

Chart 2.3: Change in sectoral production unit cost (%)



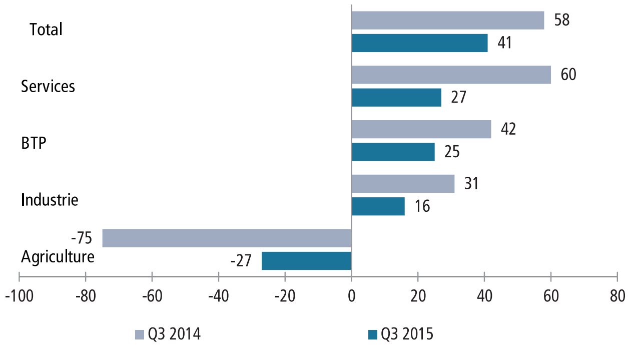
**Difference between the percentage of businesses reporting an increase and those reporting a decrease.*
Source: BAM monthly business survey.

the labor force aged 15 and over nationally, 1.2 percent in urban areas and 0.5 percent in rural ones. Taking account of demographic changes, the participation rate fell to 47.9 percent from 48.2 percent a year earlier.

Job creation was limited to 41,000 positions, including 24,000 urban jobs (Chart 2.4). By sector, services was the first job-providing sector with 27,000 jobs, including 24,000 in rural areas, followed by the construction sector with 25,000 jobs. The number of jobs also increased in the industrial sector, including handicrafts, with the creation of 16,000 jobs, including about 10,000 in rural areas. Conversely, despite an exceptional crop year, agriculture, forestry and fisheries again lost 27,000 posts, as against 58,000 in the previous quarter. Under these conditions, employed labor force edged up 0.4 percent, reflecting increases of 0.4 percent in urban areas and 0.3 percent in rural ones. The employment rate continued its downward trend as well, from 43.6 percent to 43.1 percent nationally, from 35.8 percent to 35.3 percent in urban areas and from 55.7 percent to 55.5 percent in rural ones (Table 2.1).

Taking into account additional demand for employment from about 107,000 persons, the unemployment rate was up 0.5 percentage point to 10.1 percent, due to an increase of 0.6 point to 15.1 percent in urban areas and 0.2 point to 4.3 percent in rural ones. Increasing unemployment affected all age groups except those aged 35-44 years, whose rate fell from 6 percent to 5.6 percent (Table 2.1).

Chart 2.4: Change in employed labor force per sector (in thousands)



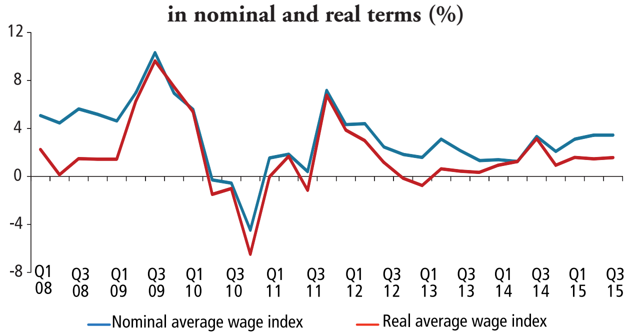
Source: HCP.

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

In thousands / in %	Q3- 2014			Q3- 2015		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (1)	6,282	5,603	11,885	6,358	5,633	11,992
Labor force participation rate (%) (2)	41.9	58.1	48.2	41.6	58.0	47.9
Employed labor force	5,372	5,373	10,745	5,396	5,390	10,786
Employment rate (%) (3)	35.8	55.7	43.6	35.3	55.5	43.1
Unemployment						
Unemployed labor force	910	230	1,140	962	244	1,206
Unemployment rate (in %) (4)	14.5	4.1	9.6	15.1	4.3	10.1
By age						
.15 - 24 years	39.9	9.3	20.6	39.3	10.4	21.4
.25 - 34 years	20.5	4.3	13.6	22.6	3.7	14.5
.35 - 44 years	8.3	2.6	6.0	7.6	2.6	5.6
.45 years and above	3.2	1.1	2.2	4.1	1.8	3.0
By degree						
. Non-graduates	7.7	2.0	4.1	6.6	1.9	3.6
. Graduates	19.0	9.9	16.9	18.1	8.9	16.0

(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.

Chart 2.5: YoY change in the private sector's average wage index in nominal and real terms (%)



Sources: CNSS, and BAM calculations.

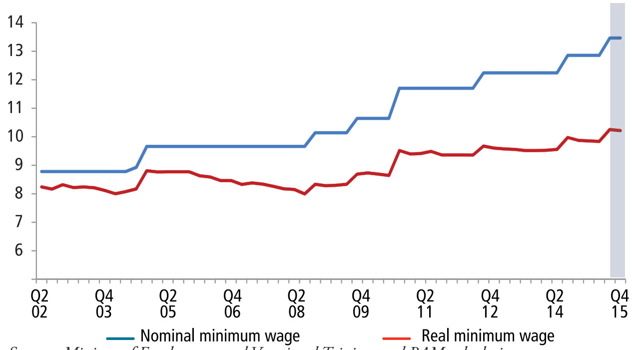
2.3 Wages and productivity

Regarding labor costs, third quarter data show that the private sector's wage average index recorded a year-on-year increase of 3.4 percent in nominal terms and 1.6 percent in real terms (Chart 2.5).

Following a rise of 5 percent in July 2015 to 13.46 dirhams/hour, the hourly minimum wage moved up, year on year, by 2.8 percent in real terms in the third quarter of 2015 and 3.5 percent in the fourth quarter (Chart 2.6).

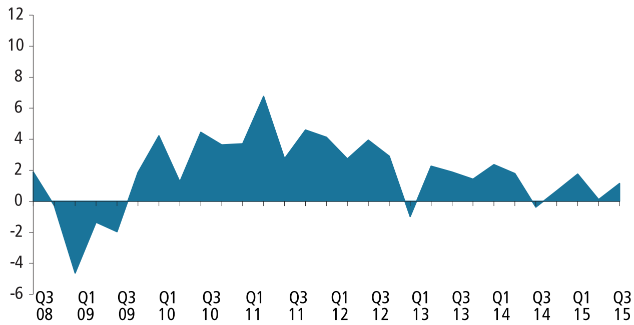
During the same quarter, the unit production cost in nonagricultural activities rose, year on year, by 1.1 percent, as against a decline of 0.4 percent a year earlier (Chart 2.7). This change reflects a faster increase from 1.7 percent to 2.2 percent in the nonagricultural value added and a slowdown from 2.1 percent to 1 percent in nonagricultural employment.

Chart 2.6: Hourly minimum wage in nominal and real terms (DH/H)



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

Chart 2.7: YoY change in apparent labor productivity* (in %)



(*) Nonagricultural VA/Nonagricultural employment.
Sources : HCP, and BAM estimates.

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

In the third quarter, the international environment was marked by a slight improvement in activity in the euro area and a lower-than-expected growth in the United States. In emerging countries, the slowdown continued overall, albeit at divergent rates across countries. Indeed, growth remains robust in the euro area coupled with a lower unemployment rate. In the United States, although GDP growth slowed down, the unemployment rate stabilized at its lowest level since March 2008. In key emerging countries, growth decelerated in China and accelerated in India, while GDP in Brazil declined further. In financial markets, developed countries' stock market indexes rose and sovereign bond yields showed divergent trends across countries. The euro depreciated significantly against other major currencies, mainly the dollar, with a continued divergence between the monetary policy stances of the ECB and the Fed. Indeed, the ECB decided on December 3 to extend its asset purchase program and to lower its interest rate on the deposit facility, while the Fed announced on December 16 its decision to raise by 25 basis points its policy rate within a range from 0.25 percent to 0.50 percent. On commodity markets, energy and non-energy prices continued to post sharp declines in November. Against this backdrop, inflation in advanced countries continued to evolve at very low levels. All these developments indicate further absence of external inflationary pressures.

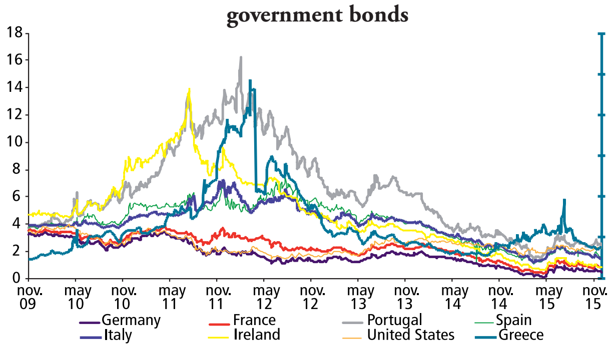
3.1 Global financial conditions and economic activity

3.1.1 Financial conditions

In stock markets, major indexes of advanced economies continued to rise overall and their volatility eased. Between October and November, the EUROSTOXX50, Dow Jones and Nikkei 225 moved up 5 percent, 3.2 percent and 6.4 percent, respectively. Likewise, the CAC 40 and DAX 30 rose 4.1 percent and 7.5 percent, while the FTSE 100 fell 0.5 percent. In terms of volatility, VSTOXX fell from 23.7 to 22.8 basis points and VIX dropped from 16.8 points to 16.2. In emerging markets, the MSCI EM declined by 1.5 percent, covering respective declines of 0.4 percent and 5.7 percent in China and India indexes, while MSCI Turkey increased by 3.9 percent.

In bond markets, yields recorded contrasting trends across countries. 10-year yields grew, between October and November, from 0.5 percent to 0.6 percent in Germany, from 0.8 percent to 0.9 percent in France and from 2.4 percent to 2.6 percent in Portugal, while they remained stable at 1.7 percent in Spain. However, they dropped from 7.9 percent to 7.5 percent in Greece and from 1.7 percent to 1.6 percent in Italy. Yields on

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 LIBOR-OIS spread*

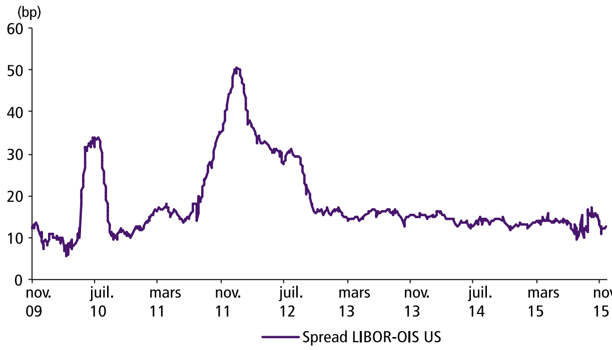
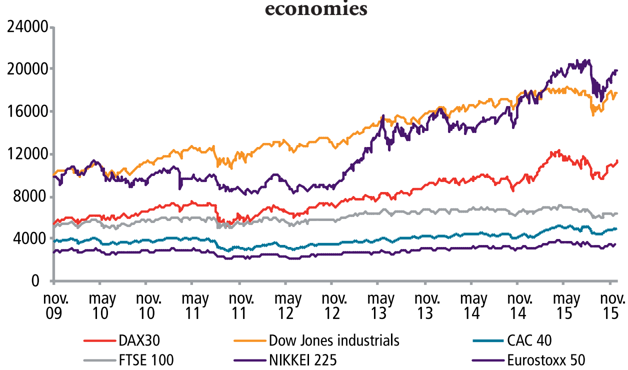


Chart 3.3: Change in the major stock market indexes of advanced economies



Source: Datastream.

U.S. Treasury bills with the same maturity stood at 2.3 percent in November from 2.1 percent in the previous month.

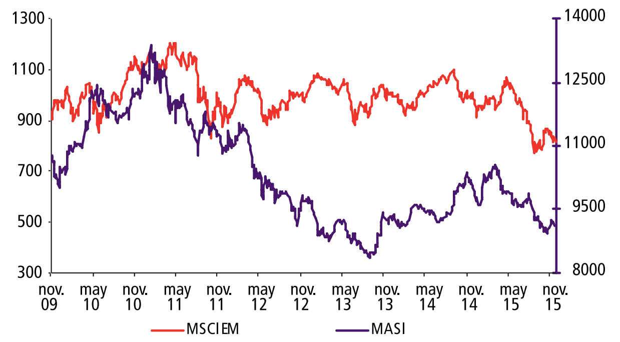
In key emerging economies, 10-year yields showed divergent trends. They stabilized at 3.2 percent in China, while they decreased from 15.7 percent to 15.5 percent in Brazil and from 10 percent to 9.7 percent in Turkey. Conversely, they increased from 7.6 percent to 7.7 percent in India.

In money markets, the 3-month Euribor stood at -0.09 percent in November as against -0.05 percent a month before, while the 3-month Libor rose from 0.32 percent to 0.37 percent. The dollar Libor-OIS spreads fell from 15.2 basis points to 12.3 points. The annual bank credit growth edged up in the United States to 7.5 percent in November from 7.4 percent in October. In the euro area, it stood at 1 percent in October from 0.6 percent a month earlier.

In foreign exchange markets, the euro depreciated significantly against other major currencies. It lost between October and November 4.6 percent against the dollar to 1.07 dollar, 3.6 percent versus the pound sterling and 2.5 percent vis-à-vis the Japanese yen. Regarding the change in currencies of major emerging economies, the Brazilian real appreciated by 2.5 percent against the dollar, while the Indian rupee and Chinese yuan depreciated by 1.7 percent and 0.3 percent, respectively. The Turkish lira remained unchanged at 2.9 lira to the dollar. It should be noted that the IMF's Executive Board agreed on November 30 to include the Chinese yuan, as of October 1, 2016, in the currency basket used to calculate the IMF "special drawing rights" (SDR), with a share of 10.92 percent. The renminbi joined the US dollar, euro, British pound and Japanese yen in this basket.

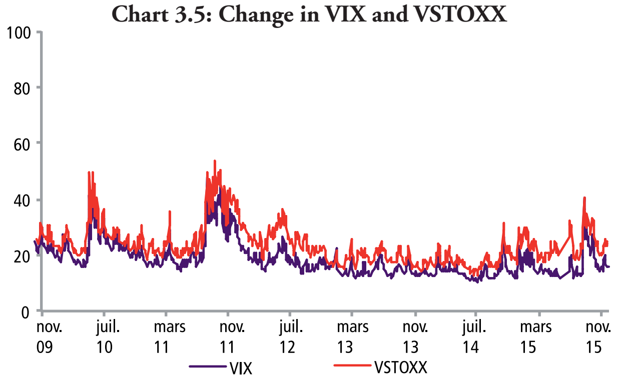
Against this backdrop, the central banks of major advanced economies kept their key rates stable overall. The Bank of England maintained on December 10 its key rate

Chart 3.4: Change in the MSCI EM and MASI



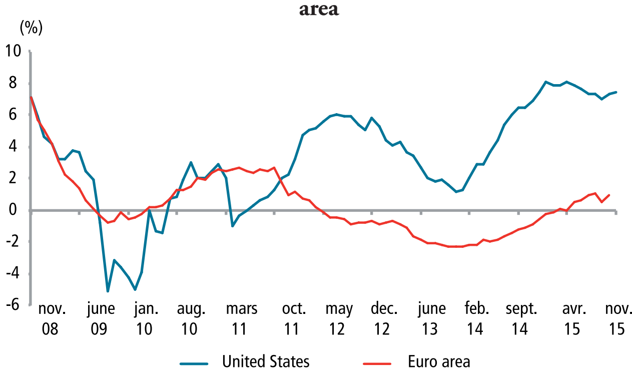
Source: Datastream.

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.

at 0.5 percent. Similarly, the ECB kept on December 3 its key rate unchanged at 0.05 percent. However, it decided to lower the interest rate on the deposit facility by 10 basis points to -0.30 percent, to extend by six months its APP launched in March 2015, with monthly purchases of 60 billion euros of assets, and to reinvest in the program revenue from the various assets purchased. The Fed decided at the meeting of the Monetary Committee on December 16, to raise its policy rate by 25 basis points to within a range from 0.25 percent to 0.5 percent. It highlighted that the U.S. labor market conditions improved significantly, with an unemployment rate of 5 percent, and that it is reasonably confident that inflation will rise over the medium term to its 2 percent objective. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee indicated that it would assess realized and expected economic conditions relative to its two objectives of maximum employment and 2 percent inflation.

In emerging countries, China's Central Bank reduced on October 23 its key rate by 25 basis points to 4.35 percent, which is the sixth decline in the last eleven months. The Central Bank of India kept on December 1 its key rate at 6.75 percent. Likewise, the Russian Central Bank decided at its meeting of December 11 to maintain its rate at 11 percent, due to the persistence of significant inflationary risks. The Central Bank of Brazil kept on November 25 its rate at 14.25 percent.

3.1.2 Global economic activity

In the third quarter, the economic environment remained under a slight improvement in the euro area, a lower-than-expected growth in the United States and United Kingdom, and a continued slowdown in China.

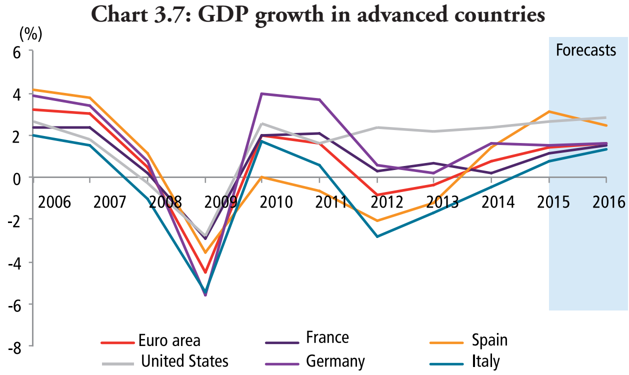
In the third quarter, growth stood at 1.6 percent in the euro area for the second consecutive

Table 3.1: YoY change in quarterly growth

	2013	2014				2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States	2.5	1.7	2.6	2.9	2.5	2.9	2.7	2.2
Euro area	0.6	1.1	0.7	0.8	1.0	1.3	1.6	1.6
France	1.0	0.7	-0.2	0.1	0.1	1.0	1.1	1.2
Germany	1.3	2.3	1.4	1.2	1.5	1.1	1.6	1.7
Italy	-1.0	-0.3	-0.3	-0.4	-0.5	0.1	0.6	0.8
Spain	-0.3	0.4	1.2	1.7	2.1	2.7	3.2	3.4
United Kingdom	2.9	2.8	3.2	2.9	3.0	2.7	2.4	2.3
Japan	2.1	2.3	-0.3	-1.5	-0.9	-1.0	0.7	1.7
China	7.6	7.3	7.4	7.2	7.2	7.0	7.0	6.9
India	6.6	5.3	7.4	8.4	6.8	6.1	7.1	7.4
Brazil	2.4	3.2	-0.8	-1.1	-0.7	-2.0	-3.0	-4.5
Turkey	4.7	4.5	2.3	2.3	2.6	2.7	4.3	5.3
Russia	1.6	1.1	1.4	0.3	-0.8	-2.1	-3.8	-3.7

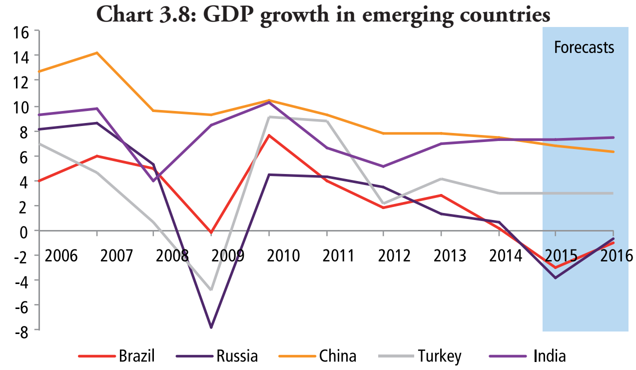
Source : Datastream.

Chart 3.7: GDP growth in advanced countries



Source: IMF(October 2015 forecasts).

Chart 3.8: GDP growth in emerging countries

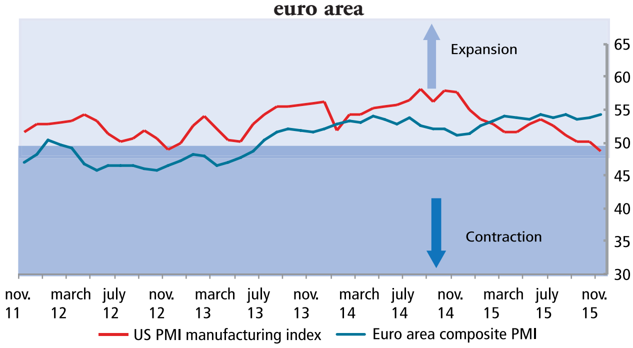


Source: IMF(October 2015 forecasts).

quarter, reflecting a gradual consolidation of activity in Spain and Germany, where growth moved up from 3.2 percent to 3.4 percent and from 1.6 percent to 1.7 percent, respectively. In France and Italy, economic performance remains relatively weak, although growth rates in these countries registered respective increases from 1.1 percent to 1.2 percent and from 0.6 percent to 0.8 percent. In the United States, growth decelerated from 2.7 percent to 2.2 percent, particularly reflecting a further slowdown in private investment and deceleration of exports. Similarly, growth moved down from 2.4 percent to 2.3 percent in the United Kingdom, due to the contraction in manufacturing output. In Japan, activity continued to recover gradually, year on year, as GDP growth stood at 1.7 percent from 0.7 percent a quarter earlier.

In key emerging countries, growth declined from 7 percent to 6.9 percent in China, in connection with a slowdown in industrial production, while it rose in India from 7.1 percent to 7.4 percent, driven by the recovery in manufacturing activity. In Brazil, GDP contracted further to 4.5 percent from 3 percent a quarter earlier, while the decline in Russia eased from 3.8 percent to 3.7 percent.

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	
	2015	2016	2015	2016	2015	2016
Global GDP	3.1	3.5	3.1	3.6	2.9	3.3
United States	2.6	2.8	2.6	2.8	2.4	2.5
Euro area	1.6	1.8	1.5	1.6	1.5	1.7
Germany	1.7	1.9	1.5	1.6	1.5	1.8
France	1.1	1.4	1.2	1.5	1.1	1.3
Italy	0.9	1.5	0.8	1.3	0.8	1.4
Spain	3.1	2.7	3.1	2.5	3.2	2.7
United Kingdom	2.5	2.4	2.5	2.2	2.4	2.4
Japan	0.7	1.1	0.6	1.0	0.6	1.0
China	6.8	6.5	6.8	6.3	6.8	6.5
India	7.2	7.4	7.3	7.5	7.2	7.3
Brazil	-2.6	-0.5	-3.0	-1	-3.1	-1.2
Turkey	3.0	3.2	3.0	2.9	3.1	3.4
Russia	-3.7	-0.5	-3.8	-0.6	-4.0	-0.4

Sources : European Commission (November 2015) and IMF (October 2015) and OECD (November 2015.

Regarding high-frequency indicators, the composite PMI of the euro area continued to rise from 53.9 points in October to 54.2 points in November, its highest level in four and a half years. However, the ISM manufacturing index in the United States stood below the threshold of 50 points, to 48.6 in November from 50.1 points a month earlier.

In terms of outlook, the IMF lowered its global growth forecasts in October, to 3.1 percent in 2015 and 3.6 percent in 2016, due to a further deceleration in emerging and developing countries and a slower recovery in advanced countries. In particular, growth is projected at 2.6 percent then 2.8 percent in the United States, driven mainly by lower oil prices and improved activity in the real estate market. In the euro area and Japan, the moderate economic recovery should continue with growth rates of 1.5 percent and 0.6 percent in 2015, and 1.6 percent and 1 percent in 2016, respectively. In China, GDP should grow by 6.8 percent in 2015 and 6.3 percent in 2016, while in India it would increase by 7.3 percent and 7.5 percent, respectively. However, in Brazil and Russia, GDP should contract respectively by 3 percent and 3.8 percent in 2015 and 1 percent and 0.6 percent in 2016.

Similarly, the European Commission and OECD revised down their global growth projections in November, particularly due to the deterioration in activity in emerging countries.

3.1.3 Labor market

In November 2015, the unemployment rate in the United States remained unchanged at 5 percent compared to the previous month. In the euro area, October data show a decrease in the unemployment rate to 10.7 percent from 10.8 percent in September, its lowest level since February 2012. This rate fell from 11.6 percent to 11.5 percent in Italy, while it stabilized in France, Spain and Germany at 10.8 percent, 21.6 percent and 4.5 percent, respectively. In the United Kingdom, August 2015 data indicate a decline in the unemployment rate to 5.2 percent from 5.3 percent in the previous month.

Regarding short-term forecasts for employment, November 2015 projections of the OECD and European Commission broadly revised downwards unemployment rates in most developed countries compared to May 2015 forecasts. Indeed, the OECD predicts an unemployment rate of 5.3 percent and 4.7 percent in the United States and 10.9 percent and 10.4 percent in the euro area in 2015 and 2016, respectively.

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

	2013	2014	sept. 2014	oct. 2015	nov. 2015
United States	7.4	6.2	5.1	5.0	5.0
Euro area	12.0	11.6	10.8	10.7	N.D
France	10.3	10.3	10.8	10.8	N.D
Italy	12.1	12.7	11.6	11.5	N.D
Germany	5.2	5.0	4.5	4.5	N.D
Spain	26.1	24.5	21.6	21.6	N.D
United Kingdom	7.6	6.1	N.D	N.D	N.D

Source : Eurostat.

3.2 Commodity prices and inflation

Over the past three months, commodity fell broadly, year on year. Inflation remained very low in developed countries, including the United States and the euro area.

3.2.1 Energy commodity prices

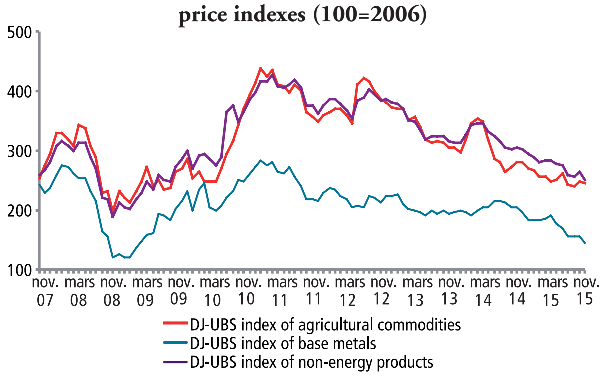
The Brent price registered a monthly decline of 7.8 percent in November, averaging $45.1 per barrel, as against $48.9 in the previous month. Despite geopolitical tensions, this change was attributed to an oversupply and large stocks. Year on year, the Brent price dropped by 43.1 percent from $79.2 per barrel to $45.1.

Regarding the oil price outlook[1], the World Bank revised down its October projections compared to July update, now assuming $52.5 and $51.4 per barrel in 2015 and 2016, respectively.

Chart 3.10: World price of brent oil in dollar

Source: Datastream.

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



Source: Datastream.

1 Forecasts by the World Bank and IMF are based on the average price of the three oil categories (Brent, WTI and Dubai).

Similarly, the IMF expects in its WEO of October a price of $51.6 per barrel in 2015 and $50.4 in 2016, down from July projections. As to the Brent price, the European Commission also revised down its autumn forecasts to $54.8 per barrel in 2015 and $54.2 in 2016 from $59.4 and $66 respectively and previously projected.

3.2.2 Non-energy commodity prices

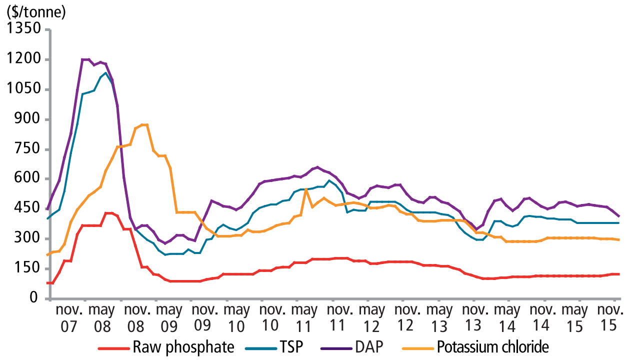
In November, non-energy prices recorded sharp declines, year on year. The relevant Dow Jones-UBS fell by 17.2 percent, reflecting a decrease of 12.4 percent in the agricultural commodity price index and a decline of 29.6 percent in the base metals price index.

In the world market of phosphates and derivatives, crude prices remained unchanged at $123 per tonne in November, after a monthly increase of 1.7 percent in the previous month. Similarly, TSP prices stabilized in November at $380 per tonne. DAP and Potassium Chloride prices were down 5.9 percent and 1.3 percent, respectively, to $416 and $296 per tonne. However, urea prices in November recorded a monthly increase of 0.8 percent to $257 per tonne. Year on year, prices were up 7 percent for crude phosphate, while they fell 3.1 percent for Potassium Chloride, 6.2 percent for TSP, 8.1 percent for DAP and 17.4 percent for urea. Durum wheat prices rose 2.4 percent from the previous month, as against a sharp year-on-year decline of 31.6 percent.

3.2.3 Inflation in the world

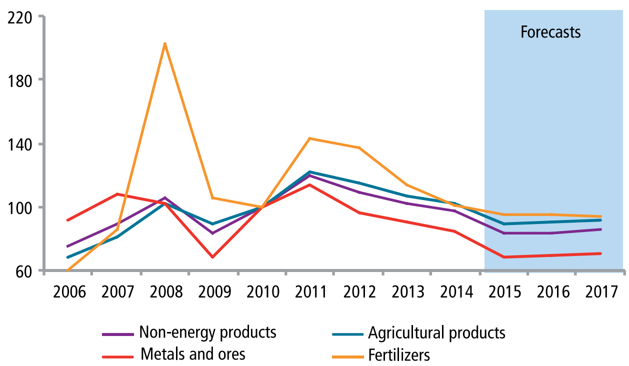
In November, inflation rose from 0.1 percent to 0.5 percent in the United States. Similarly, it was up from 0.1 percent to 0.2 percent in the euro area, with a slight decline from 0.3 percent to 0.2 percent in Italy and from 0.2 percent to 0.1 percent in France, an increase from 0.2 percent to 0.3 percent in Germany and a slower fall from 0.7 percent to 0.3 percent in Spain. Moreover, inflation in the United Kingdom rose from -0.1 percent to 0.1 percent in November. In Japan, the latest data available are those of October and point to a higher inflation from 0 percent to 0.3 percent.

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



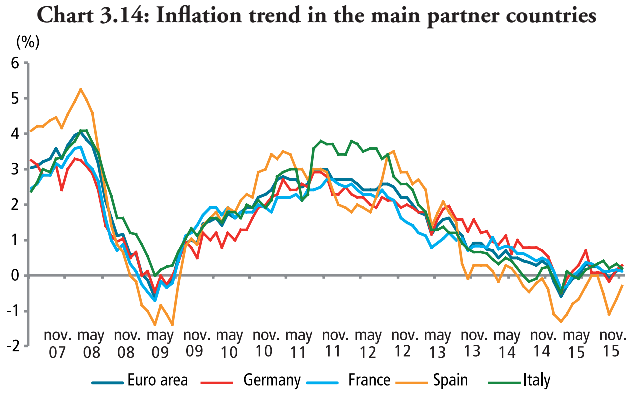
Source: World Bank.

Chart 3.13: Outlook for commodity price indexes



Source: World Bank.

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat.

In key emerging and developing countries, the inflation rate rose in November from 1.3 percent to 1.5 percent in China and from 9.9 percent to 10.5 percent in Brazil, while in Russia, the October data reveal a slightly lower inflation from 15.7 percent to 15.6 percent.

The IMF projected in its WEO of October that inflation would stand at 0.3 percent in 2015 and 1.2 percent in 2016 in advanced economies, while in emerging and developing countries, it should stand at 5.6 percent in 2015 before declining to 5.1 percent in 2016. The European Commission expected in its autumn update an inflation rate of 0.1 percent in 2015 and 1 percent in 2016 in the euro area, while in the United States, this rate would be 0.2 percent in 2015, before accelerating to 2.1 percent in 2016.

Table 3.4 : Wold inflation outlook, YoY

	OECD		European Commission		IMF	
	2015	2016	2015	2016	2015	2016
United States	0.0	1.0	0.2	2.1	0.1	1.1
Euro area	0.1	0.9	0.1	1.0	0.2	1.0
Germany	0.1	1.0	0.2	1.0	0.2	1.2
France	0.1	1.0	0.1	0.9	0.1	1.0
Spain	-0.6	0.3	-0.5	0.7	-0.3	0.9
Italy	0.2	0.8	0.2	1.0	0.2	0.7
United Kingdom	0.1	1.5	0.1	1.5	0.1	1.5
Japan	0.8	0.7	0.8	0.7	0.7	0.4

Sources : IMF (October 2015), OECD (November 2015) and the European Commission (November 2015)

4. MONETARY CONDITIONS AND ASSET PRICES

In October 2015, the M3 annual growth remained broadly unchanged from the third quarter, while the monetary gap remained negative. The annual growth of bank lending fell to 0.7 percent from 1.8 percent in the third quarter 2015, reflecting a steeper decline from 2.5 percent to 3.9 percent in loans to private nonfinancial corporations and virtual stagnation of loans to households at 3.6 percent. In terms of outlook, the bank credit should grow 0.5 percent at end-2015 and 3 percent at end-2016. In terms of monetary conditions, the interbank rate remained aligned with the key rate and deposit rates fell from 3.71 percent on average in the second quarter to 3.66 percent in the third quarter. Lending rates showed an average decrease of 26 basis points in the third quarter 2015, with drops of 30 points for cash advances, 24 points for real estate loans and 10 points for consumer loans. The dirham's effective exchange rate appreciated in the third quarter 2015 by 1.5 percent in real terms, reflecting an appreciation of 0.88 percent in nominal terms and an inflation rate in Morocco broadly higher than that of the main partners and competitors.

Real-estate prices showed a quarterly decline of 1.5 percent over the third quarter 2015, as against 0.7 percent a quarter earlier. This decrease primarily reflects declines in residential prices (-1.1 percent), urban land prices (-2.4 percent) and professional property prices (-1.3 percent). The number of transactions fell 10.4 percent from one quarter to another. The downward trend of transactions affected all asset categories, with a rate of -7.9 percent for apartments, -17 percent for urban land and -18 percent for professional property.

In the stock market, the MASI recorded in November a slight depreciation of 0.2 percent compared to September, bringing its underperformance since the beginning of the year to 5.5 percent. The trading volume reached almost 3 billion in November and stood at 31.8 billion dirhams since the beginning of the year, as against 36.4 billion over the same period last year.

Overall, these developments suggest the absence of monetary, real estate and financial assets inflationary pressures in the medium term.

4.1 Monetary conditions

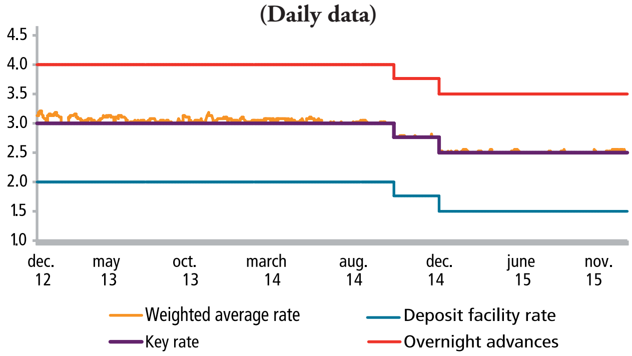
4.1.1 Interest rates

At its meeting of September 22, 2015, the Bank Board decided to keep the key rate unchanged at 2.5 percent. Against this backdrop, the interbank market weighted average rate remained aligned with the key rate at 2.52 percent on average, between October and November 2015.

As to lending rates, BAM's survey among banks for the third quarter 2015 indicates a decrease of 26 basis points in the overall average rate, to 5.67 percent, with declines of 30 points to 5.65 percent for cash advances, 24 points to 5.68 percent for real estate loans and 10 points to 7.08 percent for consumer loans. However, rates on equipment loans were up 31 basis points to 5.35 percent.

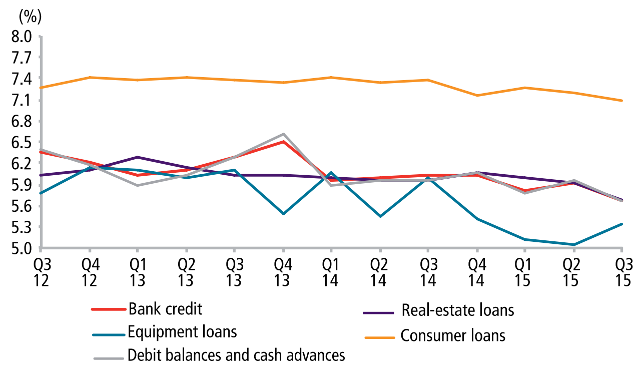
Regarding deposit rates, the weighted average of 6- and 12-month deposits stood at 3.66 percent in the third quarter, slightly down 5 basis points from the second quarter 2015. This change reflects a fall of 4 basis points to 3.56 percent in the 6-month

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



**Data at November 29, 2015.*
Source : BAM.

Chart 4.2 : Change in lending rates



deposit rate and 9 basis points to 3.74 percent in the one-year deposit rate.

Concerning Treasury bond yields on the primary market, rates registered in October increases of 7 basis points in 2-year bonds and 22 basis points in 10-year Treasury bills, while they remained virtually unchanged for other maturities. In the secondary market, rates on various maturities did not change significantly.

4.1.2 Money. credit and liquid investments

M3 growth

October 2015 data reveal a virtual stability in the annual growth of the money supply. Consequently, the money gap remained negative, indicating the absence of monetary inflationary pressures in the medium term.

Thus, after an average increase of 6.6 percent in the first half of 2015, M3 grew by 5.6 percent in October, a rate nearly similar to that recorded in the third quarter.

By component, the annual growth of demand deposits and time deposits accelerated from 5.3 percent to 5.8 percent and from 8.8 percent to 10.8 percent, respectively. This acceleration is due to an improvement in deposits of nonfinancial sectors. Thus, deposits of private nonfinancial corporations increased by 12.1 percent, as against 9.5 percent in the previous quarter, owing to a faster growth of their time deposits, while growth of their demand deposits decelerated. Similarly, growth of households' deposits accelerated from 6.5 percent to 7.3 percent and deposits of the public sector increased by 3.5 percent, after a decline of 2.6 percent a quarter earlier.

As to other components, currency in circulation rose by 7.2 percent from

Table 4.1: Deposit rates (time deposits)(%)

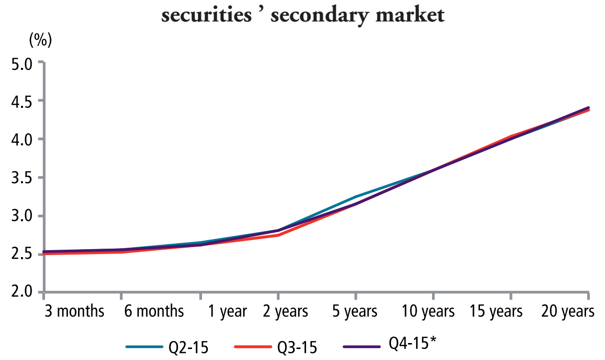
	2013	2014				2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
6 months	3.59	3.51	3.68	3.69	3.71	3.64	3.60	3.56
12 months	3.92	3.86	3.91	3.86	3.94	3.85	3.83	3.74
Weighted average	3.79	3.71	3.81	3.80	3.85	3.76	3.71	3.66

Source : BAM.

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

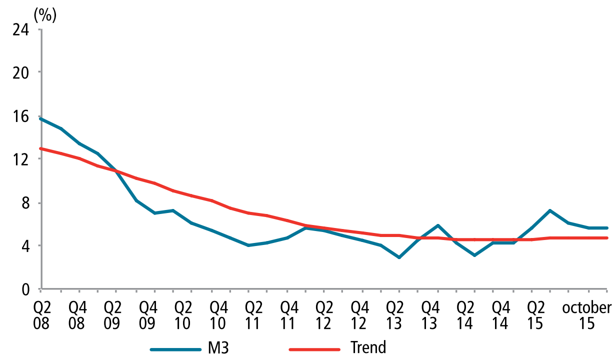
	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct.
13 weeks	3.30	3.08	2.97	2.68	2.48	2.54	2.51	2.50
26 weeks	3.45	3.15	-	2.79	2.50	2.55	-	-
52 weeks	3.63	3.25	3.14	2.83	2.53	2.66	2.60	2.61
2 years	4.04	3.35	-	3.02	2.59	2.86	2.74	2.81
5 years	4.62	3.91	3.80	3.33	2.98	3.24	3.17	3.16
10 years	5.43	4.47	-	3.75	3.30	3.66	3.39	3.61
15 years	5.87	5.15	-	4.30	3.89	4.07	-	-
20 years	5.96	5.66	5.57	4.60	4.20	-	4.44	4.42
30 years	-	-	-	5.69	4.98	5.01	5.00	4.99

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



**Observation of the third quarter of 2015 corresponds to the daily average of data from October 1st to November 25, 2015.*
Source : BAM.

Chart 4.4: YoY M3 growth and its trend



Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

In the third quarter of 2015, banks' liquidity improved by 2.2 billion dirhams due to the expansive impact of foreign currency transactions and other factors, partially offset by higher outstanding amounts of currency in circulation. Indeed, foreign banknotes sales, whose pace accelerated in summertime, largely contributed to improving bank liquidity by 17.2 billion dirhams. Similarly, other factors contributed to improving bank liquidity by 3.1 billion dirhams, including 1.1 billion following BAM's customer operations. However, the increase in money in circulation during summertime and on the occasion of Eid Al-Adha, amounting to 17.7 billion dirhams, partially offset the expansive impact of other factors. Treasury operations had no significant impact on liquidity (i.e. a restrictive effect of nearly 350 million dirhams) due to the virtual offsetting between:

- On the other hand, banking subscriptions to T-bond auctions (37 billion dirhams) and tax and customs revenues, including the second installment of corporate taxes;
- On the other hand, the repayment of domestic debt to the banking system (30.3 billion dirhams), payment of civil service salaries (16.8 billion dirhams) and settlement of retirement pensions (5.8 billion dirhams) and subsidy costs (3.7 billion dirhams).

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

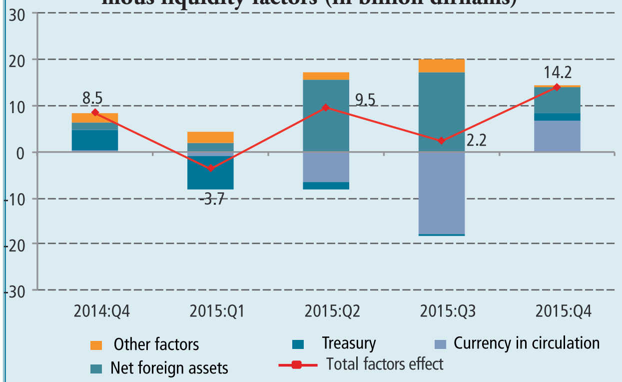


Chart B 4.1.2: Monthly change in the impact of autonomous liquidity factors (in billion dirhams)

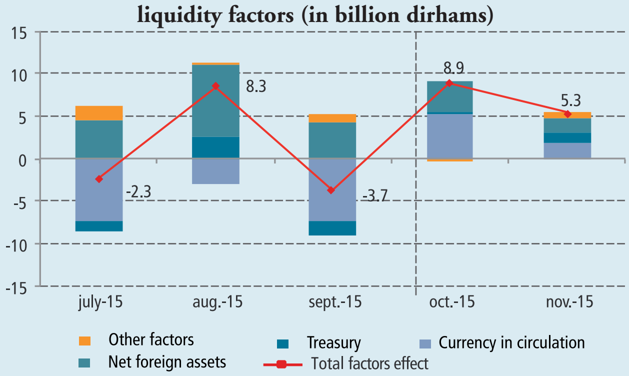


Chart B 4.1.3: Change in reserve requirements (in millions of DH)

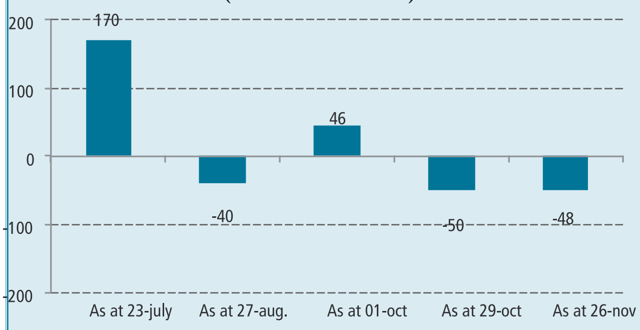
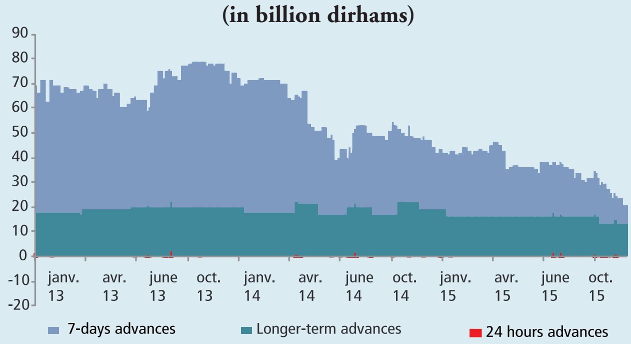


Chart B 4.1.4: BAM interventions on the money market (in billion dirhams)



In the fourth quarter of 2015*, banks' liquidity deficit narrowed by 14.2 billion dirhams under the combined effect of all the autonomous factors. Thus, net outflows of currency in circulation reached 7 billion dirhams. Foreign assets operations continued to have an expansive impact of 5.5 billion dirhams. In addition, Treasury operations had a positive impact of 1.5 billion dirhams on liquidity, due to the difference mainly between:

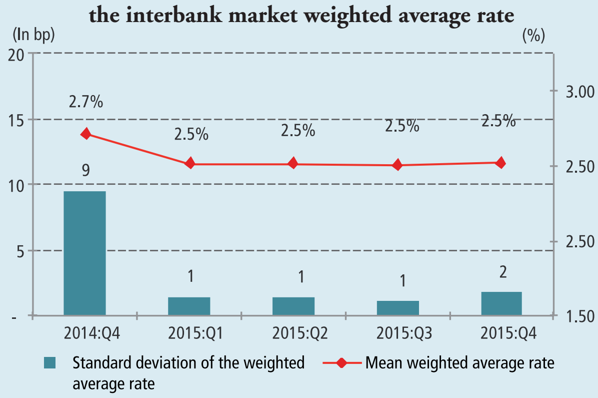
- Firstly, the repayment of domestic debt to the banking system (21.3 billion dirhams), payment of civil service salaries (5.6 billion dirhams) and settlement of retirement pensions (4 billion dirhams) and subsidy costs (3.4 billion dirhams);
- Secondly, banking subscriptions to T-bond auctions (22.2 billion dirhams) and tax and customs revenues, including the third installment of corporate taxes.

*Q4 2015: the fourth quarter of 2015 includes only the period from October 1 to November 26, 2015

Given the above, the outstanding amount of BAM's interventions was down to 14 billion from 20.5 billion dirhams in the end of the previous quarter. This decrease affected 7-day advances and operations of one-year secured loans, whose respective outstanding amounts were reduced to 7 billion and 13.5 billion dirhams.

Finally, yields on the overnight interbank market remained close to the key rate, or 2.52 percent on average, with low volatility of 2 basis points.

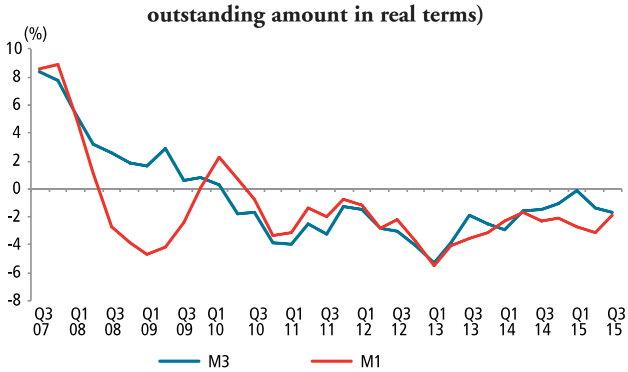
Chart B 4.1.5: Change in the mean and standard deviation of the interbank market weighted average rate



6.6 percent, reflecting a base effect due to a significant decline a year earlier. Similarly, after posting an annual decline of 1.6 percent in the previous quarter, securities of money market fund shares/units stood at a level similar to that recorded at end-October 2014. In contrast, demand deposits grew by 6.6 percent, as opposed to 6.9 percent, while demand deposits with the Treasury dropped by 14.5 percent, after rising 3.8 percent in the third quarter.

In terms of the main sources of money creation, change in the M3 aggregate covers an acceleration from 18.2 percent to 23.8 percent in the growth of net international reserves and deceleration from 1.8 percent to 0.7 percent in bank credit and from 15.7 percent to 10.1 percent in net claims on central government.

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.

Credit

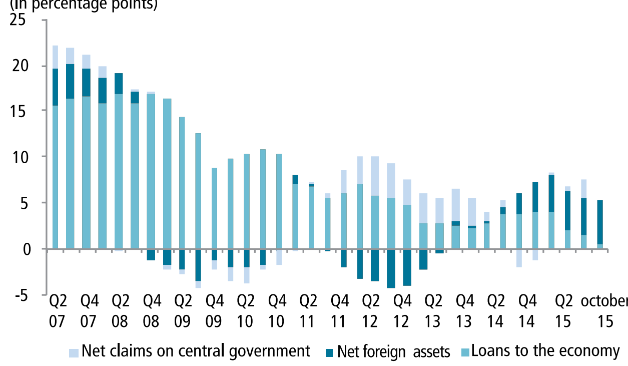
October data show a further slowdown in the annual bank lending growth to 0.7 percent from 1.8 percent on average in the third quarter 2015.

By category, cash advances recorded a drop of 5.6 percent in October, steeper than 4.4 percent a quarter earlier. Equipment loans declined by 1.8 percent, as against an increase of 1.7 percent, reflecting a 0.4 percent decrease in loans to public nonfinancial corporations, after rising 11.9 percent, and a further decline from 0.9 percent to 3.3 percent in loans granted to private nonfinancial companies. Meanwhile, growth of home loans decelerated slightly from 2.7 percent to 2.3 percent, following a slower growth from 5.9 percent to 5.4 percent in real estate loans and a further decline from 5.2 percent to 5.4 percent in loans to real estate developers. For other categories, growth of consumer loans moved down from 5.5 percent to 5.1 percent, while financial loans improved slightly from 10.2 percent to 10.5 percent. The annual growth of nonperforming loans was up from 10.7 percent in the third quarter to 11.2 percent and their ratio to bank lending remained almost stable at 7.5 percent.

By institutional sector, loans to the private sector fell 0.6 percent, after increasing 0.1 percent in the previous quarter. This trend reflects a steeper drop from 2.5 percent to 3.9 percent in loans to private nonfinancial companies and virtual stagnation of loans to households at 3.6 percent. Similarly, growth of lending to the public sector decelerated from 7.2 percent to 3.3 percent. Growth of loans allocated to other financial companies moved down from 10.9 percent on average in the third quarter to 8.7 percent in October.

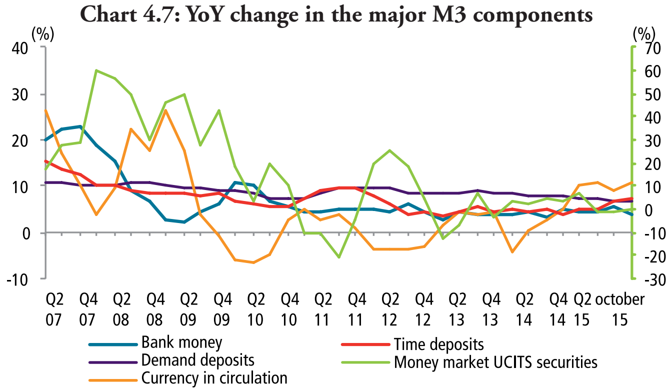
By economic sector, the latest available bank credit data indicate a further decrease from 9.2 percent in the second quarter to 10 percent in the third quarter in loans allocated to manufacturing industries and from 2.8 percent to 7.2 percent in loans to the trade sector. Similarly, lending accorded to extractive industries fell 1.1 percent, after rising 1 percent in the previous quarter. However,

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



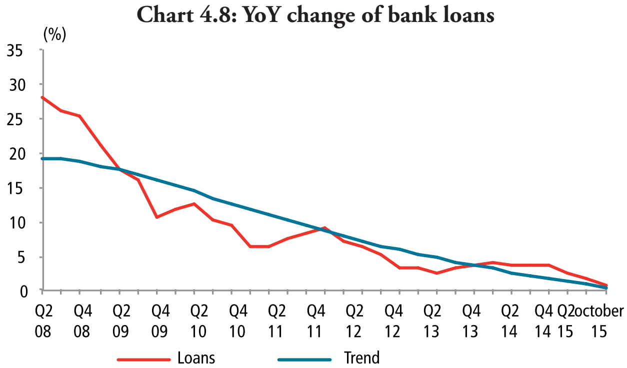
Source : BAM.

Chart 4.7: YoY change in the major M3 components



Source : BAM.

Chart 4.8: YoY change of bank loans



Source : BAM.

lending growth accelerated from 12.3 percent to 16.9 percent for the "electricity, gas and water" sector and from 17.3 percent to 21.2 percent for "transport and communication".

Loans allocated to the nonfinancial sector by other financial companies, not included in the monetary position, decreased by 0.6 percent in the third quarter, less steeper than 3.2 percent registered in the second quarter 2015, particularly due to the improvement in loans granted by finance companies. Indeed, the latter increased by 0.2 percent, as against a decline of 2.5 percent in the second quarter, in connection with an acceleration from 2.3 percent to 3.5 percent in leasing and slower fall from 13.9 percent to 1 percent in consumer loans. Loans accorded by offshore banks contracted further, reaching a lower level of 26.4 percent compared to the previous year.

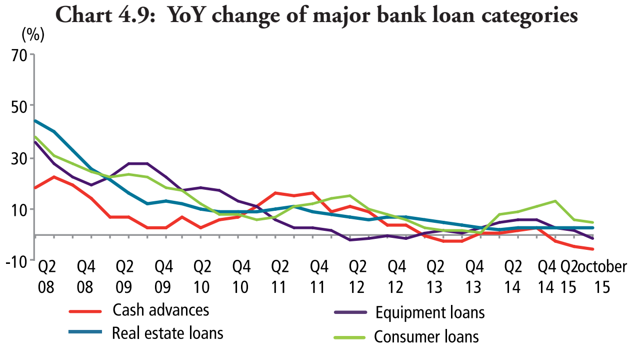
The latest BAM's lending conditions survey shows that the recent change in bank credit would be mainly attributed to lower demand. Indeed, this survey indicates a decrease in corporate demand in the third quarter, especially from small and medium enterprises. However, banks would have relaxed bank lending conditions in the third quarter to VSME, large businesses and individuals.

Other sources of money creation

In late October, net international reserves strengthened by 23.8 percent from 18.2 percent in the previous quarter, owing to an easing of the current account deficit and continued FDI inflows.

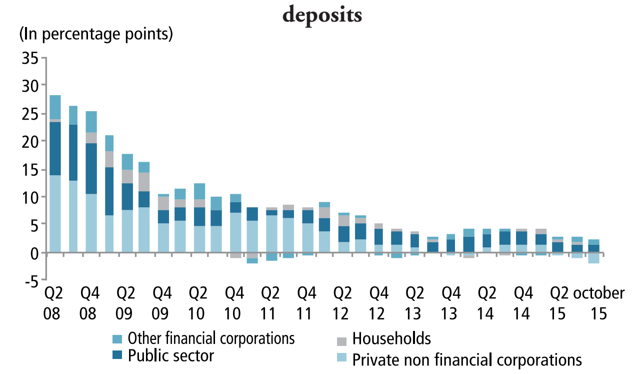
Growth of net claims on central government decelerated from 15.7 percent to 10.1 percent in October. This change covers an increase of 20.6 percent in liabilities of other depository corporations, as opposed

Chart 4.9: YoY change of major bank loan categories



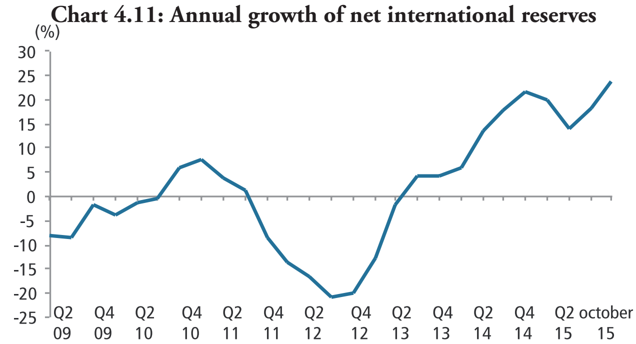
Source : BAM.

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



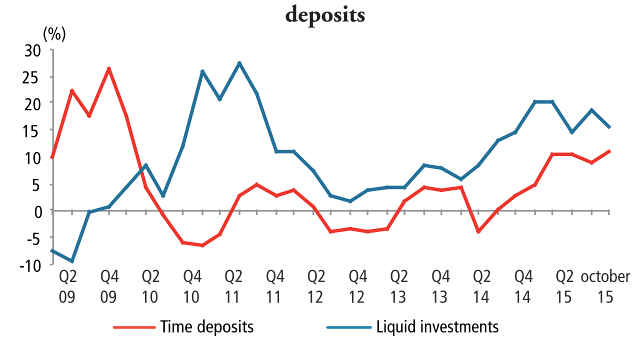
Source : BAM.

Chart 4.11: Annual growth of net international reserves



Source : BAM.

Chart 4.12: YoY change in liquid investments and time deposits



Source : BAM.

to a decline of 38.7 percent in the previous quarter. At the same time, Treasury bills held by banks rose by 6.8 percent, from 3.4 percent, and those held by money market fund shares/units increased by 68.8 percent, as against 109 percent.

Liquid investments

The annual growth of liquid investment aggregates decelerated from 18.7 percent to 15.4 percent, reflecting a slowdown in all categories.

Indeed, securities included in the LI1 aggregate grew by 14.1 percent in October, as against 16.4 percent a quarter earlier, in connection with a slower growth of outstanding Treasury bills from 15.6 percent to 13.1 percent. Similarly, the growth of securities of fund shares/units moved down from 22.6 percent to 17.8 percent.

Exchange rate

In the fourth quarter, compared to the previous quarter, the national currency appreciated on average by 0.49 percent vis-à-vis the euro and depreciated by 0.76 percent against the US dollar.

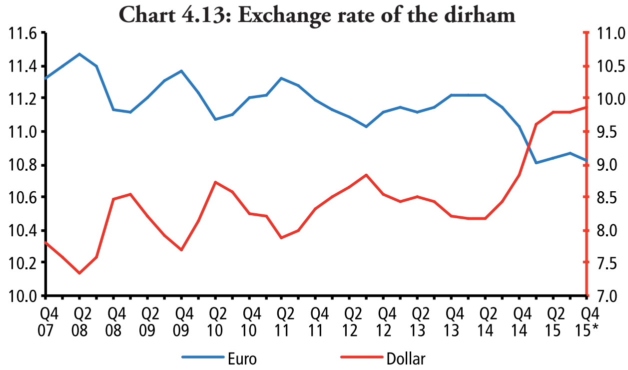
Under these conditions, the dirham's effective exchange rate appreciated in the third quarter 2015 by 1.5 percent in real terms, reflecting an appreciation of 0.88 percent in nominal terms and an inflation rate of Morocco, which was broadly higher than that of the key partner countries and competitors.

4.2. Asset prices

4.2.1 Real estate assets

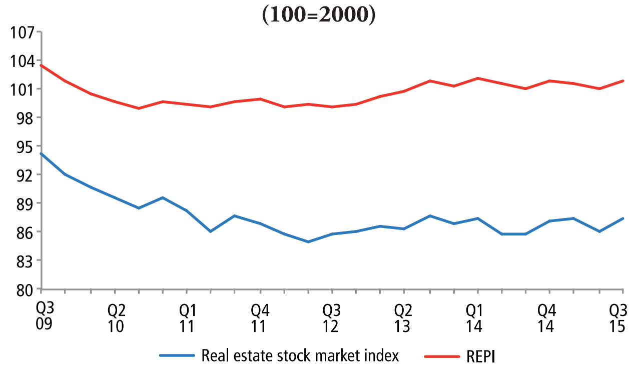
In the real asset market, after falling 0.7 percent a quarter earlier, the real estate price index declined further by 1.5 percent in the third quarter 2015. This decrease is due to price declines of 2.4 percent for real estate assets,

Chart 4.13: Exchange rate of the dirham



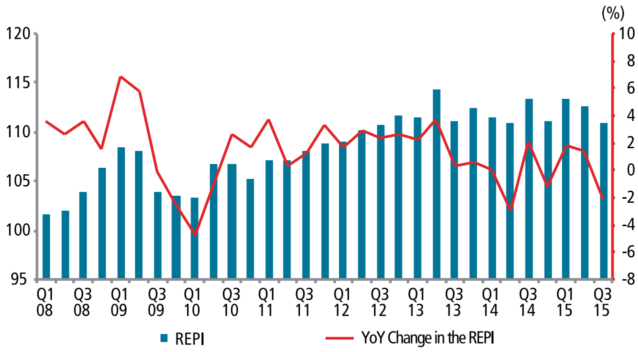
** Observation of the third quarter of 2015 corresponds to the arithmetic average from October 1st to November 27, 2015.*
Source : BAM.

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



Sources: IMF and BAM calculations.

Chart 4.15: Change in the Real Estate Price Index



1.3 percent for professional property and 1.1 percent for residential assets.

Transactions decreased by 10.4 percent from one quarter to another, reflecting an 18 percent decline in professional property sales as well as respective decreases of 7.8 percent and 17 percent in residential property and urban land sales.

In major cities, real estate prices recorded quarter-on-quarter declines of 7.2 percent in Marrakech, 5.5 percent in Casablanca and 3.7 percent in Rabat. However, they rose 2.9 percent in El Jadida, 2.3 percent in Meknes, 1.5 percent in Oujda and 1 percent in Kenitra. Transactions recorded divergent trends across cities. In particular, they decreased 18.2 percent in Casablanca, 20.1 percent in Agadir and 30 percent in Marrakech, mainly due to a drop in residential property and urban land transactions. Conversely, sales recorded increases of 4.1 percent in El Jadida, 9.9 percent in Tangier and 26.2 percent in Oujda, mainly reflecting higher transactions on residential assets.

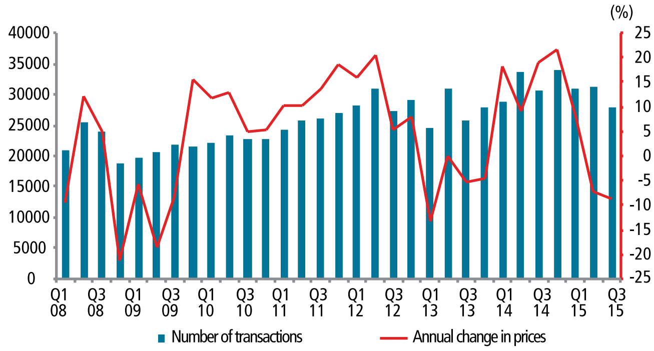
4.2.2 Financial assets

4.2.2.1 Shares

At the end of November, the MASI was slightly down 0.2 percent compared to end-September, bringing its underperformance since the beginning of the year to 5.5 percent. The analysis of sector indexes shows decreases of 7.5 percent for "construction and building materials", 1.3 percent for "banks", 8.1 percent for the "distributors" sector companies and 4.2 percent for "insurance companies". However, the "telecommunications" and "real estate" indexes rose 5.9 percent and 11.9 percent, respectively.

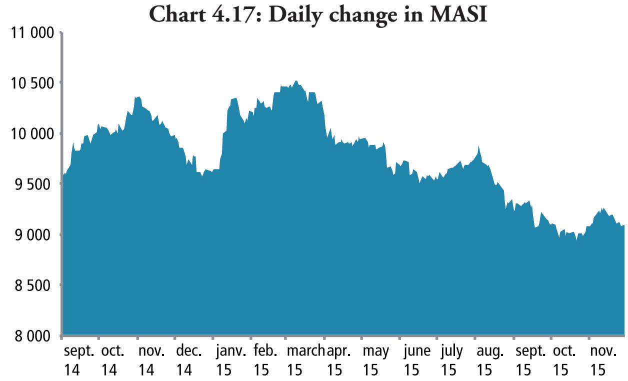
Against this backdrop, the price earnings ratio stood at end-November 2015 at 17.3

Chart 4.16: Change in number of real estate transactions



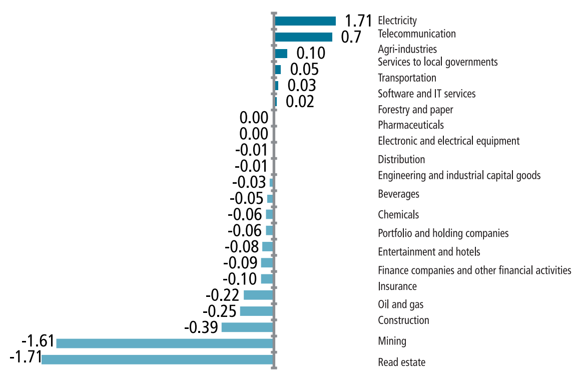
Source: BAM.

Chart 4.17: Daily change in MASI



Source: Casablanca Stock Exchange.

Chart 4.18: Year-to-date contribution of sectoral indexes to MASI growth, in %



Source: Casablanca Stock Exchange

from 17.5 in the third quarter and the price to book ratio stood at 2.28 percent and depreciated by 9 basis points compared to end-December 2014.

The average monthly trading volume totaled 2.2 billion dirhams between October and November, as against 2.6 billion in the third quarter 2015 and nearly 3 billion in November. These transactions were mainly performed on the central market, with an average monthly volume of 1.8 billion dirhams, as against 1.6 billion in the previous quarter and 2.1 billion since the beginning of the year.

Market capitalization stood at 458.4 billion dirhams at end-November, almost the same level as in the third quarter, but still down 5.4 percent compared to end-December 2014.

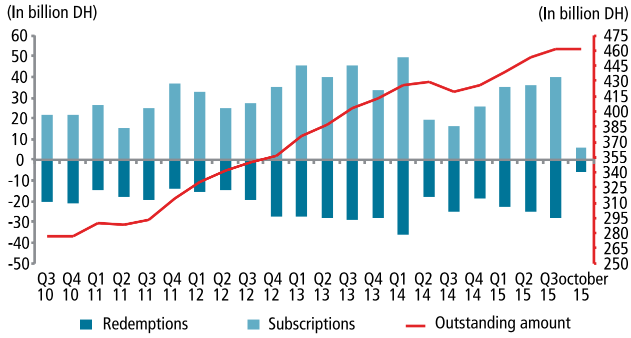
4.2.2.2 Treasury bonds

In the primary market, issues of sovereign bills amounted to 5.8 billion dirhams in October from an average of 13.2 billion in the third quarter and 12.3 billion since the beginning of the year. A rate of 48 percent of issues focused on medium-term maturities and were performed at an average rate of 2.99 percent, from 2.96 percent in the third quarter. Emissions of long-term bonds represented 46 percent and matched an average rate of 4.34 percent, as against 4.19 percent a quarter earlier. The share of short-term maturities in total emissions amounted to 7 percent and matched the same rates recorded a quarter earlier. Taking into account repayments, amounting to 6.2 billion dirhams, outstanding Treasury bills totaled nearly 462 billion in October, up 8.4 percent, compared to end-December 2014.

4.2.2.3 Negotiable debt securities

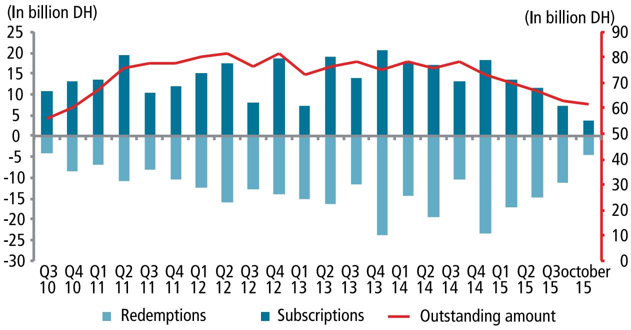
Negotiable debt securities reached 3.6 billion dirhams in October, after averaging

Chart 4.19: Change in outstanding Treasury bonds



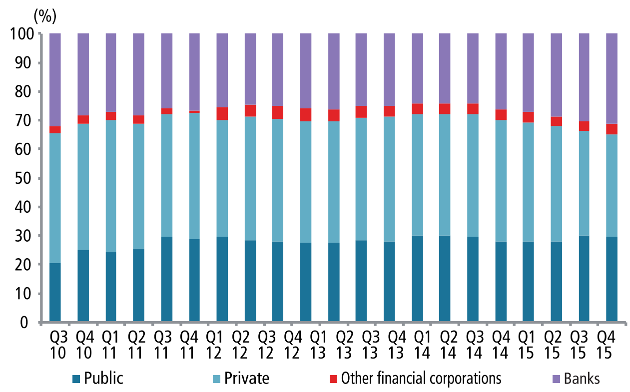
Source: BAM.

Chart 4.20: Change in outstanding amount of negotiable debt securities



Source: BAM.

Chart 4.21: Change in the structure of outstanding bonds by issuer (in%)



Source: Casablanca Stock Exchange.

2.4 billion in the third quarter. Emissions of certificates of deposit amounted to 1.6 billion dirhams in October from an average of 910 million a quarter earlier and focused on short-term maturities, with a share of 78.3 percent matching rates from 2.80 percent to 2.94 percent, as against 3.09 percent to 3.28 percent in the third quarter. Financing companies issued bills amounting to 860 million dirhams in October, as against a monthly average of 442 million in the third quarter and their rates ranged from 3.31 percent to 3.85 percent, as opposed to a range from 3.21 percent to 3.85 percent in the third quarter.

The issuance of commercial paper amounted to 1.1 billion dirham in October, almost stagnant compared to the average of the third quarter. These issues matched rates varying between 2.90 percent and 5.20 percent in October, as against 4.30 percent and 5.55 percent in the previous quarter. Taking into account repayments of 3.6 billion dirhams, the outstanding amount of negotiable debt securities stood at 61.6 billion dirhams, down 1.8 percent from the previous quarter.

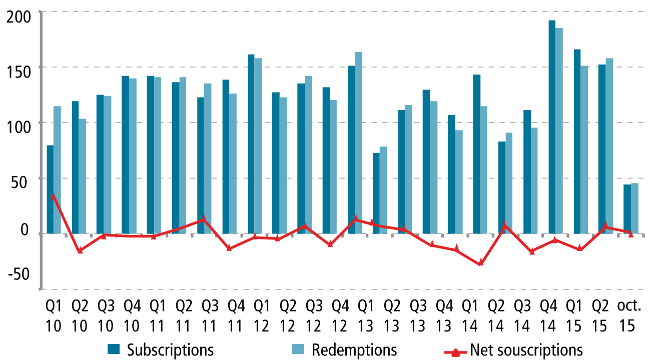
In the bond market, emissions in October and November reached 1.7 billion dirhams and were performed by banks with a rate of nearly 70 percent. Thus, the amount of emissions since the beginning of the year stood at 13.1 billion (of which 6.4 billion by nonfinancial corporations), as against 9.5 billion over the same period of 2014, bringing outstanding bond issues to 100.2 billion, up 4.6 percent compared to end-December.

4.2.2.4 Mutual fund shares

In October, subscriptions to mutual fund shares/units totaled 44.5 billion dirhams, as against a monthly average of 50.9 billion in the third quarter of 2015. Meanwhile, redemptions totaled 46.1 billion dirhams from a monthly average of 52.8 billion. The overall performance of mutual funds improved slightly by 0.2 percent compared to the third quarter 2015 and 2.2 percent compared to end-December 2014.

Under these conditions, net assets of mutual funds, valued at end-October, reached 310.6 billion dirhams, or almost the same level as in the previous quarter, but up 3.4 percent compared to end-December 2014. By category of mutual funds, net assets of diversified fund shares/units were up 0.4 percent from the previous quarter and those of bond funds increased by 1.3 percent, while respective decreases of 0.9 percent and 5.5 percent were registered for equity and money market funds.

Chart 4.22: Change in subscriptions and redemptions of mutual fund shares/units (in billion dirhams)



Source: Stock Exchange

5. RECENT INFLATION TRENDS

In line with the analysis and forecasts published in the last monetary policy reports, inflation in the first three quarters of the year remained relatively higher than in 2014. Indeed, the impact of the return of higher volatile food prices accentuated during this period, owing to higher prices of some regulated goods and services and the transmission of the increase in durum wheat prices to consumer prices. However, the gradual dissipation of the effects of these increases led to a marked deceleration in inflation as of the third quarter. Thus, it fell from 2 percent in the second quarter 2015 to 1.9 percent in the third quarter and 1.4 percent in October, mainly covering a less rapid increase in prices of regulated goods excluding fuels and lubricants and a steeper decline in prices of fuels and lubricants. Core inflation remained stable at 1.4 percent, covering a slight acceleration in inflation of nontradables from 1.3 percent to 1.4 percent and a decrease in that of tradables from 1.6 percent to 1.5 percent.

The manufacturing price index fell by 5.3 percent in October, as against 5.5 percent in September.

5.1 Inflation trends

After reaching 2 percent in the second quarter 2015, inflation fell to 1.9 percent in the third quarter and 1.4 percent in October. This change affected all sections excluded from core inflation. Indeed, prices of fuels and lubricants dropped further, following a fall in international oil prices and inflation of other regulated goods decelerated, in connection with the dissipation of the effect of previous increases as of August 2015 for electricity and water prices and as of October for the "passenger road transport". Inflation of volatile food prices remained high, despite the slight slowdown in October. Core inflation continued to be stable at 1.4 percent in the third quarter and October.

Thus, prices of fuels and lubricants fell by 17.2 percent in the third quarter and 22.4 percent in October 2015, bringing their contribution to inflation from -0.5 percentage point to -0.6 percentage point. Growth of prices of other regulated goods was down from 4 percent in the second quarter to 2.8 percent in the third quarter and 1.3 percent in October.

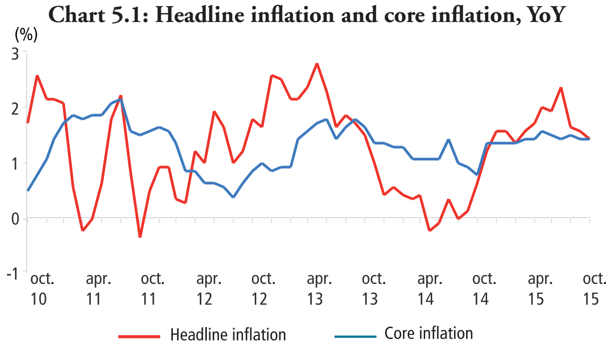
Inflation of volatile food prices reached 7.1 percent in the third quarter and 6.3 percent in October, driven mainly by price increases of 33.5 percent in prices of "citrus" and 8 percent in those of "fresh vegetables".

Table 5.1: Change in inflation and its components

	Monthly change(%)			YoY change(%)		
	Aug. 15	Sept. 15	Oct. 15	Aug. 15	Sept. 15	Oct. 15
Headline inflation	**-0.1**	**0.0**	**0.4**	**1.7**	**1.6**	**1.4**
- Volatile food products	0.5	0.4	2.9	6.2	7.5	6.3
- Fuels and lubricants	-5.0	-6.7	-1.7	-16.3	-21.9	-22.4
- Administered goods excluding fuels and lubricants	0.0	0.0	0.0	2.2	1.6	1.3
Core inflation	**-0.1**	**-0.3**	**0.0**	**1.5**	**1.4**	**1.4**
- Food products	-0.2	0.0	0.2	2.1	2.0	2.2
- Clothing and footwear	0.3	0.0	0.0	0.8	0.7	0.5
- Housing, water, gas, electricity and other fuels*	0.2	0.2	0.0	1.1	1.2	1.2
- Furniture, household appliances and common house maintenance	0.1	0.0	0.1	0.1	0.1	0.2
- Health*	0.0	0.5	0.1	0.6	0.6	0.7
- Transportation*	0.2	0.0	0.2	0.5	0.4	0.5
- Communication	0.0	0.0	0.0	0.2	0.2	0.2
- Entertainment and culture	0.0	0.1	0.0	0.5	0.6	0.6
- Education	0.0	1.9	0.1	3.2	2.2	2.1
- Restaurants and hotels	0.3	0.0	0.2	2.6	2.3	2.4
- Miscellaneous goods and services	0.0	-0.1	0.0	0.7	0.6	0.4

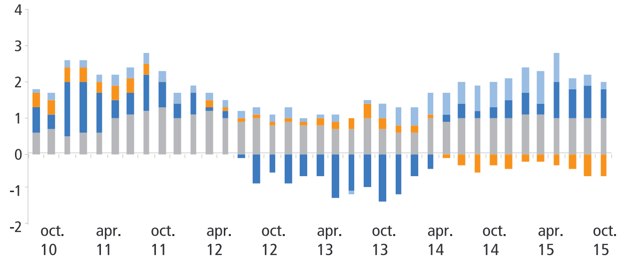
** Excluding administered goods.*
Sources: HCP, and BAM calculations.

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

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 1 Sept. 15	16 Sept. 15	1 Oct. 15	16 Oct. 15	1 Nov. 15	16 Nov. 15
Premium gasoline	9.78	9.67	9.43	9.41	9.19	9.49
Diesel 50	7.90	8.14	7.98	8.07	7.79	7.96
Industrial fuel (dh/tonne)	2889.59	3091.36	2862.72	2973.12	2894.45	2896.19

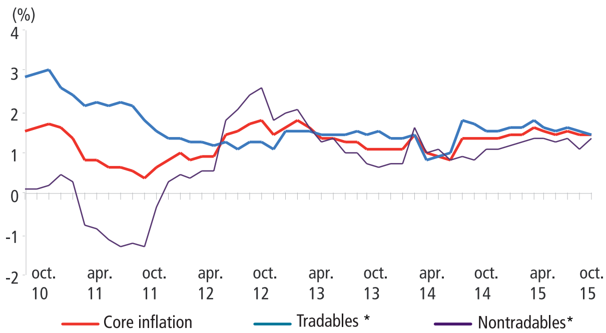
Source : Ministry of Energy and Mining.

5.2 Tradable and nontradable goods

Price trend analysis by tradables (CPIXT) and nontradables (CPIXNT) shows that prices of nontradables grew year on year by 1.1 percent in September and 1.4 percent in October, mainly due to a further rise in fresh meat prices from 0.6 percent to 1.8 percent. The contribution of nontradables to core inflation rose from 0.5 to 0.6 percentage point in the same period.

Inflation of tradables decelerated slightly from 1.6 percent to 1.5 percent, while maintaining their contribution to inflation at 0.8 percentage point. This change was mainly attributed to the dissipation of the effect of an increase in cereal prices registered in 2014, which more than offset the impact of a slower fall of prices of oils and pulses and an increase in tea prices.

Chart 5.3: YoY change in the prices of tradables* and nontradables*, included in the CPIX



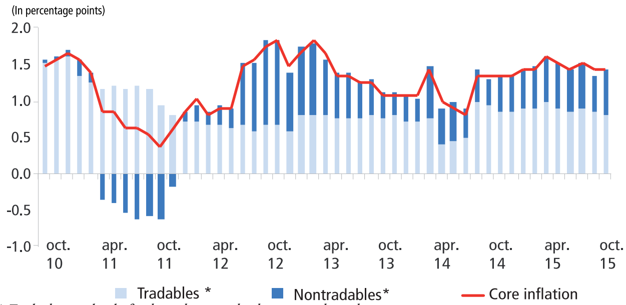
** Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

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

	Monthly change (%) Aug. 15	Sept. 15	Oct. 15	YoY change (%) Aug. 15	Sept. 15	Oct. 15
Tradables (CPIXT)	0.0	0.0	0.1	1.6	1.6	1.5
Nontradables (CPIXNT)	0.0	0.3	0.2	1.4	1.1	1.4

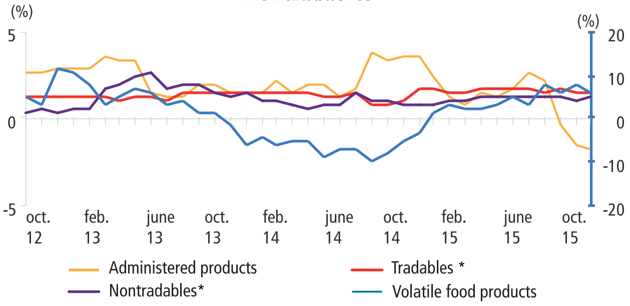
Sources: HCP, and BAM calculations.

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



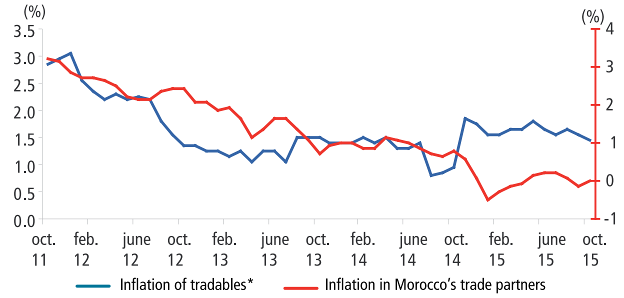
** Excluding volatile food products and administered goods.*
Sources: HCP, and BAM calculations.

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

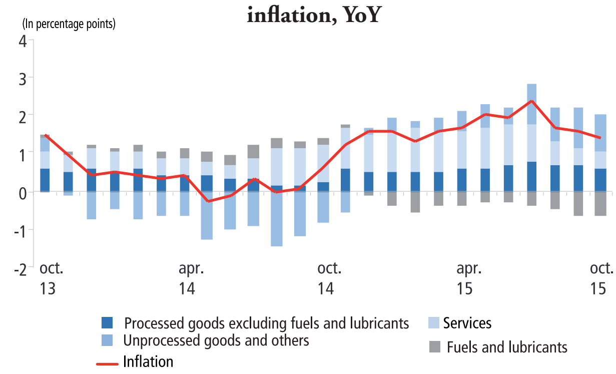
	Monthly contribution to inflation		Yoy contribution to inflation	
	Sept. 15	Oct. 15	Sept. 15	Oct. 15
Products excluded from core inflation index	-0.1	0.4	0.6	0.5
Volatile food products	0.1	0.4	1.0	0.8
Administered products	-0.1	0.0	-0.3	-0.4
Tradables*	0.0	0.0	0.6	0.5
Nontradables*	0.1	0.1	0.3	0.4

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

5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that the slowdown in inflation between September and October affected, to different degrees, processed and unprocessed goods as well as services. Indeed, growth in prices of unprocessed goods fell from 4.8 percent to 4.5 percent, as a result of lower inflation of fresh food. Their contribution to inflation stood at 1 percentage point from 1.1 percentage point in September. Prices of processed goods excluding fuel and lubricants rose 1.5 percent, from 1.6 percent a month earlier, while the increase in services prices eased from 1.3 percent to 1.2 percent, due to the dissipation of the effect of a rise in road transport prices in 2014.

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



Sources: HCP, and BAM calculations.

5.4 Industrial producer price index

After consecutive declines in the last three months, the manufacturing producer price index edged up 0.1 percent in October. This trend mainly reflects a 0.6 percent rise in «food industry» prices and, to a lesser extent, respective increases of 0.2 percent and 1.1 percent in producer prices of the «textile industry» and «woodwork and manufacturing of products of wood».

Year on year, the downward trend in industrial producer prices registered for

Table 5.5: Price indexes of goods and services

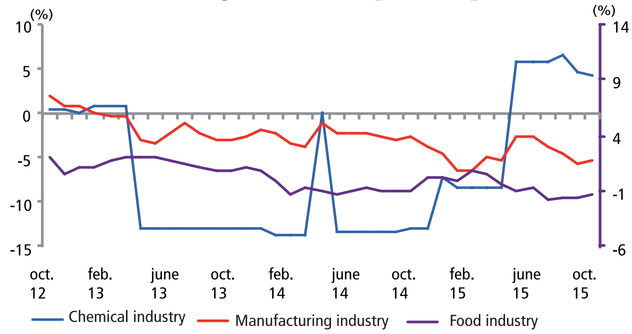
	Monthly change (%)			YoY change (%)		
	Aug. 15	Sept. 15	Oct. 15	Aug. 15	Sept. 15	Oct. 15
Processed goods*	0.0	0.1	0.0	1.8	1.6	1.5
Services	0.3	0.1	0.3	1.8	1.3	1.2
Unprocessed goods and others	0.2	1.8	0.2	4.0	4.8	4.5
Fuels and lubricants	-6.7	-1.7	-6.7	-16.3	-21.9	-22.4

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

the 33rd consecutive month remains driven by lower «coking and refining» prices, due to falling international crude oil prices. It eased slightly to 5.3 percent from 5.5 percent a month earlier, due to slower fall from 45.4 percent to 44.5 percent in «coking and refining» prices and from 1.6 percent to 1.2 percent in «food industry» prices. The producer prices of «chemical industry» increased by 4.4 percent, as against 4.8 percent in September.

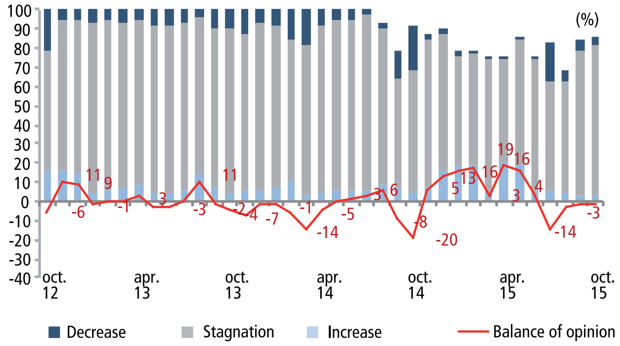
Regarding the outlook, BAM's business survey in industry of October 2015 indicates that manufacturers anticipate a decline in industrial prices over the next three months. Indeed, 5 percent of corporate managers expect lower prices, while 3 percent of them expect an increase (Chart 5.9). For 78 percent of respondents, industrial prices should remain unchanged.

Chart 5.8: YoY change in industrial producer price indexes



Sources: HCP, and BAM calculations.

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



** As of September 2014, a new section «no visibility» has been added to the questionnaire.*
Source: BAM monthly business survey.

6. INFLATION OUTLOOK

This section presents the inflation trend considered most probable (central forecast) over the next six quarters and examines the major risks associated thereto (balance of risks). The central forecast scenario depends on the assumptions and developments considered for a series of variables affecting economic activity and inflation. It takes into account the 5 percent increase in the minimum wage that came into force in July 2015 in accordance with the decisions taken by the Government as part of the social dialogue, billing terms and pricing provisions for electricity, drinking water and sanitation provided for at the Official Gazette No. 6275A, as well as the liberalization of the domestic oil market. Assuming the non-realization of the major risk factors identified, inflation over the next six quarters would average 1.2 percent, a relatively lower level compared to the set rate in the last MPR (1.5 percent). In 2015, the CPI would show an average increase of 1.6 percent, slightly down compared to September MPR (1.8 percent). In 2016, an average rate of 1.2 percent is expected. It should be noted that these estimates do not take account of the effects of a possible non-subsidization of sugar prices announced as of January 1, 2016. If applicable, the impact of this measure would be an increase of 0.27 point in inflation in 2016 and 0.48 point in the first quarter of 2017. For this forecasting exercise, the balance of risks is broadly neutral due to uncertainties about the strength of the economic recovery in major partner countries and the change in energy prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

Global activity showed a moderate growth during the third quarter of the current year, mainly reflecting a slowdown in economic growth in some major emerging countries. Indeed, the tightening of financial conditions following the expected normalization of the US monetary policy, the heightened volatility on financial markets and the lower proceeds from commodity exports fueled sluggishness in Brazil and Russia. Also, China's economic growth continues to slow down, partly due of the ongoing reduction of past excesses in real estate, credit and investment sectors.

However, the sluggishness of emerging economies contrasts with the relatively positive trends in advanced countries. Indeed, the robust domestic demand, the economic supportive measures and the significant drop in energy prices continue to have a positive impact on the economic activity, as evidenced by the gradual recovery in the euro area, the positive profile of production in the United Kingdom and the continued positive trend of growth in the United States, despite being slow during the last two quarters.

Detailed analysis shows that the euro area's economy grew by 1.6 percent in the third quarter of 2015, a level similar to that recorded in the second quarter of the same year. This momentum is attributed to a faster economic growth in Spain (3.4 percent in Q3 2015 from 3.2 percent in Q2), positive economic trends in Italy (0.8 percent in Q3 from 0.6 percent in Q2) and Germany (1.7 percent in Q3 from 1.6 percent in Q2), and the positive growth profile in France (1.2 percent in Q3 from 1.1 percent in Q2).

The gradual economic recovery in the euro area continues to be driven by the good demand behavior. In this regard, recent data on retail trade and new car registrations confirm that growth of private consumption continues to be positive. This momentum benefits from higher real income, following the drop in energy prices, gradual alleviation of strains on household balance sheets in a context of monetary easing and slight improvement in labor market projections. However, investment growth remains low, in conjunction with a significant reduction in public investment and further adjustments on the real estate market in several countries of the euro area. Exports also dropped, primarily due to the weakening of demand from emerging countries.

In the labor market, despite a lower unemployment rate to 10.7 percent in October from 11 percent in June, this indicator remains high and still contains disparities across countries. Indeed, unemployment fell in Spain (from 22.3 percent in June to 21.6 percent in October) and Italy (from 12.5 percent to 11.5 percent), recorded a virtual stagnation over the same period in Germany (from 4.6 percent to 4.5 percent) and rose slightly in France (from 10.5 percent to 10.8 percent).

Inflation in the euro area continues to be low, as evidenced by the 0.2 percent rate recorded in November. This trend is due to a significant drop in energy prices (-7.3 percent), which offset the recovery of food prices (1.5 percent) and services ones (1.2 percent).

Growth of the US economy continued to slow down in the third quarter of 2015, as a rate of 2.2 percent is expected from 2.7 percent in the second quarter and 2.9 percent in the first quarter. This trend is mainly attributed to investment deceleration, adjustments to public spending and sluggishness in export trends, impacted by the contraction in demand from emerging countries. Despite these relative underperformances, the increase in the real household income due to the moderation in energy prices continues to support economic activity, as evidenced by the good performance of the labor market. Indeed, the unemployment rate dropped further in the United States from 5.3 percent in June to 5 percent in November.

Inflation remained subdued in the United States in the last month, moving up from 0.1 percent in June 2015 to 0.5 percent in November. This trend reflects the decrease in energy prices (-14.7 percent), which offset the recovery in food prices (1.3 percent) and services ones (2.9 percent).

Taking account of all these developments, the International Monetary Fund (IMF), in its October forecasts, expects a growth of around 1.5 percent in 2015 and 1.6 percent in 2016 in the euro area. For the United States, the IMF projects a growth of 2.6 percent in 2015 and 2.8 percent in 2016. Compared with September MPR, growth forecasts for the United States in 2016 were slightly revised downwards (3 percent was expected), while those for the euro area remained unchanged.

Regarding uncertainties about global activity forecasts, the balance of risks remains on the downside. In terms of change in raw materials, a more marked-than-expected moderation of prices could further stimulate domestic demand of importing countries. However, growth in exporting countries would contract significantly, which is likely to weaken their economic prospects and international trade in general. As to foreign exchange markets, monetary policy divergences and disparate trends in external positions should contribute to exacerbating the volatility of major currencies. Therefore, if the dollar appreciates sustainably, the debtors' balance sheets in US currency could become significantly fragile, especially if commercial gains accrued by the improvement of price competitiveness do not cover the weight caused by rising debt burdens. Regarding the risk of deflation, although concerns about a further decline in prices, especially in the euro area, are broadly moderate, fears related to the sustainability of low inflation persist in a very low interest rate environment. Furthermore, while the Greek crisis has only limited effects on other countries in the euro area due to the restructuring of its debt and actions taken European institutions and the IMF, tensions could reappear as soon as the economic situation in Greece shows signs of fragility. Finally, geopolitical instability could lead to an escalation of tensions and further disrupt commodity prices, international trade and financial markets.

Under these conditions, the weighted average growth rates of Morocco's major trading partners (Germany, Spain, France, Italy and the United Kingdom) assumed in this forecasting exercise stands at 1.5 percent in 2015 and 1.8 percent in 2016. Compared with September MPR, these forecasts did not change significantly. 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 latest update of December, anticipates inflation to stand at 0.4 percent in 2015 and ranges between 1.2 percent and 1.7 percent in 2016. The ECB, in its latest macroeconomic projections for the euro area, excepts inflation at 0.1 percent in 2015 and 1 percent in 2016. In the medium term, risks to inflation in the euro area are attributed to uncertainties surrounding the economic activity, energy commodity prices and developments in exchange rates.

Against this backdrop, in line with recent forecasts by international financial institutions, non-energy import prices should decline in 2015. In 2016, this trend could continue albeit at a less pronounced pace. The momentum behind these developments would be due to a stable supply at world level and weakening growth prospects in emerging countries, major importers of non-energy commodities.

6.1.2 National environment

In line with projections provided in September MPR, national economic growth prospects for 2015 show a broadly positive profile. This trend primarily reflects an outstanding performance of the agricultural sector and a continued moderate level of nonagricultural activities. For the year 2016, growth prospects remain relatively modest. This trend would be attributed to the still slow economic recovery in partner countries, combined with the dissipation of the positive effects of the exceptional crop year 2014-2015. However, the sustained decline in commodity prices and the uptrend in some export-oriented sectors could temper uncertainties surrounding the growth of nonagricultural activities.

Indeed, the 2015-2016 crop year is marked by less favorable starting conditions compared to the previous year, in view of a delay in precipitation and a cumulative rainfall below its level recorded a year earlier. However, the Ministry of Agriculture has adopted measures to support the sector, through the expected mobilization of 2 million quintals of selected seeds and 1.2 million tonnes of fertilizers that would be made available to farmers. Other actions relating to agricultural equipment and technical assistance and follow-up for farmers will be also scheduled. For the current crop year, an average cereal production of 70 million quintals is assumed in the baseline scenario. Therefore, the agricultural value added should record a decline in 2016.

The nonagricultural growth would remain moderate overall in 2016, against the backdrop of a gradual and slow recovery of economic activity in the euro area and a relatively positive profile of services, apart from tourism, which suffers from an unfavorable international context. Domestic demand should show a broadly favorable trend, although risks surrounding this trend persist. Thus, household final consumption would continue to grow, albeit slightly down compared to last year, taking advantage of the anticipated increase in transfers from Moroccan expatriates (3.6 percent, year on year, at end-November 2015), continued positive profile of consumer loans, albeit under deceleration (to 5.1 percent at end-October 2015 from 9 percent a year earlier) and moderate change in prices, mainly energy ones. Investment should recover slightly, but is still surrounded by uncertainties. On the one hand, a relative stabilization in private investment is expected. Indeed, FDI net flows (4.1 percent at end-November) and imports of capital goods, excluding aircraft purchases (4.9 percent at end-November) suggest a slight recovery. However, the further decline in loans to property developers (-5.4 percent at end-October) and the contraction of equipment loans (-1.8 percent at end-October) continue to fuel fears. On the other hand, despite fiscal consolidation efforts, public investment remains consistent with a planned budget of 61.39 billion dirhams under the Finance Act 2016, up 13.5 percent compared to 2015.

Under these conditions, this forecasting exercise assumes a growth rate of 2.7 percent of nonagricultural GDP. Given the contraction to -4.3 percent in the agricultural value added, overall growth is projected at 2.1 percent in 2016, slightly down from the level reported in September MPR (2.4 percent).

Regarding the labor market, the latest data of the third quarter of 2015 point to a rise of 0.5 percent in the national unemployment rate to 10.1 percent, despite a decline of 0.3 percent in the participation rate. This change covers an increase in unemployment in both urban and rural areas. Indeed, the unemployment rate was up from 14.5 percent to 15.1 percent in urban areas and from 4.1 percent to 4.3 percent in rural ones. These trends reflect the net creation of 41,000 jobs, down from the previous year (58,000), under the combined effect of new job creations in services (27,000), construction (25,000) and industry including crafts (16,000) and the loss of 27,000 positions in agriculture, forestry and fisheries.

Moreover, BAM's latest business survey for the current quarter shows that manufacturers expect a deceleration in the workforce employed in all industrial branches, with the exception of electrical and electronic industries, where an increase is anticipated. Thus, taking into account all this information, the central scenario of this forecasting exercise assumes a minimum wage of 13.46 dirham/hour over the whole horizon.

Finally, with regard to the stabilization of oil production at a high level and the deceleration in global demand, mainly from emerging countries, oil price forecasts still point to moderate levels for 2015 and 2016. The World Bank, in its October update, revised down its oil price forecasts. Indeed, prices fell from \$57.5 to \$52.5 in 2015 and from \$61.2 to \$51.4 in 2016. The IMF, in its October update, projects an oil price of \$51.62 in 2015 and \$50.36 in 2016. Compared with the last update of July, IMF forecasts were also revised downwards, as a price of \$58.87 was expected in 2015 and \$64.22 in 2016.

Change in oil prices remains surrounded by uncertainties. Firstly, downside risks stem from a higher-than-expected production of OPEC countries, a continued contraction of the production costs of shale oil in the United States and a further slowdown in demand from emerging countries. Secondly, the lower production of shale oil combined with delays in implementing agreements with Iran and escalating geopolitical tensions could cause energy price to rise.

Consequently, in light of recent developments in energy markets, the price for diesel at the pump should remain moderate over the rest of the forecast horizon.

6.2 Inflation outlook and balance of risks

Inflation forecasts over the horizon of six quarters were slightly revised downwards compared with September MPR. In the short term, an inflation rate of 1.2 percent is expected in the fourth quarter of 2015, as against 1.6 percent anticipated in the last MPR. This decline is essentially attributable to a deceleration in volatile food prices in the current quarter. For the full year 2015, inflation would average 1.6 percent from 1.8 percent previously reported. For 2016, inflation should average around 1.2 percent, virtually stagnant compared to the level reported in September (1.3 percent). Given these developments, the central forecast over the coming six quarters would stand at 1.2 percent, a rate lower than the one predicted a quarter earlier (1.5 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 projected 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).

Table 6.1: Inflation outlook for 2015 Q4 –2017 Q1

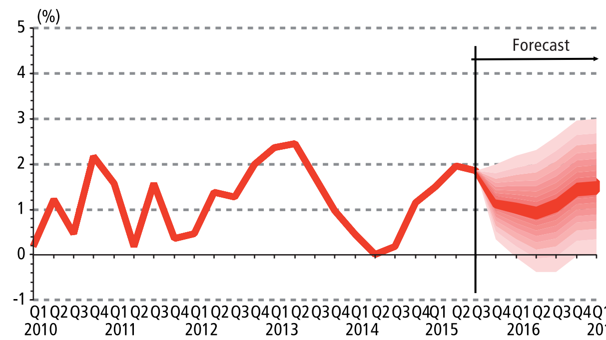
	2015	2016				2017	Average		FH*
	Q4	Q1	Q2	Q3	Q4	Q1	2015	2016	
Central forecast (%)	1.2	1.1	1.0	1.1	1.5	1.5	1.6	1.2	1.2

(Quarterly data, YoY)

**Forecast horizon*

The balance of risks to the baseline scenario of this exercise is broadly balanced because of uncertainties surrounding the strength of the recovery in major partner countries and change in energy commodity 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 (a probability of 90 percent).

Chart 6.1: Inflation forecast, 2015 Q4–2017 Q1
(Quarterly data, YoY)



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

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