BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 36/ 2015

Document prepared for
the Bank Board
September 22, 2015

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Septembre 22, 2015

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, September 22, 2015

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

2. At this meeting, the Board reviewed recent economic, monetary and financial developments as well as inflation forecasts up to the fourth quarter of 2016.

3. Internationally, the Board noted that the economic recovery in advanced countries continued, but at a slower pace than expected. In the euro area, GDP grew by 1.5 percent in the second quarter from 1.2 percent a quarter earlier and should rise by 1.4 percent in 2015 and 1.7 percent in 2016, based on the ECB's September projections. In the United States, growth slowed to 2.7 percent and its medium-term outlook was revised by the Fed in September, upward to 2.1 percent for 2015 and downward to 2.3 percent for 2016. At the same time, labor market situation is further improving, as the unemployment rate went down to 10.9 percent in July in the euro area and 5.1 in August in the United States, its lowest level since April 2008. In the major emerging countries, second quarter data show significant GDP improvement in India, a stagnation in China and a steeper contraction in Russia and Brazil. On the commodities market, oil price has trended down since June, posting monthly declines of 11.4 percent in July and 15.9 percent in August. World Bank projections expect it to average $57.5 per barrel in 2015 before increasing to $61.2 in 2016. Under these conditions, inflation rate stood at 0.1 percent in August in the euro area and would, according to ECB forecasts, end the year 2015 at the same level, before increasing to 1.1 percent in 2016. In the United States, inflation stood at 0.2 percent in August and is expected to average 0.4 percent at year-end, according to forecasts by the Fed, before rebounding to 1.7 percent in 2016.

4. As regards monetary policy decisions, the ECB kept its key rate unchanged at 0.05 percent in September 3 and decided to increase the share limit of its repurchases of public sector securities from 25 to 33 percent. At its meeting of September 17, the Fed decided to maintain the target range for the federal funds rate unchanged at 0-0.25 percent, indicating that the Federal Open Market Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term. The Committee explicitly specified -for the first time- that recent global economic and financial developments may restrain U.S. economic activity somewhat and are likely to put further downward pressure on inflation in the near term. Regarding bank credit, its annual rate stabilized in the United States at 7.3 percent in August, and increased in the euro area by 0.9 percent in July after 0.6 percent a month earlier.

5. All these changes in the international economic situation do not indicate any external inflationary pressures.

6. At the national level, growth reached 4.1 percent in the first quarter from 2.8 percent a year earlier, on the back of a 12 percent increase in the agricultural value added, as against a 1.6 percent decline. In contrast, nonagricultural GDP decelerated from 3.4 to 3.1 percent. Taking into consideration these developments and the available infra-annual indicators, growth is projected to stand at 4.6 percent in 2015, up from 2.4 percent in 2014, driven mainly by agricultural activities, while nonagricultural GDP growth would expand by merely 3.3 percent. In 2016, under the assumption of a normal crop year, growth should fall to 2.4 percent and its nonagricultural component would stabilize at 3.3 percent. On the labor market, second quarter data show a decline in the unemployment rate by 0.6 point to 8.7 percent. This decrease reflects a significant drop by 0.9 point in labor force participation rate, while the number of jobs created did not exceed 38,000. Under these circumstances, nonagricultural output gap is negative, suggesting the absence of inflationary pressures from the real economy.

7. In terms of external accounts, provisional data at end-August show a 20.4 percent reduction in the trade deficit, mainly as a result of a 30 percent contraction in the energy bill and the continued momentum in exports, with increases of 19.1 percent in shipments of the automotive industry and 18.4 percent in sales of phosphates and derivatives. Transfers of Moroccans living abroad were up 5.5 percent while travel receipts fell 2.5 percent, despite a 16.1 percent rebound in July. Based on these developments and assuming an average oil price at $57.5 per barrel in 2015 and GCC donations limited to 6 billion, the current account deficit is projected at 2.8 percent at the end of 2015. Regarding financial account transactions, FDI inflows over the first eight months of the year reached 24.2 billion, up 22.8 percent year on year. Against this background, foreign exchange reserves increased by 19.7 percent to 210.2 billion at end-August, the equivalent of 6 months of goods and services' imports, and should improve further to cover six months and a half of imports at end-December.

8. With regard to public finance, overall spending at the end of August shrank by 5 percent, mainly reflecting a fall of 54.2 percent in subsidy costs. However, the wage bill rose by 0.6 percent and capital expenditure strengthened by 2.6 percent to 34.5 billion, representing an implementation rate of 70 percent of the amount planned under the Finance Act. At the same time, tax revenues fell 0.8 percent, including mainly a 4.4 percent drop in corporate tax income. Receipts from donations reached 1.3 billion compared to 7.2 billion in the same period of 2014. In total, budget implementation resulted in a 10 billion reduction in fiscal deficit, excluding privatization receipts, suggesting that the deficit target of 4.3 percent of GDP, set in the Finance Act, would be achieved.

9. At the monetary level, the growth rate of M3 decreased from 6.2 percent on average during the second quarter to 5.3 percent at-end July and is expected to reach 5 percent in 2015. The money gap was therefore negative, reflecting the absence of inflationary pressures of monetary origin. The growth rate of bank credit stabilized at 2.3 percent, with a bigger fall for cash loans, between the second quarter and July, a slowdown in consumer and equipment loans and an acceleration of real-estate loans. Viewing these developments and the results of BAM's Survey on Lending Conditions, indicating a decline in demand from businesses in the second quarter, credit forecasts for 2015 were revised down to about 3 percent. Bank liquidity improved by 5.9 billion on average in July and August compared to the second quarter, and BAM's weekly interventions were reduced to 36.3 billion on average. Lending rates in the second quarter posted quarterly declines of 9 basis points for consumer loans, 7 points for equipment loans and 6 points for real-estate loans. In contrast, rates on cash advances rose by 18 basis points, bringing up the overall average rate from 5.81 percent to 5.93 percent.

10. On the assets' market, the real-estate price index recorded a decline of 0.4 percent in the second quarter, reflecting a 0.9 percent decrease in residential property prices. However, urban land index increased by 1.4 percent and commercial properties' index was virtually stable at the same level as in the first quarter. On the stock market, and after rising 6.8 percent in the first quarter, the MASI trended downward, posting as at-end August a year-to-date underperformance of 2.9 percent.

11. 11. Concerning the trend in consumer prices, inflation rate stood at 1.7 percent in August from 2.4 percent in July, mainly reflecting less rapid increase in prices of regulated goods excluding fuel and lubricants from 4.8 to 2.2 percent. Core inflation, which reflects the underlying trend of prices, edged up from 1.4 to 1.5 percent, with a slight acceleration in the prices of nontradable goods from 1.3 to 1.4 percent and a stability in those of tradable goods. Industrial producer prices continued to trend down, with a further decrease of 3.7 percent in July.

12. Based on all these developments, inflation is expected to remain in line with the objective of price stability. It is projected at 1.8 percent in 2015 and 1.5 percent, on average, over the next six quarters.

13. Taking into consideration all these developments and the uncertainties still surrounding both the national and international outlook, the Board considered that the current key rate of 2.5 percent remains appropriate.

14. Furthermore, the Board approved the Governance Charter of Bank Al-Maghrib, prepared in accordance with good practices.

OVERVIEW

In a context of high volatility in financial markets and falling commodity prices, global economic activity remains marked by a continued moderate recovery in key developed countries and a slower activity in emerging economies, with contrasting trends across countries. Indeed, economic activity continued to recover in the euro area at a lower-than-expected pace, with a year-on-year GDP growth of 1.5 percent from 1.2 percent in the previous quarter, while growth in the United States stood at 2.7 percent from 2.9 percent, due to the sharp deceleration in private investment. In the United Kingdom, it moved down from 2.9 percent to 2.6 percent, mainly reflecting a slowdown in construction and services. In Japan, economic conditions were characterized by a sharp decline in exports and private consumption, from one quarter to the next. On labor markets, the unemployment rate fell, month on month, from 5.3 percent to 5.1 percent in the United States in August and from 11.1 percent to 10.9 percent in the euro area in July, its lowest level since March 2012. In key emerging countries, growth stabilized in the second quarter at 7 percent in China and improved from 6.1 percent to 7.1 percent in India. In Brazil and Russia, the contraction of GDP worsened to -2.6 percent from -1.6 percent and to -4.6 percent from -2.2 percent, respectively.

In terms of outlook, the IMF lowered in July its global growth forecast by 0.2 point for 2015, to 3.3 percent, and maintained it at 3.8 percent for 2016. Growth in advanced countries should stand at 2.1 percent in 2015 and 2.4 percent in 2016 and GDP of emerging and developing economies would rise by 4.2 percent in 2015 and 4.7 percent in 2016. Regarding employment, the IMF projected in April an unemployment rate of 5.4 percent in 2015 and 5 percent in 2016 in the United States, while in the euro area, this rate should remain high at 11 percent and 10.5 percent, respectively.

Regarding stock markets, indexes of the major advanced and emerging economies recorded substantial declines in August. The EUROSTOXX 50 fell 2.8 percent from one month to another and the Dow Jones and Nikkei 225 showed respective declines of 4.1 percent and 2.3 percent. In emerging countries, the MSCI EM contracted by 8.8 percent, reflecting declines of 8.4 percent in China, 10.3 percent in Turkey and 3.5 percent in India. In the bond markets, yields continued to decline in developed countries, as 10-year yields fell between July and August from 0.7 percent to 0.6 percent in Germany, from 1.1 percent to 1 percent in France and from 2.3 percent to 2.2 percent in the United States. In contrast, emerging economies' yields stabilized overall in China and India and increased in Brazil and Turkey. In foreign exchange markets, the euro appreciated against the currencies of the major advanced economies with increases of 1.2 percent versus the dollar, 1.1 percent vis-à-vis the pound sterling and 0.9 percent against the Japanese yen, between July and August. Currencies of key emerging countries depreciated against the dollar, covering mainly a 2.1 percent decrease of the Chinese yuan, which stood, on August 12, at 6.4 yuan to one dollar, its lowest level since 2011.

With respect to monetary policy decisions, the Fed decided at its September meeting to keep its key rate within a range of 0 percent to 0.25 percent. It indicated that its Committee anticipates that it would be appropriate to raise the rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term. Similarly, the ECB maintained on September 3 its key rate unchanged at 0.05 percent and decided to increase the public sector's issue share limit from 25 percent to 33 percent. Regarding emerging countries, China's Central Bank reduced on August 25, its key rate by 25 basis points to 4.6 percent and devaluated the yuan against the dollar three times, between August 11 and 13. However, the Central Bank of India decided on August 4 to keep its key rate at 7.25 percent, while maintaining its accommodative monetary policy stance.

In commodity markets, prices were broadly tilted to the downside. Thus, regarding energy prices, the Brent price registered in August a year-on-year drop of 53.6 percent to an average of 47.5 dollars per barrel, while the indexes of base metal prices and agricultural commodities prices fell by 27.2 percent and 12.8 percent, respectively. Prices of phosphates and derivatives rose by 4.5 percent for crude phosphate and 5.6 percent for Potassium Chloride. However, prices declined by 8.1 percent for DAP, 9 percent for TSP and 15.2 percent for urea. Durum wheat prices declined by 31.7 percent from one year to the next.

Against this backdrop, the inflation rate stabilized in the United States at 0.2 percent and fell in the euro area to 0.1 percent in August. On September 3, the ECB revised down its inflation forecasts in the area to 0.1 percent for 2015 and 1.1 percent for 2016. All these developments indicate overall an absence of external inflationary pressures in the medium term.

Nationally, the data published by the HCP based on the new base year 2007 show a growth of 2.4 percent in 2014, covering a 2.5 percent decrease in the agricultural value added and a 3.1 percent increase in nonagricultural activities. Taking into account the available infra-annual data, growth is projected at 4.6 percent in 2015, driven mainly by a record cereal production of 115 million quintals, while the nonagricultural GDP growth should remain limited to 3.3 percent. In 2016, assuming a return to a normal crop year, growth should fell to 2.4 percent and its nonagricultural component should remain at 3.3 percent, the same rate registered in 2015.

On the labor market, after rising 0.7 point in 2014, the unemployment rate decreased by 0.6 point in the second quarter 2015 to 8.7 percent, with declines to 13.4 percent in urban areas and 3.3 percent in rural ones. This change reflects a significant decline of 0.9 point in the participation rate, while job creation was limited to 38,000 positions. Particularly, agriculture, forestry and fishing sectors lost 58,000 jobs despite a record cereal production of 115 million quintals.

Against this backdrop, nonagricultural output gap continues to be negative, suggesting the absence of demand-led inflationary pressures in the medium term.

Regarding external accounts, the trade deficit continued to ease, recording a decrease of 20.4 percent at end-August compared to the same period of 2014. Imports declined by 6.7 percent, with mainly a decrease of 30 percent in the energy bill, while exports rose 6.6 percent, mainly reflecting an improvement of 18.4 percent in shipments of phosphates and derivatives and 19.1 percent in car manufacturing sales. For other sections of the current account, remittances from Moroccan expatriates moved up 5.5 percent and, despite a 16.1 percent rebound in July, travel receipts were down 2.5 percent at end-August. Based on these data and the World Bank's assumption of an average oil price of $57.5 per barrel as well as a donation from the GCC of 6 billion dirhams as against 13 billion projected in the Finance Ac, the current account deficit should stand at 2.8 percent of GDP at the end of 2015, from 5.6 percent in 2014. Taking into account the change in net FDI flows, which grew by 21.1 percent, and trends of other capital account components, the outstanding net international reserves reached 210.2 billion dirhams at the end of August, equaling six months of imports of goods and services. They should strengthen further to end the year at a level equivalent to 6 months and a half of imports.

Date on Treasury expenses and revenues at end-July 2015 reveal a budget deficit of 23.6 billion, excluding privatization, down 10.2 billion compared to the same period in 2014. This change was mainly attributed to a drop of more than half of subsidy costs, while operating expenses increased slightly. Meanwhile, current revenues decreased by 2.9 percent, reflecting a drop of 0.5 percent in tax receipts and 19.8 percent in nontax ones. In particular, donations from the Gulf Cooperation Council countries (GCC) totaled 944 million at end-July 2015, as against 7.1 billion a year earlier. The current balance was positive at 1.2 billion, as against a negative balance of 3.3 billion at end-July 2014. In light of these developments, the target of a budget deficit of 4.3 percent of GDP projected in the Finance Law should be achieved, as lower receipts from donations were offset by falling subsidy costs.

On the monetary side, the M3 growth slowed down from 6.2 percent on average in the second quarter to 5.3 percent in July, thus maintaining the monetary gap negative and indicating the absence of monetary inflationary pressures. The annual growth of bank lending did not change significantly, standing at 2.3 percent. This trend covers a further decline in cash advances, slowdown in consumer and equipment loans and acceleration in real estate ones. Taking into account this change, the bank lending growth in 2015 should be around 3 percent. The share of nonperforming loans in bank credit remained stable at 7.2 percent. In terms of monetary conditions, the interbank rate remained aligned with the key rate, standing at 2.51 percent on average in July and August. As to deposit rates, the weighted average rate of 6- and 12-month deposits stood at 3.68 percent in July, down 3 basis points from the second quarter 2015. Regarding lending rates, the second quarter data indicate an increase of 12 basis points in the weighted average rate, compared to the previous quarter. This change reflects an increase of 18 basis points in the rate on cash advances, while rates on other loan categories were down 9 basis points for consumer loans, 7 points for equipment loans and 6 points for real estate loans. The dirham's effective exchange rate depreciated by 0.76 percent in the second quarter 2015 in nominal terms and 1.89 percent in real terms due to an inflation differential in favor of Morocco.

In the assets market, real estate prices fell by 0.4 percent in the second quarter, covering a drop of 0.9 percent in residential property prices, an increase of 1.4 percent in urban land ones and virtual stagnation in commercial property prices. The number of transactions decreased by 0.5 percent, owing to a decline of 9.2 percent in commercial property sales and respective increases of 0.3 percent and 0.2 percent in residential property and urban land ones. In the stock market, after falling 6.7 percent in the second quarter, the benchmark index was down 2.4 percent from July to August, and therefore its underperformance since the beginning of the year dropped to 2.9 percent. The trading volume continued its downward trend, standing in the central market at 1.8 billion on monthly average in July and August, as against 2.3 billion in the first half and an average of 2.6 billion in 2014.

Regarding inflation, the upward trend in prices since the beginning of the year was further confirmed. Indeed, inflation stood at 2.4 percent in July, from 1.5 percent in the first quarter and 2 percent in the second quarter of 2015, mainly due to higher volatile food prices whose upward contribution continued from 0.3 to 0.5 and then 1 percentage point. Higher tobacco prices also contributed to this increase as of June. Core inflation rose from 1.3 percent to 1.5 percent between the first and second quarters, before falling to 1.4 percent in July. Inflation of nontradable goods stood at 1.3 percent on average between April and July, from 1.1 percent in the first quarter. That of tradable goods increased from 1.6 percent to 1.7 percent before dropping to 1.6 percent in July. Meanwhile, manufacturing industrial producer prices continued to fall since early 2013, showing an annual decline of 3.7 percent in July as against 2.7 percent in June, reflecting a further decline in "coke and refining" prices from 27.5 percent to 32 percent.

Based on all of these developments, inflation should remain in line with the price stability objective with a balance of risks at equilibrium. It would stand at 1.8 percent in 2015 and 1.3 percent in 2016. It would be 1.5 percent on average over the next six quarters and 1.2 percent at the end of the forecast horizon (fourth quarter 2016).

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1. AGGREGATE SUPPLY AND DEMAND

National growth stood at 4.1 percent in the first quarter 2015, from 2.8 percent over the same period a year earlier, driven by an improvement of 12 percent in the agricultural value added, while growth of the nonagricultural value added remained moderate at 2 percent from 2.9 percent. In the second and third quarters, national growth should improve to 5 percent on average, thanks to an expansion of 15.4 percent in the agricultural value added, while nonagricultural growth should stand at 3.4 percent. Taking into account a lower-than-expected increase in the nonagricultural value added in the first quarter and trends of certain infra-annual indicators, nonagricultural growth prospects for 2015 were revised slightly downwards by 0.2 point to 3.3 percent. Meanwhile, the increase in the agricultural value added was revised upwards by 0.2 percentage point to 15.2 percent, due to the revised estimate of cereal production to 115 million quintals. Overall, national growth should stand at 4.6 percent in 2015, down 0.2 point compared to June. Regarding demand, household consumption should strengthen, supported by rising farm incomes, better transfers from Moroccan expatriates and moderate inflation. Investment should remain sluggish, suffering from weakness and wait-and-see attitudes in the construction sector and uncertainties about changes in foreign demand. In 2016, domestic growth should slow to 2.4 percent, reflecting a decline of 6 percent in the agricultural value added, assuming a return to normal cereal production of 70 million quintals. Given a sharp slowdown in the growth of taxes on products net of subsidies, nonagricultural activity should maintain its pace of growth at 3.3 percent. Risks to the medium-term outlook remain particularly attributed to a slower growth in partner countries and a reversal of change in commodity prices.

1.1 Output

National growth accelerated to 4.1 percent in the first quarter 2015 from 2.8 percent over the same period a year earlier, due to an improvement of 12 percent in the agricultural value added. Growth of the nonagricultural value added remained subdued at 2 percent, as against 2.9 percent.

In the second quarter 2015, national growth would have stood at 4.9 percent and should stand at 5.1 percent in the third quarter, driven by respective increases of 15.2 percent and 15.5 percent in the agricultural value added. Taking account of mainly positive outlook for developments in food industries and an uptrend in mechanical ones, the nonagricultural value added should stand at 2.2 percent and 2.4 percent, respectively. With an increase of almost 11 percent in taxes on products net of subsidies, nonagricultural GDP growth would have stood at 3.4 percent in the second quarter and would remain at a level close to that registered in the third quarter.

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

Activity sectors	2013		2014				2015		
	QIII	QIV	QI	QII	QIII	QIV	QI	QII_F	$QIII_F$
Agriculture	19.8	17.4	-1.6	-3.6	-3.5	-1.3	12.0	15.2	15.5
Nonagricultural VA	**1.6**	**1.4**	**2.9**	**2.5**	**1.7**	**0.8**	**2.0**	**2.2**	**2.4**
Extractive industry	-2.3	-0.7	12.3	6.2	2.5	-3.5	-10.9	-3.2	-3.0
Processing industry	-0.8	0.2	1.7	1.5	1.1	-0.5	1.8	1.7	1.7
Electricity and water	16.1	20.2	5.1	6.3	3.1	3.6	10.1	1.6	1.7
Construction	1.9	2.0	2.1	1.7	1.0	0.9	1.3	1.3	1.4
Trade	-0.6	-1.8	2.3	2.4	-0.6	-0.4	2.7	2.6	2.9
Hotels and restaurants	3.5	5.0	4.8	3.3	1.9	-0.3	-1.0	-1.8	-1.6
Transportation	2.7	1.6	5.4	6.4	5.1	5.3	0.6	0.4	0.7
Post and telecommunication	1.5	1.5	7.2	5.7	6.3	6.2	4.7	4.5	4.7
General government and social security	2.2	0.9	3.0	2.6	2.4	2.3	2.1	2.5	2.6
Other services*	2.3	2.2	2.5	2.0	1.6	0.3	2.1	2.3	2.0
Taxes on products net of subsidies	22.0	15.0	8.1	11.8	13.9	19.0	13.0	11.0	10.5
Nonagricultural GDP	**3.4**	**2.6**	**3.4**	**3.4**	**3.0**	**2.7**	**3.1**	**3.4**	**3.5**
Gross domestic product	**5.3**	**4.3**	**2.8**	**2.6**	**2.2**	**2.2**	**4.1**	**4.9**	**5.1**

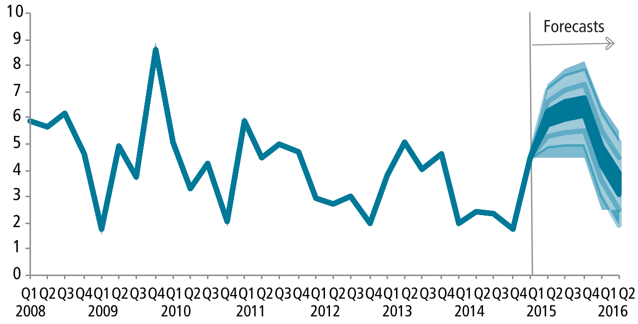
(*) Including financial activities and insurance, services to corporations and personal services, education, health, and social action, and the FISIM.

Sources: HCP, and BAM forecasts.

Regarding the agricultural sector, the latest estimate from the Ministry of Agriculture expect an upward revision of the cereal production to 115 million quintals in the 2014-2015 crop year, as against an initial estimate of 110 million quintals. Thus, the cereal production increased by 70.4 percent over the previous year and 53.4 percent compared to the average of the past five years. Thanks to favorable weather conditions, with an increase of nearly 26 percent in the cumulative rainfall compared to the previous year and good distribution of rainfall in space and time, the current crop year reached a record high of 56 million quintals of soft wheat, 35 million of barley and 24 million of durum wheat.

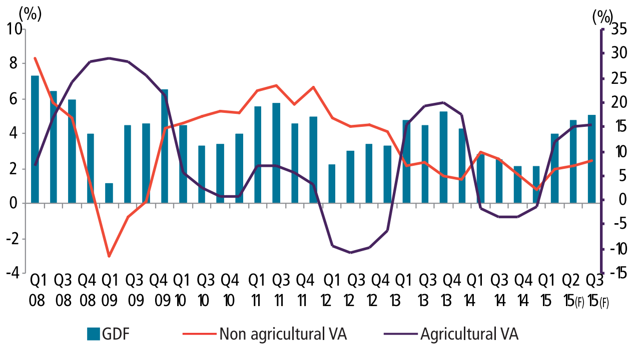
Regarding secondary activities, the value added of the processing industries should maintain a growth of 1.7 percent in the second and third quarters 2015, a rate similar to that observed in the first quarter. This rate is higher than that registered over the same period a year earlier, but remains below its long-term momentum. Indeed, the findings of BAM's monthly business survey in industry indicate a rise in the capacity utilization rate (CUR) to 71 percent in the second quarter, from 65 percent a quarter earlier. High frequency indicators for the third quarter point to divergent trends, which suggest a virtually stable growth of the sector. The business survey in industry for July shows a month-on-month decrease in production and sales, as the CUR stood at 73 percent from 75 percent a month earlier. In the same vein, very high, high and medium voltage sales almost stagnated at end-July 2015. In contrast, foreign trade indicators show positive trends, taking particularly into account an improvement in the food industry and an uptrend in the automotive one, whose exports at current prices grew by 16.1 percent and 15 percent respectively at end-August 2015.

Chart 1.1: GDP projected growth Q2-2015 - Q2-2016



Sources: HCP, and BAM forecasts.

Chart 1.2: YoY change in the GDP and its components (chained prices1998)



Sources: HCP, BAM calculations and forecasts.

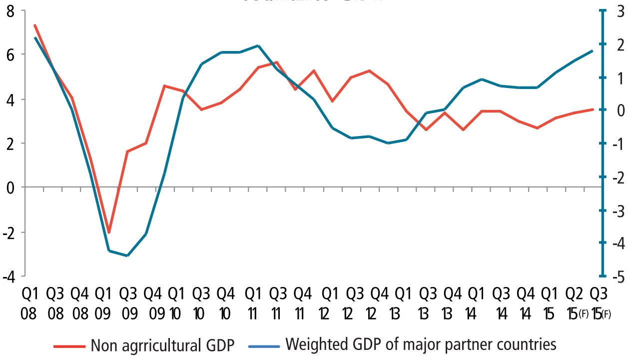
The decline in the mining value added should ease in the second quarter to 3.2 percent from 10.9 percent a quarter earlier. This change would reflect a slower decrease in the marketable production of phosphate, to 7.1 percent in the second quarter from 12.3 percent one quarter earlier. Similarly, the volume of exports recorded an increase of 1.7 percent, as against a decline of 25.4 percent. This trend should continue in the third quarter, with a decrease of 3 percent in the sector's value added. Available data of July indicate respective decreases of 9 percent and 14.5 percent in the volume of production and exports of phosphates.

After rising 10.1 percent in the first quarter 2015, the growth of the value added of electricity and water should decelerate to 1.6 percent in the second quarter. This change would be attributable to slower increase in the production of local net electricity to 5.1 percent in the second quarter and, to a lesser extent, in sales, to 0.7 percent, after respective increases of 8.2 percent and 1.5 percent one quarter ago. In the third quarter, growth of the sector's value added should stand at 1.7 percent, taking particularly into account improvements of 10.4 percent in net local production and 9.9 percent in total sales in July 2015.

Growth of the construction value added would have remained at 1.3 percent in the second quarter and 1.4 percent in the third quarter 2015. After a slight increase of 0.6 percent in the first quarter, cement sales were down 3 percent in the second quarter. In August, they rose 17.2 percent, with an increase of 1.4 percent in cumulative sales. Meanwhile, loans to real estate developers continued to decline, with a rate of 4.9 percent in July, after an average drop of 7.6 percent in the second quarter.

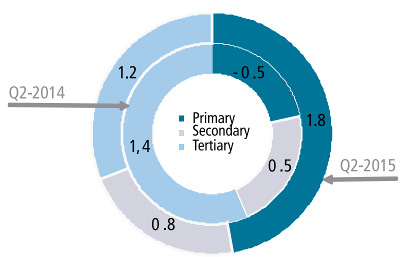
Regarding the tertiary sector, the posts and telecommunications sector should maintain

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



Sources: HCP, IMF and BAM calculations and forecasts.

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



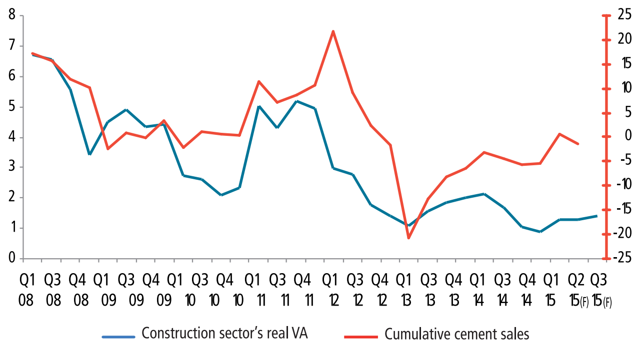
Sources: HCP, and BAM calculations and forecasts.

a slower growth compared to the previous year. Indeed, after rising 4.7 percent in the first quarter 2015, the sector's value added should improve by 4.5 percent and 4.7 percent in the second and third quarters, as against 5.7 percent and 6.3 percent a year earlier. Available data indicate an increase of 44.3 percent in the number of Internet subscribers at end-June 2015, registering a slowdown compared to 61.5 percent recorded at the end of the first quarter. Meanwhile, the number of mobile phone subscribers fell by 0.7 percent, after stagnating a quarter earlier while that of fixed phone subscribers continued to decrease, with a rate of 12.4 percent.

Regarding tourism, the value added of hotels and restaurants should decline by 1.8 percent in the second quarter, after a decrease of 1 percent a quarter earlier. This prospect is supported by foreign trade indicators for the second quarter, showing a decrease of 8.4 percent in travel receipts, after a decrease of 5 percent a quarter earlier. In addition, arrivals at border posts and total overnight stays dropped further from one quarter to the next, from 0.5 percent to 4.8 percent and from 8.5 percent to 13.4 percent, respectively, according to data from the Ministry of Tourism. However, this Ministry reported respective increases of 14.6 percent and 16.3 percent in July 2015 in arrivals and overnight stays, with slower fall in travel receipts to 2.5 percent in late August from 3.1 percent at the end of July according to the Foreign Exchange Office. Against this backdrop, the decline in the tourism value added should ease somehow to 1.6 percent in the third quarter.

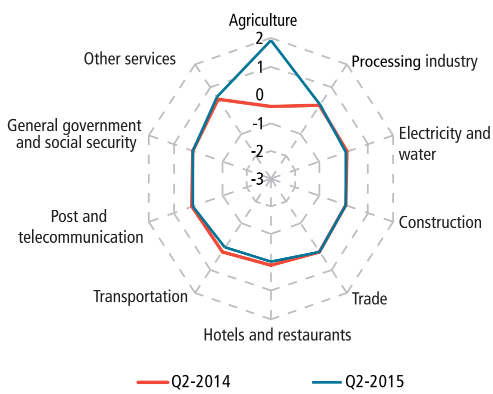
The trade and transport value added, which is dependent on the performance of other sectors, should rise respectively by 2.6 percent and 0.4 percent in the second quarter and 2.9 percent and 0.7 percent in the third quarter.

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



Sources: APC, HCP and BAM forecasts.

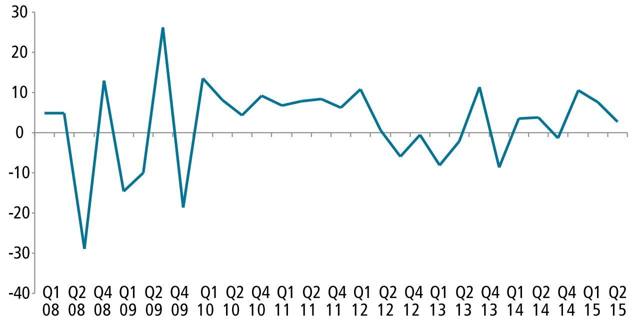
Chart 1.6: Sectoral contribution to overall growth



Sources: HCP, BAM forecasts and calculations.

Overall, the growth outlook for 2015 was revised slightly downwards compared to that reported in the last Monetary Policy Report. Growth would stand at 4.6 percent, as against an initial forecast of 4.8 percent at end-June 2015. This revision reflects a downward revision of nonagricultural growth to 3.3 percent from 3.5 percent. In contrast, growth of the agricultural value added was slightly revised upwards to 15.2 percent from 15 percent, following a reassessment of the cereal production to 115 million quintals. In 2016, assuming a return to a normal crop year, growth should slow to 2.4 percent, with a slight acceleration in the nonagricultural value added to 3.5 percent.

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



Sources: HCP, Foreign Exchange Office and BAM calculations.

1.2 Consumption

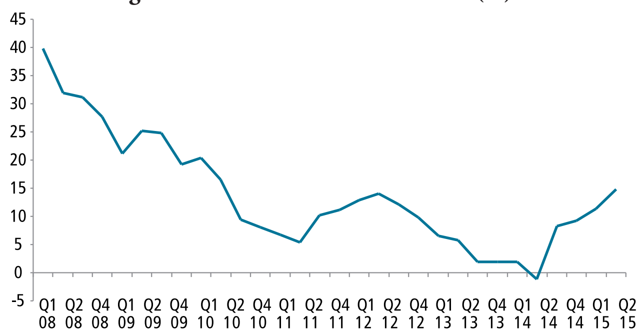
Household final consumption should benefit from the spillover effects of the improvement of farm incomes, following the good crop year. Indeed, the upward trend in the household confidence index since the fourth quarter of 2014 continued in the second quarter.

In addition, household consumption should benefit from a virtually continuous increase in transfers from Moroccan expatriates since June 2014. At the end of August, these transfers totaled 42.1 billion dirhams, up 5.5 percent from one year to another. However, monetary data show at the end of July a rise of 5.7 percent in consumer loans, recording a sharp downturn compared to an increase of 14.8 percent at end-June

In addition, household consumption should continue to be impacted by weaker recovery of nonagricultural activities, resulting in a limited job creation.

Regarding government consumption, data on Treasury expenses and revenues at end-July 2015 reveal a slower growth of operating expenses, moving down in one year from

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



Sources: HCP, BAM and BAM calculations.

5 percent to 0.5 percent. This change covers a deceleration in personnel costs from 1.3 percent to 0.8 percent and stagnation in spending on other goods and services, as against an increase of 12.8 percent a year earlier.

1.3 Investment

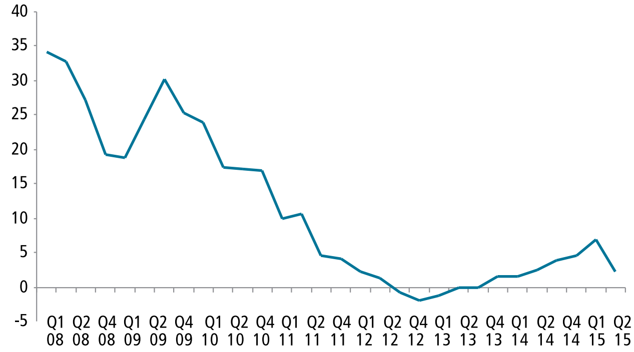
Regarding investment, available indicators show divergent trends in 2015. Equipment loans maintained a growth close to 2 percent on average between April and July 2015, under slowdown compared to an increase of around 5.6 percent during the first three months of the year. This change is largely attributed to the materialization of a favorable base effect in the first quarter, which dissipated in the last four months. That said, investment should benefit in the coming quarters from the decline in lending rates on equipment loans in the last three quarters, which fell from 6.01 percent in the third quarter of 2014 to 5.04 percent in the second quarter 2015.

Moreover, excluding exceptional aircraft imports, amounting to 3.6 billion dirhams, purchases of capital goods remain up 7.2 percent, or 3.9 billion at end-August, mainly reflecting a 1.7 billion increase in imports of "electrical equipment for telephony". Meanwhile, the flow of foreign direct investment (FDI) showed at end-August increases of 22.8 percent in revenue to 24.2 billion dirhams, and 29.5 percent in expenditure to 5.1 billion, representing a rise of 21.1 percent in net flows.

Treasury investment decelerated at end-July to 2 percent from 25.3 percent a year earlier.

Considering the available data, the contribution of investment to growth would be almost zero in 2015, after a negative contribution of 1.1 percentage point in 2014. In short, investment trends remain affected by continuous wait-and-see attitudes

Chart 1.9: YoY change in total investment. construction sector's value added and equipment loans (%)



Sources: HCP, BAM and BAM calculations.

Chart 1.10: Change in the general business climate*

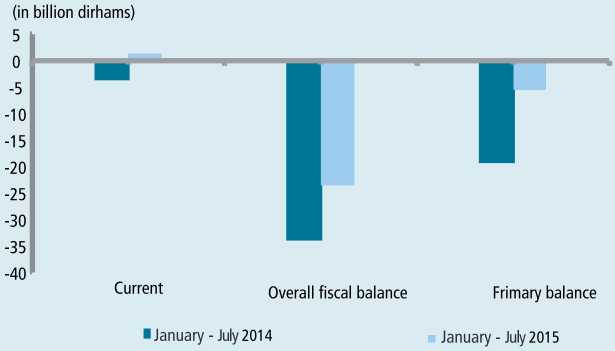
** Balance of opinion representing the difference between the percentage of "good" and "poor" answers.*

Source: BAM monthly business survey.

Box 1.1: Budget execution at end-July 2015

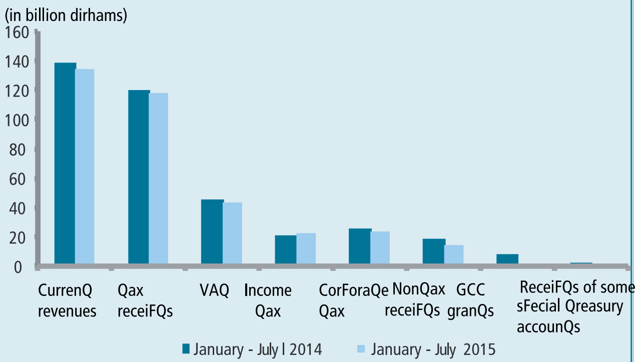
Data on Treasury expenses and revenues at end-July 2015 reveal a budget deficit of 23.6 billion, excluding privatization, down 10.2 billion compared to the same period of 2014. This change is attributed to a greater decline in expenses compared to revenues. Indeed, overall expenditure fell by 4.6 percent to 164.5 billion, mainly in connection with a decline of more than half in subsidy costs, while operating expenses rose slightly. Meanwhile, current revenues dropped by 2.9 percent to 133.6 billion, reflecting decreases of 0.5 percent in tax receipts to 118 billion and 19.8 percent in nontax ones to 14.1 billion, mainly due to lower donations from the GCC, which amounted to 944 million at end-July 2015, as against 7.1 billion a year earlier. The current balance was positive at 1.2 billion, as against a negative balance of 3.3 billion at end-July 2014. Moreover, the balance of Treasury special accounts was positive at 7.2 billion, as opposed to 941 million a year earlier, thus contributing 6.3 billion to deficit reduction compared to 2014.

Chart B1.1.1: Budget balance



Source: Ministry of Economy and Finance

Chart B1.1.2: Current revenues



Source: Ministry of Economy and Finance

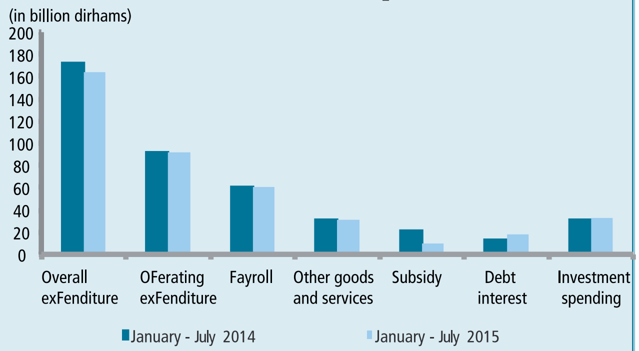
Change in tax receipts reflects higher direct taxes and customs duties, while indirect taxes and registration and stamp fees were down. Indeed, proceeds from direct taxes moved up 1.6 percent to 46.7 billion, mainly covering an increase of 7.1 percent in income tax receipts to 21.9 billion and a decrease of 3.3 percent in corporate tax revenues to 23.7 billion.

This decline was mainly attributed to the exceptional collection of revenue from the sale of Centrale Laitière and a share of the capital of Maroc Telecom in 2014. Indirect tax revenues were down 2.2 percent to 57.3 billion dirhams. VAT revenue decreased by 2.3 percent to 43.4 billion, covering virtually stable domestic VAT at 16.7 billion and a 3.7 percent fall in import VAT to 26.7 billion. The domestic consumption tax (DCT) generated 13.9 billion, down 1.7 percent, reflecting decreases in all categories of DCT. Revenues from customs duties grew by 3.9 percent to 4.5 billion, while registration and stamp fees fell by 2.6 percent to 9.5 billion, due to receipts of 1.4 billion at-end July 2014, following the sale of a share of the capital of Maroc Telecom. In addition to lower donations from the GCC, trends in nontax receipts mainly covered an increase of 15.7 percent in monopoly receipts to 5.9 billion, including 1.7 billion from revenues from 4G licenses, 1.6 billion from Maroc Telecom, 1 billion from OCP and 496 million from Bank Al-Maghrib.

The drop in overall expenditure covers a 2 percent increase in investment spending to 32 billion and a 6.1 percent decrease in current expenditure to 132.4 billion, due to a reduction of 56.4 percent in subsidy costs to 9.3 billion. Operating expenses also rose slightly by 0.5 percent to 92.1 billion, covering an increase of 0.8 percent in payroll to 60.4 billion and a stable amount of 31.7 billion as spending on other goods and services. In addition, debt interest charges rose by 22.4 percent to 18 billion, reflecting increases of 23.9 percent to 15.8 billion in interest on domestic debt and 12.5 percent to 2.2 billion in interest on external debt. In addition, during the first seven months of 2015, the Treasury reduced its stock of repayment of arrears by 8.4 billion to nearly 5 billion.

Under these conditions, the borrowing requirement stood at 32.1 billion, worsening 1.2 billion compared to end-July 2014. The cash deficit and negative external net flow of 1.6 billion dirhams were covered by domestic market for an amount of 33.6 billion, up 12.2 billion, of which 28.2 billion were raised through auctions, as against 11.6 billion a year earlier.

Chart B1.1.3: Overall expenditure



Source: Ministry of Economy and Finance

of economic operators, partly due to uncertainty surrounding change in foreign demand.

1.4 External accounts

After the first eight months of 2015, the trade deficit was reduced by 20.4 percent compared to the same period of 2014, amounting to 104 billion dirhams. This trend is attributed to a decrease of 6.7 percent in imports to 246.5 billion dirhams and an increase of 6.6 percent in exports to 142.5 billion dirhams. The import coverage rate improved by 7.2 percentage points to 57.8 percent.

The decline in imports mainly reflects a decrease of 30 percent in oil purchases, in connection with declines of 46.9 percent in crude oil purchases, 29.4 percent in diesel and fuel imports and 31.9 percent in petroleum gas ones. Similarly, the food bill dropped by 14.8 percent, essentially due to the contraction of 27.8 percent in wheat supplies. Meanwhile, purchases of consumer goods edged down 1.2 percent to 46.4 billion. Conversely, capital goods imports recorded an increase of 7.2 percent to 57.4 billion dirhams, mainly reflecting higher purchases of aircrafts and electrical appliances. Meanwhile, purchases of semi-finished goods moved up 4.2 percent to 57.2 billion dirhams and raw materials

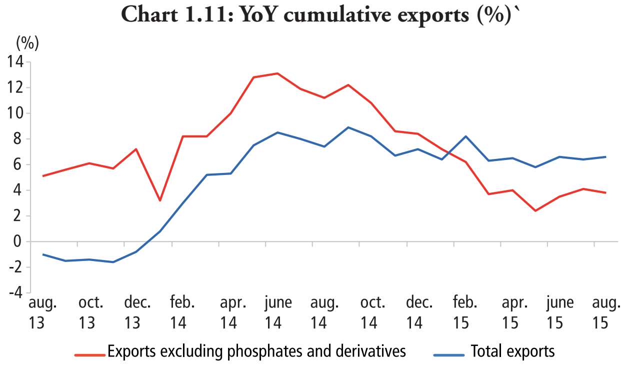
Table 1.2 : Change in the trade balance at end August

(In millions of dirhams)	Aug. 2015*	Aug. 2014	change aug. 2014/2013		change Aug. 2015/2014	
			Amount	%	Amount	%
Exports	**142 450**	**133 620**	**10 648**	**8.7**	**8 830**	**6.6**
Phosphates and derivatives' exports	30 110	25 431	-1 532	-5.7	4 679	18.4
Agriculture and food industry	28 499	25 488	1 977	8.4	3 011	11.8
Automotive	30 523	26 551	7 076	36.3	3 972	15.0
Electronics	5 199	5 274	755	16.7	-75	-1.4
Aeronautics	4 608	4 661	-139	-2.9	-53	-1.1
Textile and leather	22 357	22 747	1 007	4.6	-390	-1.7
Imports	**246 485**	**264 324**	**6 061**	**2.3**	**-17 839**	**-6.7**
Energy imports	46 097	65 814	-1 146	-1.7	-19 717	-30.0
Imports excluding energy	200 388	198 510	7 207	3.8	1 878	0.9
Food products	25 111	29 487	4 164	16.4	-4 376	-14.8
Consumer goods	46 350	46 912	3 527	8.1	-562	-1.2
Unprocessed goods	14 339	13 604	1 220	9.9	735	5.4
Semi-finished goods	57 170	54 853	392	0.7	2 317	4.2
Capital goods	57 364	53 493	-2 233	-4.0	3 871	7.2
Trade deficit	**104 035**	**130 704**	**-4 587**	**-3.4**	**-26 669**	**-20.4**

** Provisional data*

Source: Foreign Exchange Office.

Chart 1.11: YoY cumulative exports (%)`



Source: Foreign Exchange Office.

supplies rose 5.4 percent to 14.3 billion.

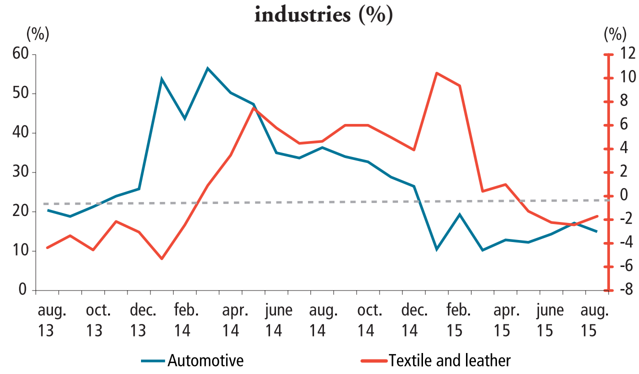
Export growth reflects a continued uptrend in exports of phosphates and derivatives, automotive and agribusiness sectors. Indeed, OCP shipments grew by 18.4 percent to 30.1 billion dirhams. Similarly, the automotive sector sales rose by 15 percent, mainly in connection with an increase of 19.1 percent in car manufacturing exports. Shipments of the agricultural and agri-food sector grew by 11.8 percent, reflecting, in particular, an increase of 16.1 percent in sales of the food industry. However, sales of the textile and leather sector continued to show a poor performance for the fourth consecutive month, down 1.7 percent at end-August 2015. This decline is mainly due to a 5.5 percent decrease in hosiery items, while ready-made garments virtually stabilized. For other sectors, supplies of aeronautics and electronics industries recorded respective declines of 1.1 percent to 4.6 billion and 1.4 percent to 5.2 billion dirhams.

For other components of the current account, remittances from Moroccan expatriates rose by 5.5 percent, after a slight increase of 0.9 percent in August 2014. Despite a 16.1 percent rebound in July, travel receipts remained down 2.5 percent at end-August.

Considering these developments, the current account deficit at end-2015 should stand at 2.8 percent of GDP, from 3.5 percent expected in late June 2015. This new projection reflects a downward revision of oil price prospects from $65 to $57.5 and donations from the GCC countries to 6 billion from 13 billion dirhams.

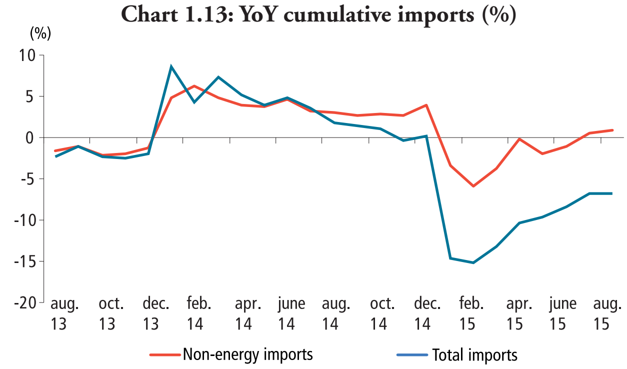
Regarding the capital account, net FDI flows stood at 19.1 billion, up 21.1 percent

Chart 1.12 : YoY change in sales of automotive and textile industries (%)



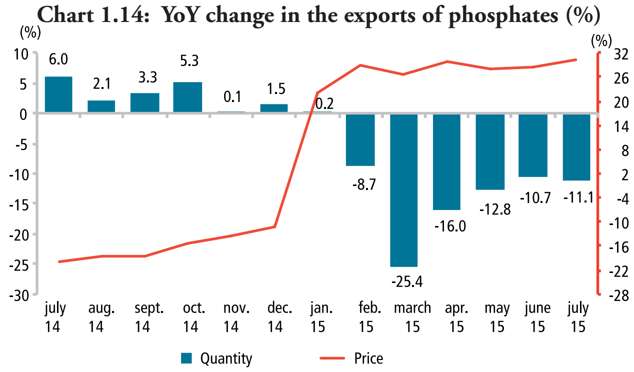
Source: Foreign Exchange Office.

Chart 1.13: YoY cumulative imports (%)



Source: Foreign Exchange Office.

Chart 1.14: YoY change in the exports of phosphates (%)

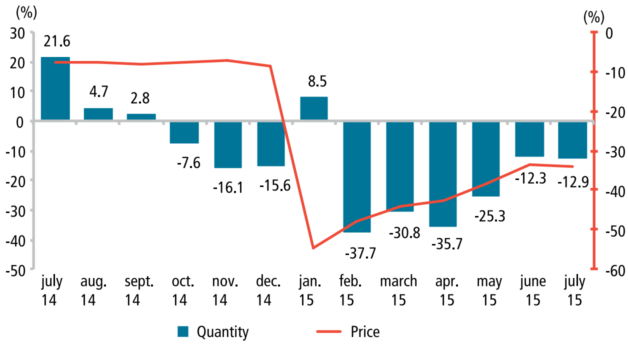


Source: Foreign Exchange Office.

compared to end-August 2014, following an increase of 4.5 billion dirhams in investment inflows, greater than 1.2 billion as investment outflows.

Against this backdrop, the outstanding international reserves improved, year on year, by 19.7 percent at end-August 2015, to 210.2 billion dirhams. Taking into account the expected change in the current account and capital account, they should improve further in 2015 to reach an equivalent of 6 months and a half of imports of goods and services at the end of the year.

Chart 1.15 : YoY change in crude oil imports(%)



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

In the second and third quarters 2015, the level of nonagricultural activities should continue to evolve below its potential, according to Bank Al-Maghrib estimates. Indeed, the survey findings indicate a decrease of two percentage points to 73 percent in the capacity utilization rate (CUR) in the industrial sector in July compared to June. In addition, labor market conditions were still characterized in the second quarter by a 0.9 percentage point decline in the participation rate to 48 percent and a limited creation of 38,000 jobs, as against 39,000 jobs a year earlier. Under these conditions, the unemployment rate fell 0.6 percentage point to 8.7 percent from 9.3 percent in the previous year. Regarding labor costs, the private sector's average wage index showed a year-on-year growth of 5.8 percent in nominal terms in the second quarter and 3.7 percent in real terms.

Overall, the analysis of various indicators reveals the absence of significant price pressures in the coming quarters, reflecting the persistence of spare capacity in the economy.

2.1 Pressures on output capacity

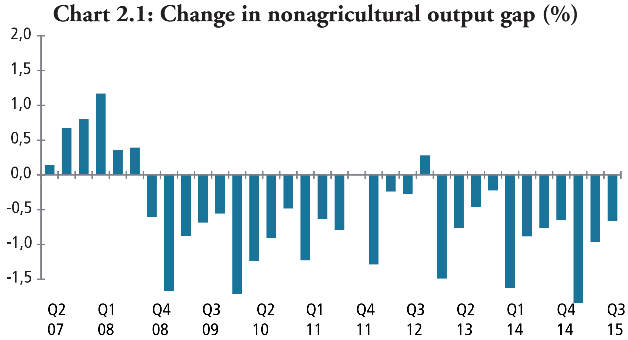
According to Bank Al-Maghrib estimates, the output gap would have continued to be negative in the second and third quarters of 2015 (Chart 2.1), indicating a further moderation of demand-led inflationary pressures.

The monthly business survey in industry shows that the CUR declined, between June and July, by two percentage points to 73 percent (Chart 2.2). This change affected all sectors, especially chemical and related industries, due to a fall in the CUR in refining activities.

Meanwhile, the same survey shows that the unit production cost would have broadly increased during the second quarter of 2015, covering a decrease in mechanical and metallurgical industries and an increase in other branches (Chart 2.3). By component, this change affected both raw material costs and financial and labor costs.

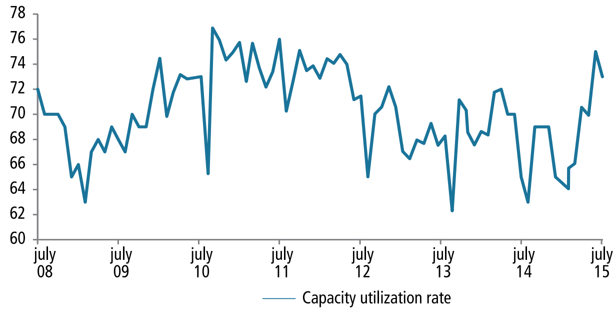
During the same quarter, the growth of the apparent labor productivity in nonagricultural activities decelerated, year on year, from 1.8 percent to 0.7 percent (Chart 2.4). This trend is attributed to a slower growth of the nonagricultural value added from 2.5

Chart 2.1: Change in nonagricultural output gap (%)



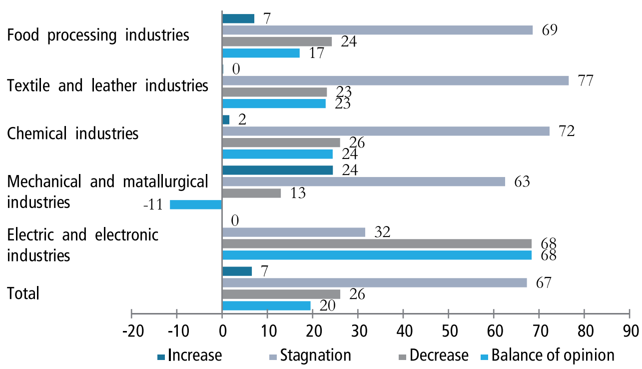
Sources: HCP, Eurostat and BAM estimates.

Chart 2.2: Industrial capacity utilization rate (%)



Source: BAM monthly business survey.

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



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

percent to 2.2 percent and an acceleration in nonagricultural employment from 0.7 percent to 1.5 percent.

2.2 Pressures on the labor market

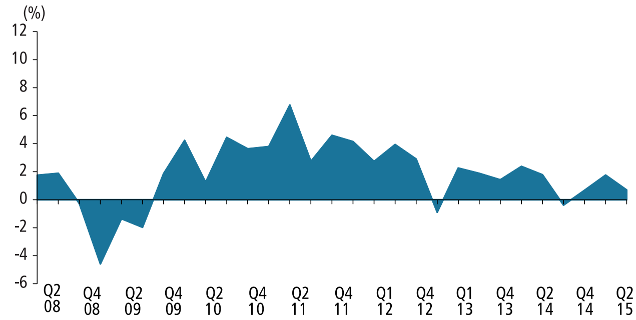
At the end of the second quarter, the labor force aged 15 and over decreased by 0.3 percent. This change affected rural areas only with a decline of 0.9 percent, while in urban areas it moved up 0.3 percent. Taking into account demographic changes, the participation rate continued its decline with a faster pace, reaching 48 percent from 48.9 percent a year earlier.

A total of 38,000 jobs were created, covering a creation of 72,000 in urban areas and a loss of 34,000 in rural ones (Chart 2.5). By sector, after a creation of only 4,000 jobs a quarter earlier, services are again the first job-providing sector with 66,000 jobs, followed by the construction sector with 16,000 jobs, after two quarters of weakness, and industry including crafts with 14,000 jobs, of which around 12,000 in rural areas. Conversely, agriculture, forestry and fishing lost 58,000 jobs, despite a record cereal production of 115 million quintals.

The employed labor force rose by 0.3 percent, due to an increase of 1.3 percent in urban areas and a decline of 0.6 percent in rural ones. The employment rate continued its downward trend as well from 44.4 percent to 43.9 percent nationally, from 36.8 percent to 36.6 percent in urban areas and from 56.1 percent to 55.3 percent in rural ones (Table 2.1).

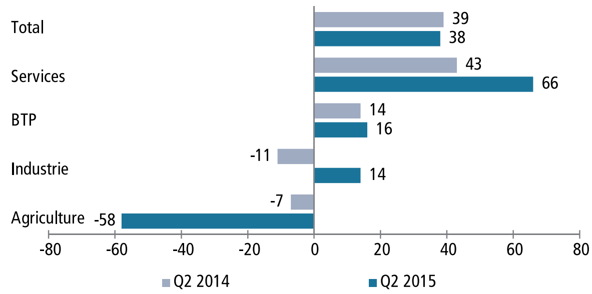
Under these conditions, the unemployment rate fell to 8.7 percent from 9.3 percent a

Chart 2.4: YoY change in apparent labor productivity*



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

Chart 2.5: Employed labor force per sector (in thousands)



Source: HCP.

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

In thousands / in %	Q2- 2014			Q2- 2015		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (1)	6.407	5.598	12.005	6.425	5.545	11.970
Labor force participation rate (%) (2)	42.9	58.2	48.9	42.2	57.2	48.0
Employed labor force	5.495	5.396	10.891	5.567	5.362	10.929
Employment rate (%) (3)	36.8	56.1	44.4	36.6	55.3	43.9
Unemployment						
Unemployed labor force	912	202	1.114	858	183	1.041
Unemployment rate (in %) (4)	14.2	3.6	9.3	13.4	3.3	8.7
By age						
.15 - 24 years	36.4	8.3	19.2	38.6	8.5	20.5
.25 - 34 years	20.2	4.0	13.4	18.5	3.4	11.9
.35 - 44 years	8.2	1.7	5.6	7.3	1.8	5.1
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

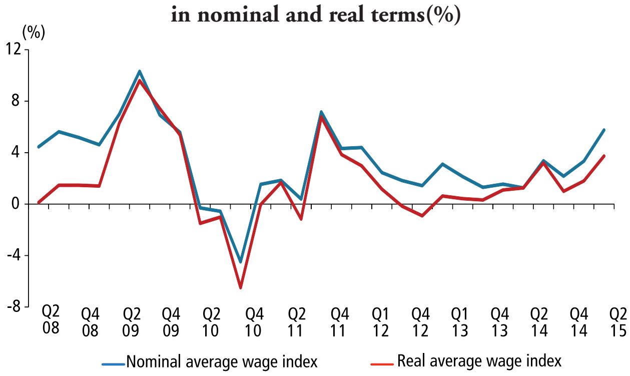
(1) Population aged 15 years and above.
(2) Labor force aged 15 years and above /total population aged 15 years and above.
(3) Employed labor force aged 15 years and above /total population aged 15 years and above.
(4) Unemployed labor force aged 15 years and above /labor force aged 15 years and above.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

year earlier. This trend involved both urban and rural areas with respective decreases of 0.8 point to 13.4 percent and 0.3 point to 3.3 percent. Lower unemployment concerned all age groups, except the youth aged 15-24 years, whose rate worsened from 19.2 percent to 20.5 percent nationally and from 36.4 percent to 38.6 percent in urban areas (Table 2.1).

Regarding labor costs, the private sector's wage average index posted in the second quarter a year-on-year increase of 5.8 percent in nominal terms and 3.7 percent in real terms (Chart 2.6).

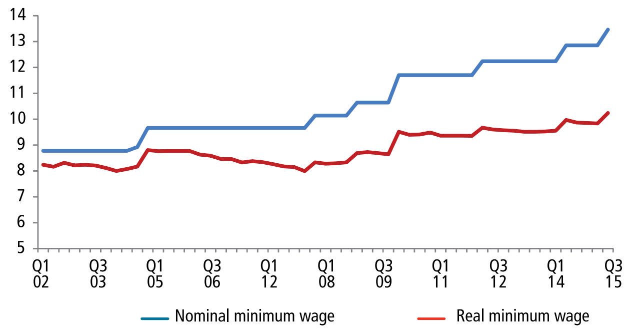
The hourly minimum wage was up, year on year, by 3 percent in real terms. It appreciated by 5 percent in nominal terms, in early July 2015 to 13.46 dirhams/hour, which should result in an increase of 2.7 percent in real terms in the third quarter 2015, as against 4.8 percent a year earlier (Chart 2.7).

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



Sources: CNSS, and BAM calculations.

Chart 2.7: Minimum wage in real and nominal terms (DH/H)



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

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The latest data on international conditions indicate continued moderate recovery in major developed countries and an overall economic slowdown in emerging economies, with divergent trends across countries. Thus, the economic activity continued to recover in the euro area with a drop in the unemployment rate to its lowest level since March 2012. In the United States, growth decelerated, albeit coupled with a decrease in the unemployment rate. In key emerging countries, growth stabilized in China and increased markedly in India, while GDP in Brazil and Russia declined further. In financial markets, in a context of amplifying concerns particularly about the Chinese economy, stock market indexes in both advanced and emerging economies were down. China's central bank also adopted a set of measures, including a further reduction of its key rate to support economic activity. The Chinese yuan depreciated against the dollar, reaching its lowest level in four years, following its devaluation three times. On international commodity markets, prices were broadly trended down, with a net outflow of the Brent price. Under these conditions, inflation increased in the United States in July and stabilized in the euro area in August. All these developments indicate continued absence of external inflationary pressures.

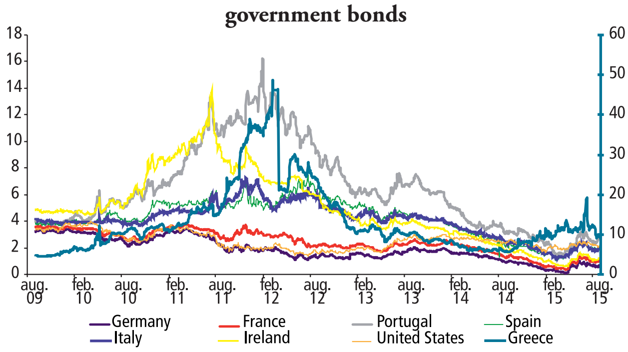
3.1 Global financial conditions and economic activity

3.1.1 Financial conditions

In stock markets, major indexes of advanced and emerging economies recorded significant declines. Between July and August, the EUROSTOXX50, DAX 30, FTSE 100 and CAC 40 fell by 2.8 percent, 4.2 percent 3 percent and 1.4 percent, respectively. Similarly, the Dow Jones and Nikkei 225 registered respective declines of 4.1 percent and 2.3 percent. In terms of volatility, VSTOXX rose by 23.6 basis points to 25.1 and VIX was up 14.5 points to 19.4. In emerging economies, the MSCI EM fell by 8.8 percent, reflecting a further decline of 8.4 percent in China index and respective decreases of 10.3 percent and 3.5 percent in MSCI Turkey and India.

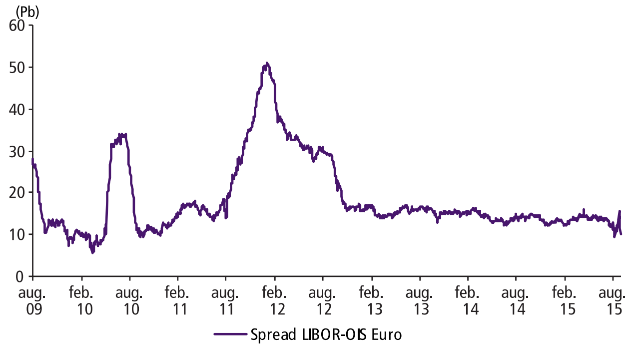
In bond markets, yields continued to decline in developed countries. Between July and August, 10-year yields fell from 0.7 percent to 0.6 percent in Germany, from 1.1 percent to 1 percent in France and from 2.1 percent to 2 percent in Spain, from 2 percent to 1.8 percent in Italy and from 13.6 percent to 10.3 percent in Greece. Following the same trend, yields on U.S. Treasury bills with the same maturity stood at 2.2 percent in August from 2.3 percent in the previous month.

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



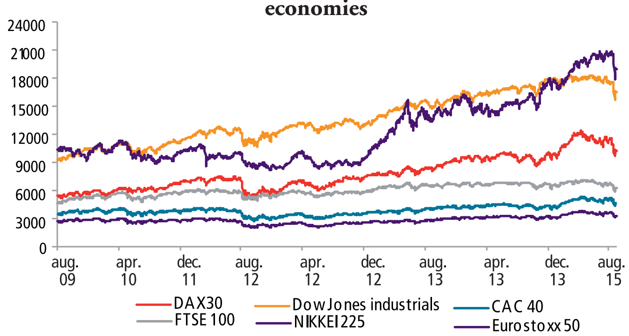
Source: Datastream .

Chart 3.2: Change in the LIBOR-OIS spread*



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

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



Source: Datastream.

In key emerging economies, 10-year yields showed divergent trends. They stabilized at 3.5 percent in China and 7.8 percent in India, and increased from 12.8 percent to 13.7 percent in Brazil and from 9.3 percent to 9.8 percent in Turkey.

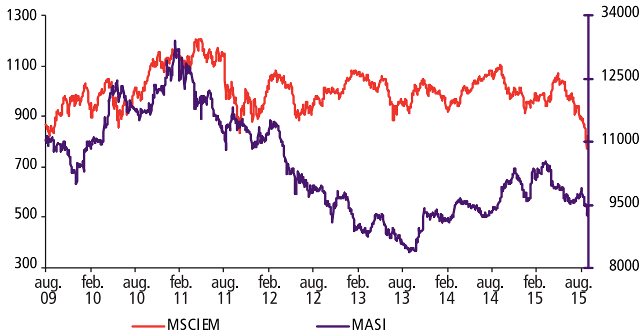
In money markets, the 3-month Euribor stood at -0.03 percent in August, from -0.02 percent a month earlier, while the 3-month Libor rose from 0.29 percent to 0.32 percent. The dollar Libor-OIS spreads dropped from 12.9 basis points to 11.9 points. The annual bank credit growth stabilized in the United States at 7.3 percent in August, while in the euro area, it registered an increase of 0.9 percent in July from 0.6 percent a month earlier.

In foreign exchange markets, the euro appreciated against major currencies, rising 1.2 percent against the dollar, 1.1 percent vis-à-vis the pound sterling and 0.9 percent versus the Japanese yen. Regarding the change in currencies of major emerging economies, the Brazilian real, Indian rupee and Turkish lira depreciated by 8.9 percent, 2.4 percent and 5.8 percent against the dollar, respectively. The Chinese yuan lost 2.1 percent and stood on August 12, at 6.4 yuan to the dollar, its lowest level since 2011.

Against this backdrop, the central banks of major advanced economies kept their key rates stable. On September 17, the Fed maintained its rate within a range of 0 percent to 0.25 percent, while reaffirming that it would remain appropriate to support continued progress toward its objectives of maximum employment and 2 percent inflation. The ECB kept on September 3 its rate unchanged at 0.05 percent. The Bank of England also maintained its rate unchanged at 0.5 percent on September 10.

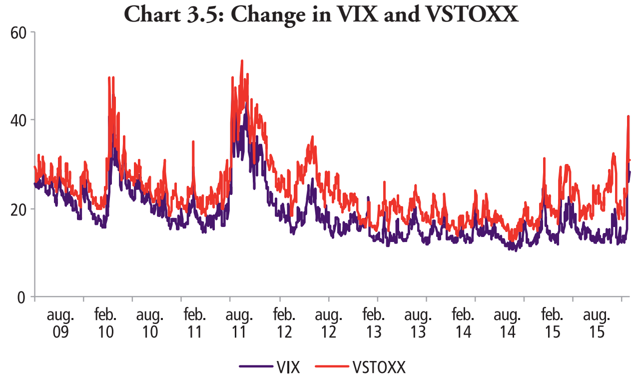
In emerging countries, China's Central Bank reduced on 25 August its rate by 25 basis points to 4.6 percent, which is the fifth decline since November 2014. On three

Chart 3.4: Change in the MSCI EM and MASI



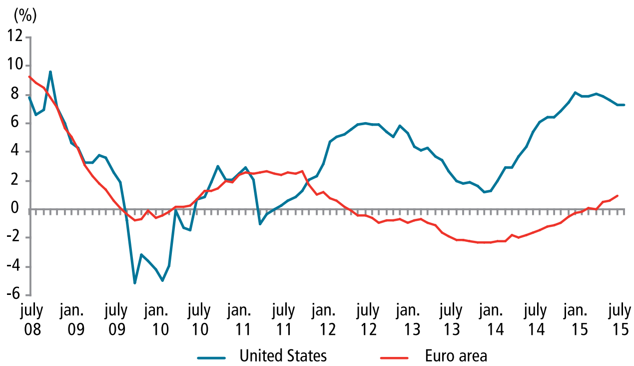
Source: Datastream.

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.

times between August 11 and 13, it also devaluated the yuan against the dollar. The Russian Central Bank decided at its meeting on September 11 to keep its key rate unchanged at 10 percent. The Central Bank of Brazil maintained on September 2 its rate at 14.25 percent. The Central Bank of India decided on August 4 to keep its key rate at 7.25 percent and indicated that it would be prudent to keep the status quo at the current juncture, while maintaining the accommodative stance of monetary policy.

Table 3.1: YoY change in quarterly growth

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
United States	1.5	2.5	1.7	2.6	2.9	2.5	2.9	2.7
Euro area	-0.1	0.6	1.1	0.7	0.8	0.9	1.2	1.5
France	0.8	1.0	0.7	-0.2	0.2	0.1	0.9	1.0
Germany	0.5	1.3	2.3	1.4	1.2	1.5	1.1	1.6
Italy	-1.4	-0.9	-0.2	-0.3	-0.5	-0.4	0.1	0.7
Spain	-1.0	0.0	0.6	1.2	1.6	2.0	2.7	3.1
United Kingdom	1.6	2.4	2.7	3.0	3.0	3.4	2.9	2.6
Japan	2.4	2.3	2.1	-0.5	-1.4	-0.8	-0.8	0.9
China	7.9	7.6	7.3	7.4	7.2	7.2	7.0	7.0
India	7.5	6.6	5.3	7.4	8.4	6.8	6.1	7.1
Brazil	2.4	2.1	2.7	-1.2	-0.6	-0.2	-1.6	-2.6
Turkey	4.4	4.7	4.5	2.2	2.3	2.6	2.6	4.2
Russia	1.3	2.1	0.6	0.7	0.9	0.4	-2.2	-4.6

Source : Datastream.

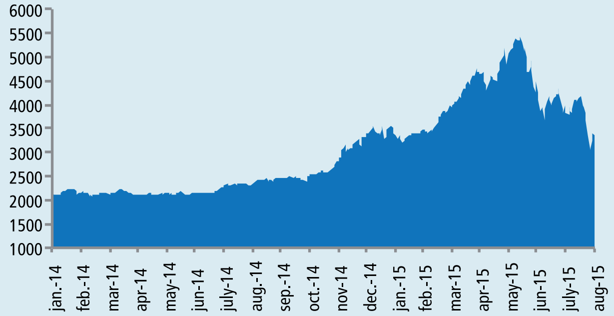
Box 3.1: Recent trends in Shanghai Stock Exchange

After a performance of 53 percent in 2014 and an increase of 42 percent in the first five months of 2015, the Shanghai stock index trended downwards, showing a decline of 37.9 percent between June 12 and August 31. On August 24, it showed in particular a daily decline of 8.5 percent, after the publication of provisional manufacturing PMI[1] of August, which stood at 47.1, its lowest level since 2009.

This deterioration is attributed to concerns over China's economic growth prospects. Indeed, after a rate of 7.4 percent in 2014, growth is projected by the IMF to slow to 6.8 percent in 2015 and 6.3 percent in 2016. IMF economists explain this deceleration by a slowdown in investment as part of the transition towards a more balanced growth model. In addition, excessive increases in the Shanghai index between November 2014 and June 2015 did not reflect economic fundamentals, but they would be rather attributed to measures taken by the Government to redirect household savings of the real estate market to the financial market, by allowing other actors to access the market and lifting certain restrictions on stock market investment.

The latest declines in the Shanghai stock exchange index impacted markets in several countries, by rekindling concerns of investors about a weakening in Chinese demand and its impact on the growth of their countries and on commodity prices, including oil. In Asian markets, declines in August were 8.2 percent in Japan, 5.7 percent in Taiwan and 6.4 percent in Malaysia. In advanced markets, the NASDAQ, CAC 40 and FTSE 100 depreciated by 6.9 percent, 8.5 percent and 6.7 percent, respectively.

Chart 3.1.1: change in Shanghai Stock Exchange index growth



Source: Datastream.

Chart 3.1.2: Economic growth in China(%)

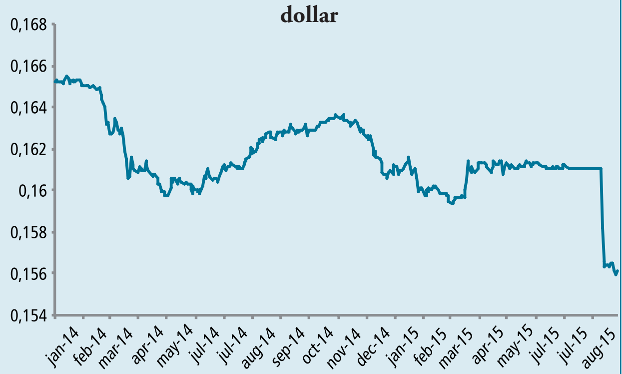
Source: Datastream.and IMF forecasts.

1 The Purchasing Managers Index (PMI) is calculated on the basis of monthly surveys conducted by Markit Economics among corporate purchasing directors of the manufacturing and services companies. Since March 2015, the index evolves below 50 points, which is the equivalent of a zero monthly growth.

Against this backdrop, China's Central Bank took several decisions in order to boost credit supply, mainly to finance consumption. It lowered its key rate on August 27, for the fourth time this year, by 25 basis points to 4.60 percent. It also cut its required reserve ratio by 0.5 basis point for conventional banks, by one point for banks and rural credit cooperatives to support the agricultural sector, and by 3.5 points for leasing companies and automotive finance companies in order to boost consumption.

In terms of currency policy, China's Central Bank had decided on August 11 to devalue the national currency by adjusting the method of calculating the reference value of yuan against the U.S. dollar. This new approach, which is part of the gradual transition to a market economy, takes into account the yuan supply and demand in the foreign exchange market and trends of other currencies. The Bank had attributed this measure to the high level of the yuan, resulting from the large surplus in the country's trade balance.

Chart 3.1.3 change in the value of the yuan against the US dollar



Source: Datastream

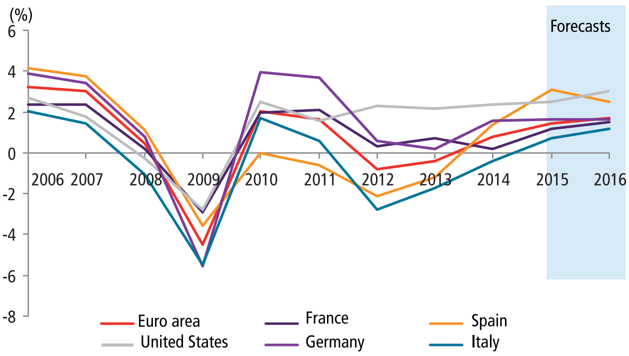
3.1.2 Global economic activity

In the second quarter of 2015, the economy saw a slight year-on-year deceleration of growth in the United States and the United Kingdom, an improvement in the euro area, as well as a slowdown in emerging countries.

In the euro area, growth continues its moderate recovery, standing at 1.5 percent from 1.2 percent a quarter earlier. It accelerated from 2.7 percent to 3.1 percent in Spain, from 1.1 percent to 1.6 percent in Germany and from 0.1 percent to 0.7 percent in Italy, while it slightly moved up in France to 1 percent from 0.9 percent. In the United States, it stood at 2.7 percent from 2.9 percent, year on year, due to the sharp deceleration in private investment. Similarly, it moved down from 2.9 percent to 2.6 percent in the United Kingdom, following the slowdown in construction activities and services. In Japan, GDP grew by 0.9 percent year on year, after four successive quarters of contraction, while it sharply dropped by 0.3 percent from one quarter to another.

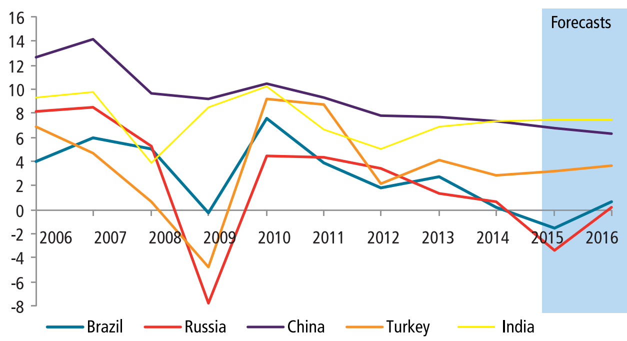
In key emerging markets, growth stabilized at 7 percent in China in the second quarter, while it increased from 6.1 percent to 7.1 percent in India. In Brazil and Russia, GDP

Chart 3.7: GDP growth in advanced countries



Source: IMF(July 2015 forecasts).

Chart 3.8: GDP growth in emerging countries



Source: IMF(July 2015 forecasts).

shrank further, reaching -2.6 percent and -4.6 percent respectively, as against -1.6 percent and -2.2 percent a quarter earlier. In Turkey, data indicate an improvement in the annual GDP growth to 4.2 percent in the second quarter from 2.6 percent in the first quarter.

Regarding high-frequency indicators, the composite PMI of the euro area rose markedly from 53.9 points in July to 54.1 points in August. However, the ISM manufacturing index in the United States declined from 52.7 to 51.1 points.

In terms of outlook, the IMF lowered its global growth forecast for 2015 in July by 0.2 point, to 3.3 percent, while for 2016, the projection was maintained at 3.8 percent. Growth in advanced economies should stand at 2.1 percent in 2015 and 2.4 percent in 2016 from 2.4 percent in the April update. Thus, GDP would rise in 2015 and 2016 to 2.5 percent and 3 percent in the United States, and 0.8 percent and 1.2 percent in Japan, respectively, while growth is projected at 1.5 percent and 1.7 percent in the euro area. For the latter, the ECB published, on September 3, its growth projections that would amount to 1.4 percent in 2015, 1.7 percent in 2016 and 1.8 percent in 2017.

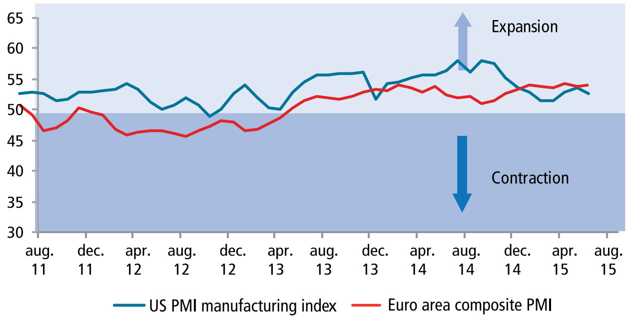
In emerging and developing economies, GDP would increase by 4.2 percent in 2015 and 4.7 percent in 2016, representing an almost unchanged growth compared to April. In 2015 and 2016, growth would stand at 6.8 percent and then 6.3 percent in China, and would stabilize at 7.5 percent in India, while in Russia it is expected to contract by 3.4 percent before growing by 0.2 percent.

Growth prospects remain surrounded by risks, particularly tensions in financial markets, a lower potential growth, lower commodity prices and further appreciation of the dollar.

3.1.3 Labor market

In August 2015, the unemployment rate in the United States fell to 5.1 percent from 5.3 percent in the previous month, its lowest level since April 2008. In the euro area, July data indicate a decline in the unemployment rate

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	3.5	3.9	3.3	3.8	3.0	3.6
United States	3.1	3	2.5	3.0	2.4	2.6
Euro area	1.5	1.9	1.5	1.7	1.6	1.9
Germany	1.9	2	1.6	1.7	1.6	2.0
France	1.1	1.7	1.2	1.5	1.0	1.4
Italy	0.6	1.4	0.7	1.2	0.7	1.3
Spain	2.8	2.6	3.1	2.5	ND	ND
United Kingdom	2.6	2.4	2.4	2.2	2.4	2.3
Japan	1.1	1.4	0.8	1.2	0.6	1.2
China	7	6.8	6.8	6.3	6.7	6.5
India	7.6	7.9	7.5	7.5	7.2	7.3
Brazil	-0.9	1.3	-1.5	0.7	-2.8	-0.7
Turkey	3.2	3.7	3.1	3.6	NA	NA
Russia	-3.5	0.2	-3.4	0.2	NA	NA

Sources : European Commission (May 2015) and IMF (July 2015) and OECD (September 2015.

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

	2013	2014	may 2014	june 2015	july 2015	aug. 2015
United States	7.4	6.2	5.4	5.3	5.3	5.1
Euro area	12.0	11.6	11.1	11.1	10.9	NA
France	10.3	10.3	10.3	10.3	10.4	NA
Italy	12.1	12.7	12.4	12.5	12.0	NA
Germany	5.2	5.0	4.7	4.7	4.7	NA
Spain	26.1	24.5	22.5	22.4	22.2	NA
United Kingdom	7.6	6.1	5.6	NA	NA	NA

Source : Eurostat.

from 11.1 percent to 10.9 percent, its lowest level since March 2012. In partner countries, the unemployment rate rose to 10.4 percent from 10.3 percent in June in France, and remained unchanged at 4.7 percent in Germany. However, it decreased from 12.5 percent to 12 percent in Italy and from 22.4 percent to 22.2 percent in Spain. In the United Kingdom, May data show a stable unemployment rate at 5.6 percent from the previous month.

Regarding short-term forecasts for advanced economies, May projections of the European Commission remain broadly in line with those of the IMF forecast of April. It thus expects an unemployment rate of 5.4 percent in 2015 and 5 percent in 2016 in the United States and a rate of 11 percent and 10.5 percent in the euro area. In partner countries, the unemployment rate should fall in 2015 and 2016, respectively, to 10.3 percent and 10 percent in France, 4.6 percent and 4.4 percent in Germany, 22.4 percent and 20.5 percent in Spain and would stabilize at 12.4 percent in Italy.

3.2 Commodity prices and inflation

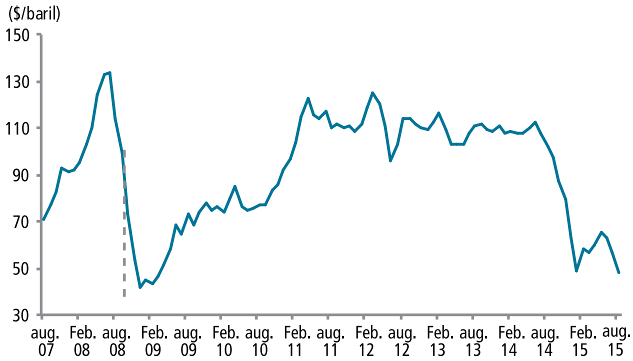
In the last three months, commodity prices dropped broadly, year on year. Inflation increased in the United States in July, while the first estimate of August indicates a stable rate in the euro area.

3.2.1 Energy commodity prices

The Brent price registered a monthly decline of 16.4 percent in August, averaging $47.5 per barrel, as against $56.8 in the previous month. This change was due to an oversupply and slower economic activity in key emerging countries, mainly in China, the second largest oil consumer. Year on year, the Brent price fell by 53.6 percent from $102.4 per barrel to $47.5.

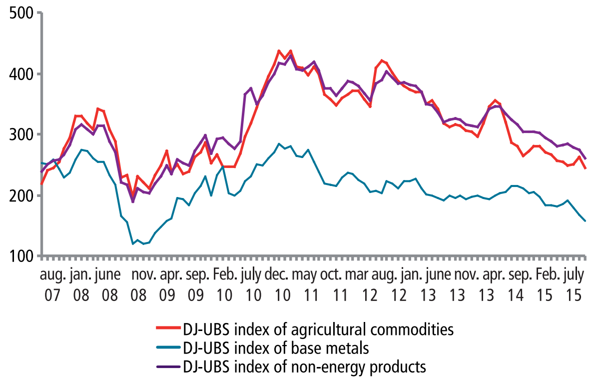
Regarding the oil price outlook, the World Bank revised upwards its July projections to $57.5 and $61.2 per barrel in 2015 and 2016, respectively. Similarly, the IMF expects in its WEO of July a price of $58.9 per barrel in 2015, while the estimate for 2016 was revised downwards from $65.6 to $64.2. Regarding

Chart 3.10: World price of brent oil in dollar



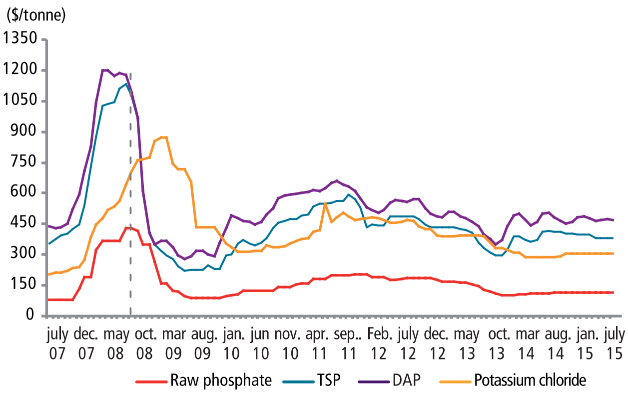
Source: Datastream.

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



Source: Datastream.

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



Source: World Bank.

the Brent price, the European Commission revised up its May forecasts to $59.4 per barrel in 2015 and $66 in 2016, from $53 and $61.5 respectively and previously projected.

3.2.2 Non-energy commodity prices

In August, non-energy prices decreased, year on year. The relevant Dow Jones-UBS decreased by 17.5 percent, reflecting a drop of 27.2 percent in the base metals price index, and a fall of 12.8 percent in the agricultural commodity price index.

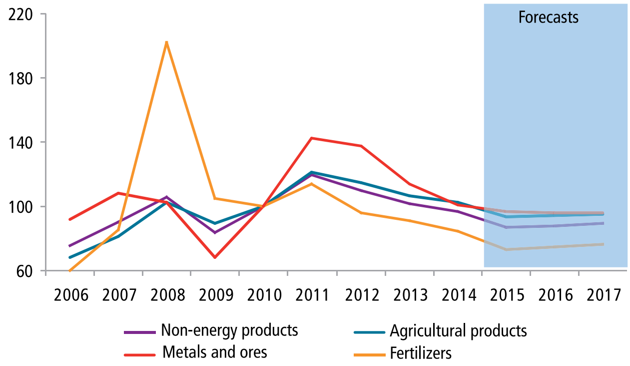
In the world market of phosphates and derivatives, crude prices rose to $115 per tonne in August, unchanged for the eleventh consecutive month. Similarly, TSP and urea prices stabilized at $380 and $273 per tonne, respectively. Potassium chloride prices recorded a month-on-month decline of 0.7 percent in August. Moreover, DAP prices stood at $464 per tonne, slightly down 1.1 percent from one month to another.

Year on year, prices increased by 4.5 percent for crude phosphate and 5.6 percent for potassium chloride. However, they declined by 8.1 percent for DAP, 9 percent for TSP and 15.2 percent for urea. Durum wheat prices declined by 8.9 percent, month on month, and 31.7 percent, year on year.

3.2.3 Inflation in the world

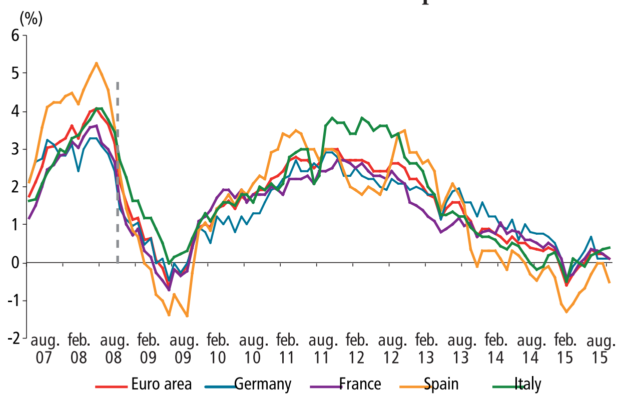
In the United States, inflation stabilized in August at 0.2 percent, while in Japan it fell slightly from 0.4 percent to 0.3 percent between June and July. In the euro area, inflation dropped in August from 0.2 percent to 0.1 percent. In key partner countries, it rose from 0.3 percent to 0.4 percent in Italy, and stabilized at 0.1 percent in Germany, while it fell from 0.2 percent to 0.1 percent in France and from 0.1 percent to 0 percent in the United Kingdom. Moreover, the price index dropped by 0.5 percent after stagnating in Spain a month ago. In key emerging and developing countries, inflation rose from 1.6 percent in July to 2 percent in August in China, and moved down from 9.6 percent and 9.5

Chart 3.13: Outlook for commodity price indexes



Source: World Bank.

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat.

Table 3.4: Inflation in the world, YoY

	May 2015	June 2015	July 2015	Aug. 2015
United States	0.0	0.1	0.2	0.2
Euro area	0.3	0.2	0.2	0.1
Germany	0.7	0.1	0.1	0.1
France	0.3	0.3	0.2	0.1
Spain	-0.3	0.0	0.0	-0.5
Italy	0.2	0.2	0.3	0.4
United Kingdom	0.1	0.0	0.1	0.0
Japan	0.5	0.4	0.3	NA

Source : Eurostat and Datastream.

Table 3.5 : Wold inflation outlook, YoY

	OECD		European Commission		IMF	
	2015	2016	2015	2016	2015	2016
United States	1.4	2.0	0.4	2.2	0.1	1.5
Euro area	0.6	1.0	0.1	1.5	0.1	1.0
Germany	1.2	1.7	0.3	1.8	0.2	1.3
France	0.5	0.9	0.0	1.0	0.1	0.8
Spain	0.1	0.5	-0.6	1.1	-0.7	0.7
Italy	0.0	0.6	0.2	1.8	0.0	0.8
United Kingdom	1.8	2.1	0.4	1.6	0.1	1.7
Japan	1.8	1.6	0.5	0.9	1.0	0.9

Sources : IMF (April 2015), OECD (June 2015) and the European Commission (May 2015) percent in Brazil, while in Russia, it stood at 15.6 percent in July from 15.3 percent in the previous month.

The IMF projected in its WEO of July that inflation would stand at zero in 2015 and would be around 1.2 percent in 2016 in advanced economies. In emerging and developing countries, it is expected to be 5.5 percent in 2015 before declining to 4.8 percent in 2016. The OECD expected in June an inflation rate 0.6 percent in 2015 and 1 percent in 2016 in the euro area, while in the United States, this rate would stand at 1.4 percent in 2015, before accelerating to 2 percent in 2016.

3.3 Morocco's import price index

Quarter on quarter, the non-energy import price index (IPI) declined 0.9 percent in the second quarter of 2015, after rising 0.5 percent a quarter earlier. This decrease covers a fall of 2.9 percent in the mining IPI and respective increases of 0.5 percent and 0.2 percent in food and semi-finished IPI.

The decrease in mining prices was partly due to the further decline of 6.9 percent in the average unit price of iron and steel, and the fall of 0.3 percent in the average price of sulfur, after an increase of 4.2 percent in the first quarter 2015.

The growth of food IPI was mainly attributed to a 4.7 percent increase in the average unit price of wheat, as against 21.9 percent in the Q1-2015. In contrast, the average unit price of corn fell by 4.5 percent, while it had risen 11.8 percent a quarter earlier.

With regard to semi-finished goods, the unit price of natural and chemical fertilizers grew 20.8 percent, after a decline of 3.7 percent, while the unit price of rolled products of iron and steel decreased by 6.9 percent, greater than 1.8 percent recorded in the previous quarter.

The energy price index grew 10 percent in the second quarter 2015, after a series of declines

Table 3.6: IPI change

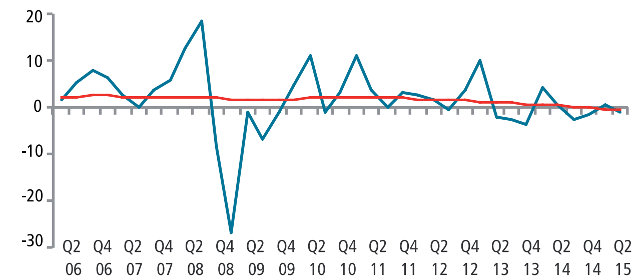
	Quarterly change in %			Annual change in %		
	Q4 2014	Q1 2015	Q2 2015	Q4 2014	Q1 2015	Q2 2015
Energy IPI	**-11.9**	**-27.6**	**10.0**	**-13.2**	**-35.9**	**-30.5**
Crude oil AUP*	-14.4	-32.9	16.6	-14.1	-40.5	-33.6
Gasoline and fuel AUP	-9.9	-21.4	2.6	-12.5	-30.9	-26.3
Petroleum gas AUP	-4.0	-17.0	-10.2	-14.5	-31.2	-28.1
Non-energy IPI	**-1.4**	**0.5**	**-0.9**	**0.7**	**-2.9**	**-4.4**
Food IPI	**-8.2**	**13.6**	**0.5**	**-12.9**	**2.1**	**-3.2**
Wheat AUP	-15.2	21.9	4.7	-23.0	2.0	-2.7
Corn AUP	-3.7	11.8	-4.5	-4.0	-0.5	-8.5
Mining IPI	**-0.2**	**1.7**	**-2.9**	**33.5**	**20.8**	**-0.2**
Sulfur AUP	4.0	4.2	-0.3	68.5	44.0	10.1
Iron and steal AUP	-5.6	-1.8	-6.9	3.4	-2.6	-13.4
Semi-finished products IPI	**-1.4**	**-1.6**	**0.2**	**7.4**	**-3.7**	**-4.7**
Chemical and natural fertilizers AUP	12.7	-3.7	20.8	6.1	-12.0	18.3
Iron and steel rolled products AUP	-5.6	-1.8	-6.9	13.3	-1.6	-13.4

NB: Indexes are calculated based on the unit prices in dirhams

*Average Unit Price**

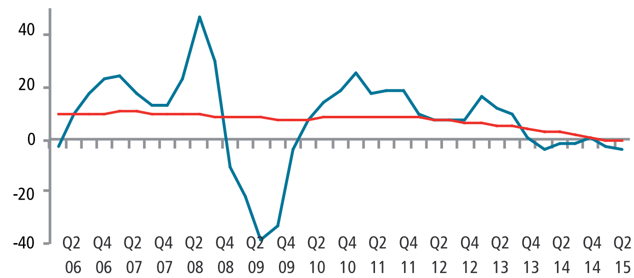
Source : OC and BAM calculations.

Chart 3.15: QoQ change in non-energy import price index (100=1996)



Sources: Foreign Exchange Office, and BAM calculations.

Chart 3.16: YoY change in non-energy import price index (100=1996)



Sources: Foreign Exchange Office, and BAM calculations.

started in Q3-2014. This growth reflects increases of 16.6 percent in the unit price of crude oil, after a decrease of 32.9 percent, and 2.6 percent in the diesel and fuel price, after a decline of 21.4 percent in Q1-2015.

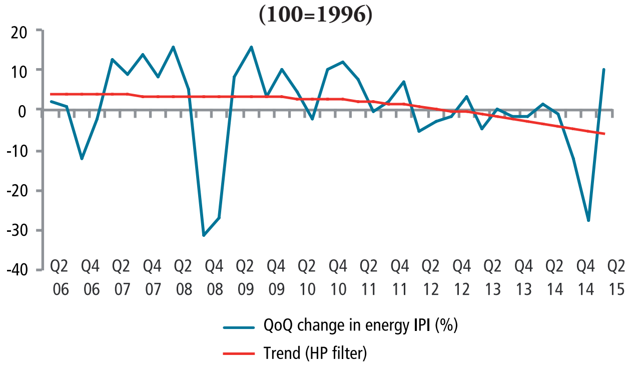
Year on year, the non-energy IPI dropped further by 4.4 percent in Q2-2015. This change reflects a steeper decline in the index of semi-finished goods from 3.7 percent to 4.7 percent, following a 13.4 percent decrease in the average price of rolled products of iron and steel after a decline of 1.6 percent in Q1-2015.

The mining IPI was slightly down 0.2 percent, covering a drop of 13.4 percent in the average unit price of iron and steel and an increase of 10.1 percent in that of sulfur.

Similarly, food IPI decreased by 3.2 percent in Q2-2015, after increasing by 2.1 percent, reflecting a 2.7 percent decline in the unit price of wheat, as against a 2 percent increase in Q1-2015. The average unit price of corn declined in Q2-2015 by 8.5 percent, as opposed to 0.5 percent a quarter earlier.

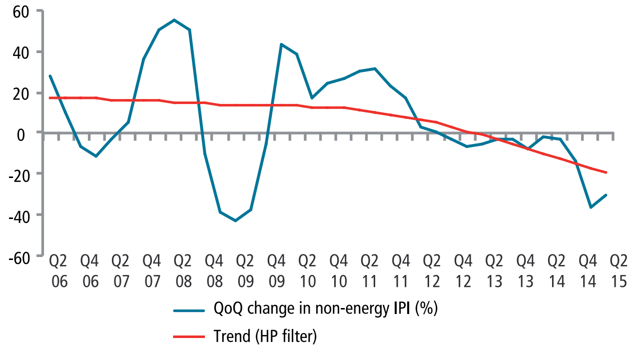
The bearish trend of oil products abated in the second quarter 2015, with a contraction of 30.5 percent from 35.9 percent. This change affected the main products, with particularly a fall in the average unit price of crude oil to 33.6 percent in Q2-2015, from 40.5 percent a quarter earlier.

Chart 3.17: QoQ change in energy import price index (100=1996)



Sources: Foreign Exchange Office, and BAM calculations.

Chart 3.18: YoY change in energy import price index (100=1996)



Sources: Foreign Exchange Office. and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

In July 2015, the M3 growth slowed down from 6.2 percent on average in the second quarter to 5.3 percent, while the money gap remained negative. The annual growth of bank lending, the main source of money creation, did not change significantly, standing at 2.3 percent. By object, this trend covers a further decline in cash advances, a slowdown in consumer and equipment loans and an acceleration in real estate loans. In terms of monetary conditions, the interbank rate remained aligned with the key rate, standing at 2.51 percent on average from April to August 2015. Regarding deposit rates, the weighted average rate of 6- and 12-month deposits stood at 3.68 percent in July, down 3 basis points from the second quarter 2015. As to lending rates, the recent data indicate an increase of 12 basis points in the weighted average rate to 5.93 percent on average in the second quarter 2015, reflecting a rise of 18 basis points in rates on cash advances. The dirham's effective exchange rate depreciated in the second quarter 2015 by 0.76 percent in nominal terms and 1.89 percent in real terms due to an inflation differential in favor of Morocco.

In asset markets, the real estate price index fell 0.4 percent, quarter on another, reflecting a decrease of 0.9 percent in residential property prices, an increase of 1.4 percent in urban land ones and virtual stagnation in professional property prices. Meanwhile, the number of transactions was down 0.5 percent from one quarter to the next, reflecting a decline of 9.2 percent in professional property sales. Regarding other assets, transactions rose by 0.3 percent for residential property and 0.2 percent for urban land. In the stock market, the benchmark index of the Casablanca Stock Exchange recorded further falls in July and August, bringing its underperformance since the beginning of the year to 2.9 percent. The trading volume stood at 26.3 billion dirhams since the beginning of the year from 25.8 billion in the same period of the previous year. Overall, these developments suggest the absence of monetary and real estate inflationary pressures in the medium term.

4.1 Monetary conditions

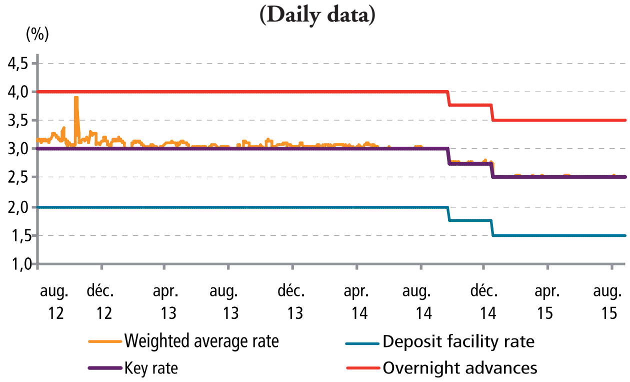
4.1.1 Interest rates

At its meeting of June 16, 2015, the Bank Board decided to maintain the key rate unchanged at 2.5 percent. Against this backdrop, the interbank market weighted average rate stood at 2.51 percent on average between April and August 2015, thus remaining aligned with the key rate.

Regarding deposit rates, the weighted average rate of 6- and 12-month deposits continued its downward trend to 3.68 percent in July, from 3.71 percent in the second quarter 2015. By maturity, the six-month deposit rate fell by 6 basis points to 3.54 percent and the one-year deposit rate moved down from 3.83 percent 3.80 percent.

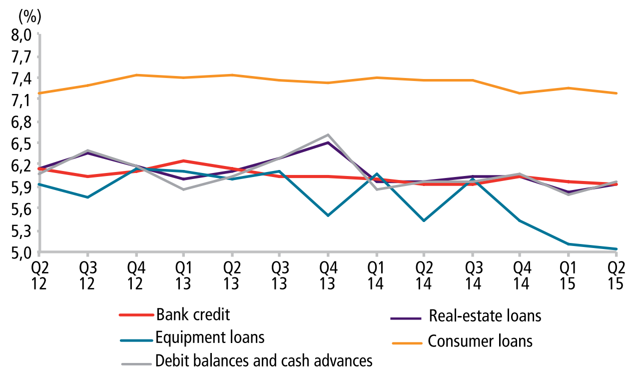
As to lending rates, BAM's survey among banks for the second quarter 2015 shows an increase of 12 basis points in the overall average rate, to 5.93 percent, reflecting a rise of 18 basis points in rates on cash advances. However, rates on other loan categories recorded decreases of 7 basis points for equipment loans to 5.04 percent, 6 points for real estate ones to 5.92 percent

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



**Data at August 31, 2015.*
Source : BAM.

Chart 4.2 : Change in lending rates



and 9 points for consumer loans to 7.18 percent.

Treasury bond yields on the primary market dropped overall in the third quarter, with decreases of 9 basis points for 52-week bonds, 14 points for 2-year ones, 9 points for 5-year bonds and 27 points for rates on 10 year-Treasury bills. In the secondary market, the same trend pattern was registered, especially in medium-term maturities.

4.1.2 Money. credit and liquid investments

M3 growth

July 2015 data show a slower annual growth of the money supply. Consequently, the money gap remained negative, indicating the absence of monetary inflationary pressures in the medium term.

The annual growth rate of M3 declined from 6.2 percent on average in the second quarter to 5.3 percent in July 2015, mainly reflecting a negative effect of faster growth from 4.9 percent to 8.7 percent in non-monetary resources[1]. The annual bank lending growth did not change significantly, standing at 2.3 percent. In contrast, net international reserves increased to 15.6 percent from 14.8 percent and net claims on central government strengthened to 19.1 percent from 5.1 percent.

Regarding the main M3 components, the annual growth of time deposits fell back from 10.6 percent in the second quarter to 8.3 percent in July and demand deposits dropped from 7.2 percent to 6.8 percent. At the same time, money market fund shares/units decreased by 6.5 percent, steeper than

1 Non-monetary resources, whose increase causes a negative impact on money supply, include the capital and reserves of depository institutions and non-monetary liabilities of other depository institutions, including regulated and guarantee deposits, subordinated loans, certificates of deposits with a residual maturity of more than 2 years, and bonds.

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

	2013		2014				2015		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	July
6 months	3.55	3.59	3.51	3.68	3.69	3.71	3.64	3.6	3.54
12 months	3.83	3.92	3.86	3.91	3.86	3.94	3.85	3.83	3.8
Weighted average	3.73	3.79	3.71	3.81	3.8	3.85	3.76	3.71	3.68

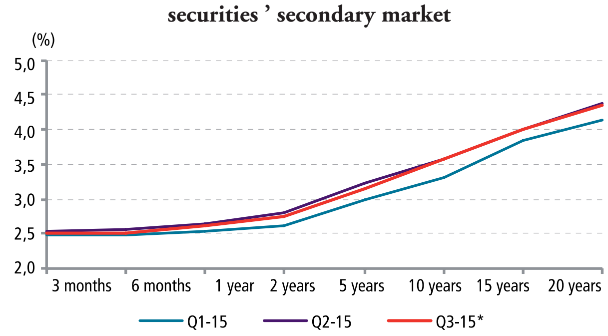
Source : BAM.

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

	2013	2014				2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*
13 weeks	3.48	3.30	3.08	2.97	2.68	2.48	2.54	2.52
26 weeks	3.74	3.45	3.15	-	2.79	2.50	2.56	-
52 weeks	4.13	3.63	3.25	3.14	2.83	2.53	2.67	2.56
2 years	4.69	4.04	3.35	-	3.02	2.59	2.86	2.67
5 years	5.08	4.62	3.91	3.80	3.33	2.98	3.24	3.14
10 years	5.60	5.43	4.47	-	3.75	3.30	3.66	3.17
15 years	5.85	5.87	5.15	-	4.30	3.89	4.07	4.05
20 years	-	5.96	5.66	5.57	4.60	4.20	-	4.45
30 years	-	-	-	-	5.69	5.0	5.01	5.00

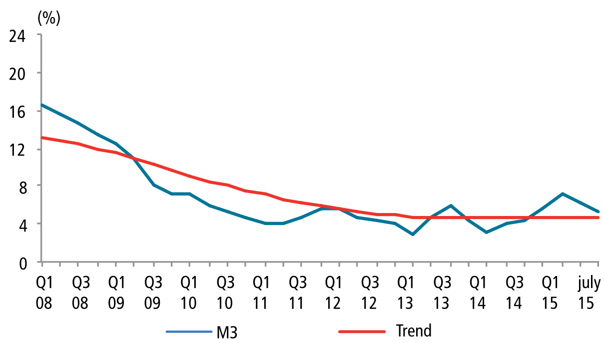
**Observation of the third quarter of 2015 corresponds to the daily average of data from July to Auguste, 2015.*

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 July 1st to September 2, 2015.*
Source : BAM.

Chart 4.4: YoY M3 growth and its trend



Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

In the second quarter of 2015, autonomous factors had a positive impact of 9.5 billion dirhams on liquidity, due to foreign assets operations.

Indeed, the latter caused a liquidity injection of 15.5 billion dirhams, resulting mainly from an OCP bond issue on international markets, amounting to one billion dollars.

The expansive impact of transactions on net foreign assets was offset by an increase in money in circulation and Treasury operations.

Indeed, net withdrawals of currency in circulation reached 6.4 billion dirhams. In addition, Treasury operations had a restrictive impact of 1.6 billion dirhams on liquidity, resulting in particular from the difference between:

- On the one hand, banking subscriptions to T-bond auctions (32.4 billion dirhams), proceeds from granting 4G licenses (2 billion dirhams), dividends paid by Maroc Telecom (1.5 billion dirhams) and tax and customs revenues;
- On the other hand, the repayment of domestic debt to the banking system (27.4 billion dirhams), payment of civil service salaries (16.5 billion dirhams) and retirement pensions (5.7 billion dirhams) and settlement of subsidy costs (1.8 billion dirhams).

Moreover, BAM's customer operations, excluding the Treasury, have a positive impact of nearly 2 billion dirhams on liquidity.

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

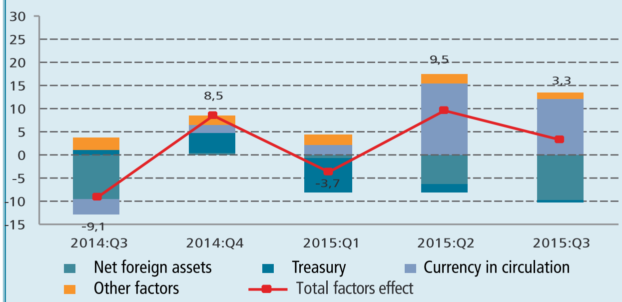


Chart B 4.1.2: Monthly change in the impact of autonomous liquidity factors (in billion dirhams)

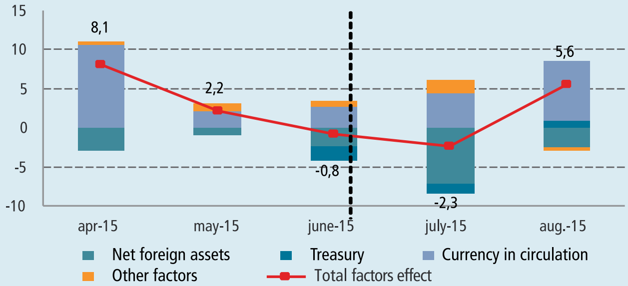


Chart B 4.1.3: Change in reserve requirements (in millions of DH)

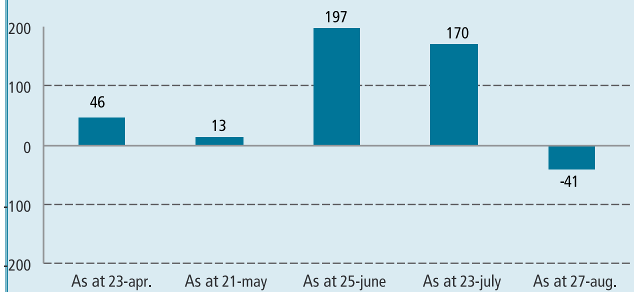
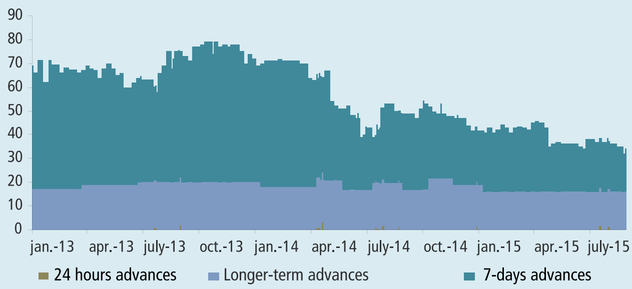


Chart B 4.1.4: BAM interventions on the money market (in billion dirhams)



the third quarter of 2015*, bank liquidity improved by 3.3 billion dirhams, again due to foreign assets operations.

Indeed, foreign banknotes sales, whose pace accelerated in summertime, largely contributed to improving liquidity by 12.1 billion dirhams.

Like the previous quarter, the significant increase of 9.8 billion dirhams in money in circulation reduced the expansive impact of foreign assets operations.

* Period from July, 1 to August 27, 2015.

Treasury operations had no significant impact on liquidity (i.e. a restrictive effect of 400 million dirhams), due to the virtual offsetting between:

- On the one hand, banking subscriptions to T-bond auctions (20.3 billion dirhams) and tax and customs revenues;
- On the other hand, the repayment of domestic debt to the banking system (18.3 billion dirhams), payment of civil service salaries (5.7 billion dirhams) and settlement of retirement pensions (3.9 billion dirhams) and subsidy costs (3.7 billion dirhams).

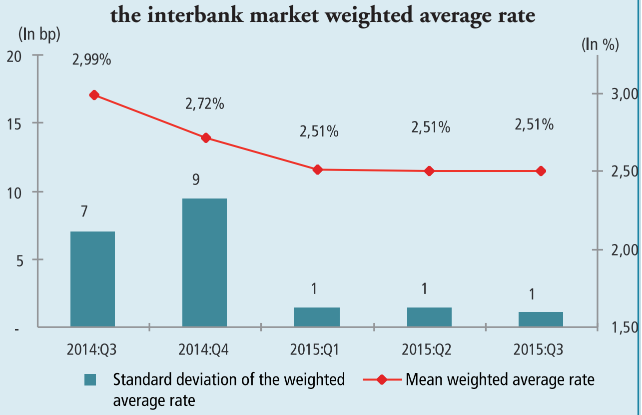
Finally, other factors contributed to improving bank liquidity by 1.4 billion dirhams.

Given the expansive impact of autonomous factors observed throughout the third quarter, the outstanding amount of BAM's interventions stood at 34 billion dirhams at end-August, down 4 billion compared to the end of the previous quarter.

This decline affected outstanding 7-day advances, brought to 18 billion, as against a stable outstanding amount of operations of one-year secured loans, at 16 billion dirhams.

The weighted average rate of the overnight interbank market remained close to the key rate, or 2.51 percent on average, with limited volatility of one basis point.

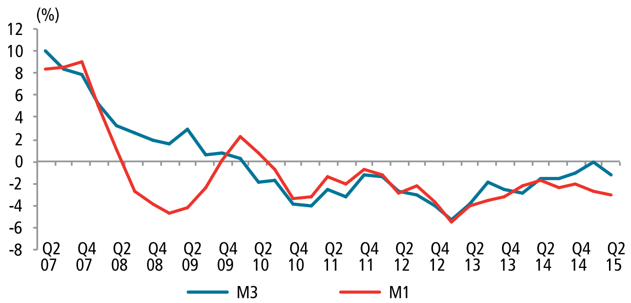
Chart B 4.1.5: Change in the mean and standard deviation of the interbank market weighted average rate



1.5 percent registered in the second quarter. In contrast, demand deposits with banks rose by 5.2 percent, as against 4.8 percent, while money in circulation grew at a rate almost similar to that observed in the previous quarter, or 5.2 percent.

The breakdown of the main monetary assets by institutional sector shows a slower growth of household time deposits from 10.6 percent to 8.9 percent and that of demand deposits from 4.1 percent to 3.2 percent. Despite a monthly decline of 3 percent, the annual growth of demand deposits of private nonfinancial companies stood at 12.8 percent from 6.6 percent and the growth of their time deposits accelerated from 17.1 percent to 18.6 percent, continuing their improvement since the beginning of 2015. Concerning the public sector, despite a monthly decrease of 4.1 percent, demand deposits grew by 16 percent, year on year, from 13.2 percent, while

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.

time deposits shrank by 15.6 percent, as against an increase of 4 percent a quarter earlier.

Credit

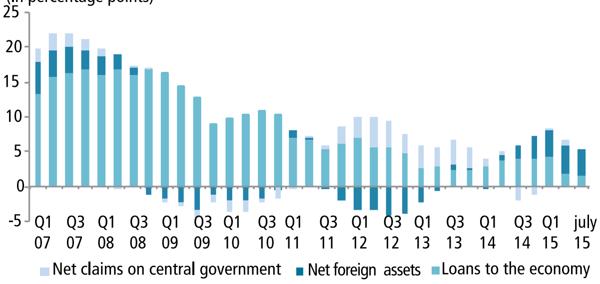
July 2015 data indicate no significant change in the annual bank lending growth compared to the second quarter, as the average rate of change stood at 2.3 percent.

By economic purpose, cash advances continued to decreas to -3.9 percent from -2.1 percent a quarter earlier. At the same time, the annual growth rate of equipment loans moved down from 2.3 percent to 1.6 percent and that of consumer loans decelerated from 12.7 percent to 5.7 percent[1]. However, real estate loans increased by 3 percent, as against 2.6 percent, covering slower decline in loans to property developers from 7.6 to 4.9 percent and a deceleration from 6.2 to 6 percent in housing loans. Financial loans, though declining 5.1 percent from one month to another, strengthened by 12.5 percent, year on year, as against 3.3 percent in the second quarter. Growth of nonperforming loans moved down from 15.2 percent in the second quarter to 10.9 percent and their ratio to bank lending stabilized at 7.2 percent.

By institutional sector, after a 1.7 percent increase in the second quarter, loans to the private sector stabilized compared to their level of July 2014. This change reflects a further decline in loans to private nonfinancial companies from 1 percent to 2.7 percent and growth of loans to households slowed from 5 percent to 3.5 percent. In contrast, lending to the public sector rose 11 percent, year on year, as against 8.2 percent, and credit allocated to financial corporations strengthened by 14.5 percent, as opposed to 4.9 percent in

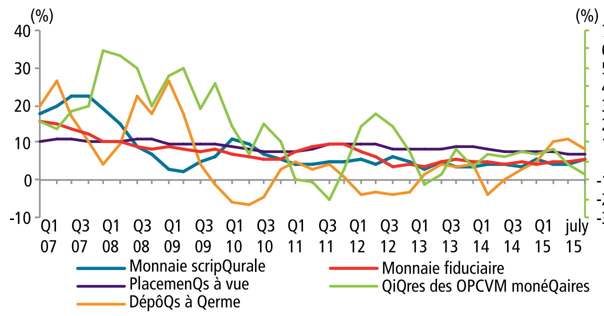
1 This change is mainly attributed to the dissipation of the effect of the merger of a local bank and its consumer loan subsidiary in July 2014.

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



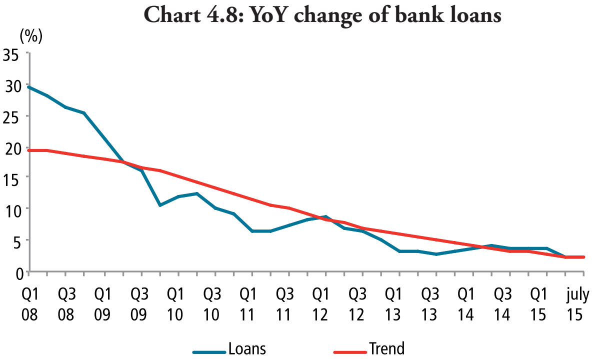
Source : BAM.

Chart 4.7: YoY change in the major M3 components



Source : BAM.

Chart 4.8: YoY change of bank loans



Source : BAM.

the second quarter.

By economic sector, the second quarter data indicate a further decline from -4.6 percent to -9.3 percent in loans granted to manufacturing industries and from -1 percent to -5.3 percent in credit to the "building and public works" sector. At the same time, lending to the sector of "trade, car repairs and household goods" declined by 2.8 percent, after rising 4.7 percent a quarter earlier, and the growth of "electricity, gas and water" sector fell back from 24.6 percent to 12.2 percent. Conversely, loans to "financial activities" increased by 10.4 percent, as against 2.1 percent, and those allocated to "transport and communication" were up 17.3 percent, from 6.4 percent in the first quarter 2015.

Other sources of money creation

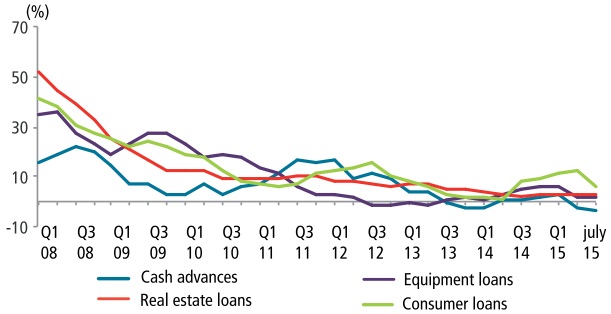
After rising 14.8 percent in the second quarter, net international reserves strengthened by 15.6 percent in July, to 198.8 billion dirhams, equaling 5 month and 28 days of imports of goods and services.

Net claims on central government grew by 19.1 percent in July from 5.1 percent in the second quarter, particularly reflecting a base effect due to a sharp decline a year earlier. By type of holder, banks' Treasury bill portfolio increased by 0.1 percent, as against a fall of 3.2 percent in the second quarter. Treasury bills held by money market fund shares/units increased by 76.7 percent, as against 88.6 percent. Liabilities of other depository corporations fell by 14.9 billion dirhams on average to 15.5 billion.

Liquid investments

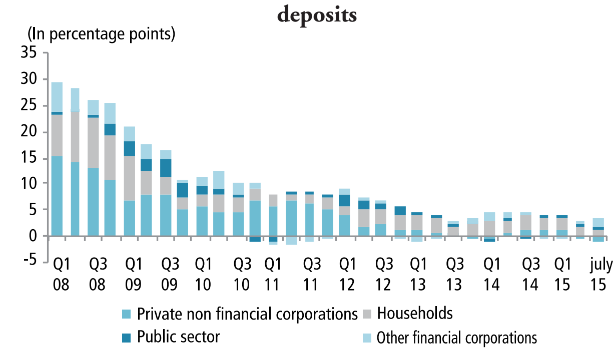
In July 2015, the annual growth rate of liquid investment aggregates remained virtually unchanged from the second quarter, standing at 13.6 percent. This trend covers faster growth of the LI1 aggregate

Chart 4.9: YoY change of major bank loan categories



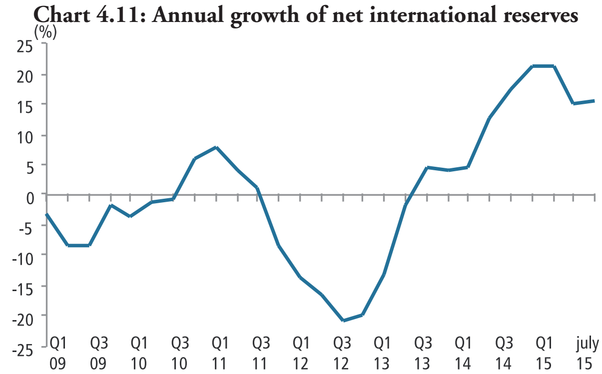
Source : BAM.

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



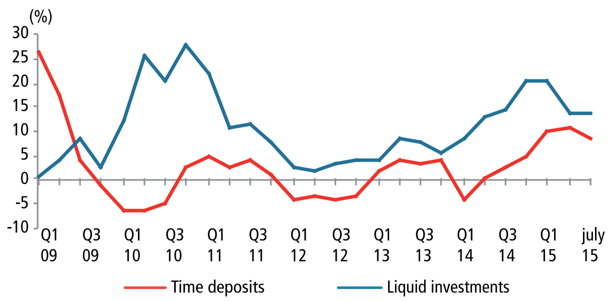
Source : BAM.

Chart 4.11: Annual growth of net international reserves



Source : BAM.

Chart 4.12: YoY change in liquid investments and time deposits



Source : BAM.

and a deceleration in other categories of liquid investments.

Indeed, securities included in the LI1 aggregate rose by 10.3 percent in July, as opposed to 10 percent a quarter earlier, in connection with faster growth of outstanding Treasury bills from 8.6 percent to 9.2 percent. However, the growth rate of securities of bond fund shares/units identified in the LI2 aggregate decelerated from 21.5 percent to 20.2 percent and equity and diversified fund shares/units from 16 percent to 15.8 percent.

Exchange rate

At the end of the third quarter[1], compared to the previous quarter, the national currency remained virtually unchanged against the euro and the U.S. dollar.

The dirham's effective exchange rate[2] depreciated in the second quarter 2015 by 0.76 percent in nominal terms and 1.89 percent in real terms, due to an inflation differential in favor of Morocco.

4.2. Asset prices

4.2.1 Real estate assets

Quarter on quarter, the real estate price index fell by 0.4 percent, mainly due to a 0.9 percent decline in residential property prices, while urban land ones rose by 1.4 percent. Professional property prices did not change significantly.

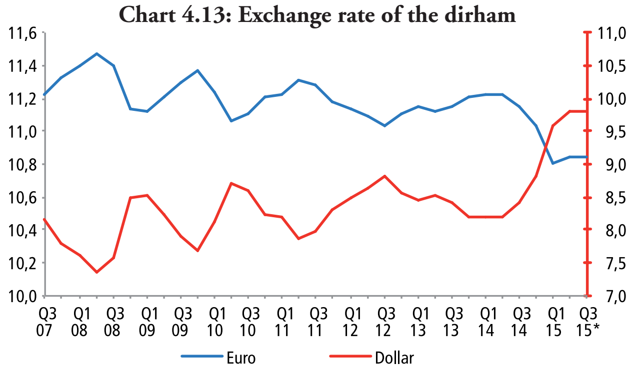
Transactions fell 0.5 percent from one quarter to another, in connection with a 9.2 percent decline in professional property prices. However, residential property and urban land sales were up 0.3 percent and 0.2 percent, respectively.

In major cities, prices were down 7.6 percent

1 The third quarter of the year is the arithmetic average of data from July 1 to August 26, 2015.

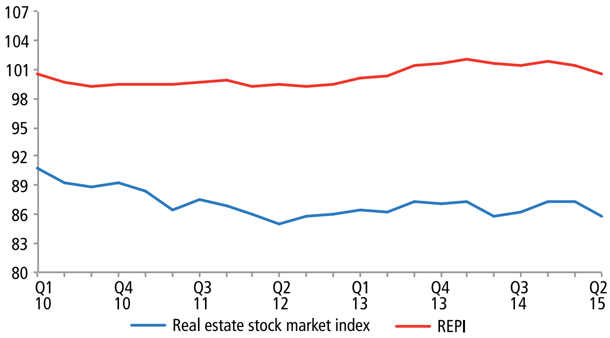
2 Calculated based on the bilateral exchange rates with Morocco's main partners and competitors.

Chart 4.13: Exchange rate of the dirham



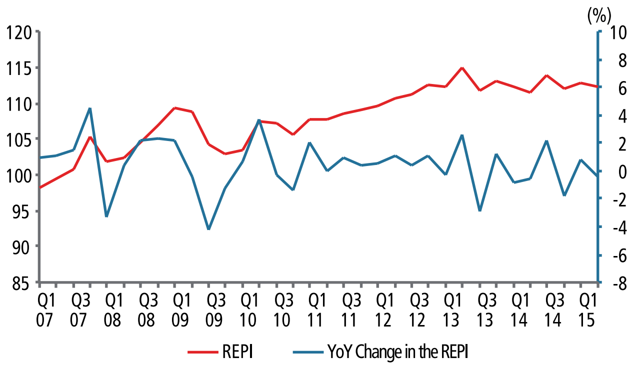
** Observation of the third quarter of 2015 corresponds to the arithmetic average from July 1st to Aug. 26, 2015.*
Source : BAM.

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



Sources: IMF and BAM calculations.

Chart 4.15: QoQ change in real estate price index



in El Jadida, 2.5 percent in Meknes and 1.6 percent in Casablanca, while they rose 1.4 percent and 1 percent in Rabat and Tangier, respectively. Sales dropped by 30.2 percent in Tangier, 8.8 percent in Casablanca and 5.1 percent in Marrakech, while they rose 8.9 percent in Meknes, 8 percent in El Jadida and 2.8 percent in Agadir.

4.2.2 Financial assets

4.2.2.1 Shares

After declining 6.7 percent in the second quarter, the MASI was down 2.4 percent at end-August 2015, bringing its underperformance since the beginning of the year to 2.9 percent. This impairment was mainly attributed to respective declines of 16.7 percent, 8.2 percent and 3.4 percent in "real estate", "mining" and "banking" indexes. However, the "telecommunications" index appreciated by 3.2 percent compared to the previous quarter.

Against this backdrop, the Price Earnings Ratio stood at end-August at 18.2, from 18.5 in late December 2014 and the Price to Book Ratio depreciated to 2.27.

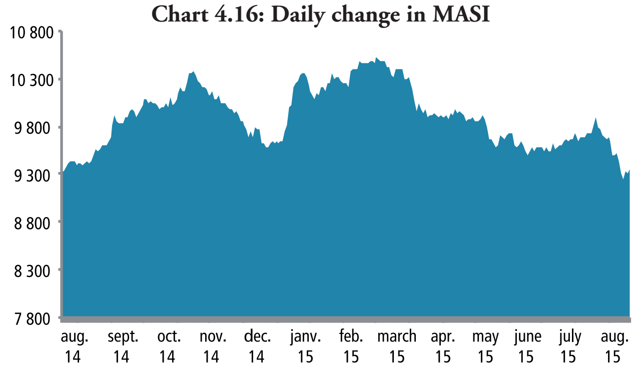
The monthly volume of transactions amounted to 3.3 billion dirhams on average in July and August, a level similar to the average recorded in the first half. Over the same period, the average monthly volume of transactions on the central market stood at 1.8 billion dirhams, down 11 percent from the previous quarter, and transactions on the block market stood at 252.3 million.

Market capitalization decreased by 2.1 percent between July and August to 476.6 billion dirhams.

4.2.2.2 Treasury bonds

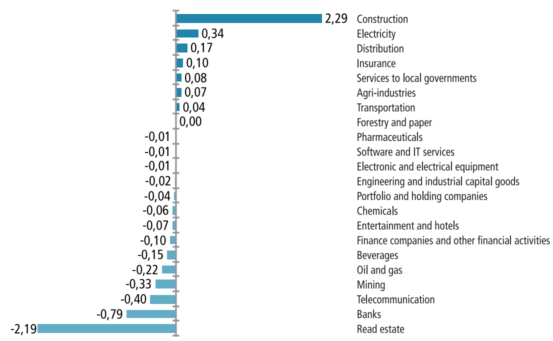
In the sovereign debt market, Treasury issues amounted to 14 billion dirhams on

Chart 4.16: Daily change in MASI



Source: Casablanca Stock Exchange.

Chart 4.17: Contribution of sectoral indexes to MASI growth, in%



Source: Casablanca stock exchange.

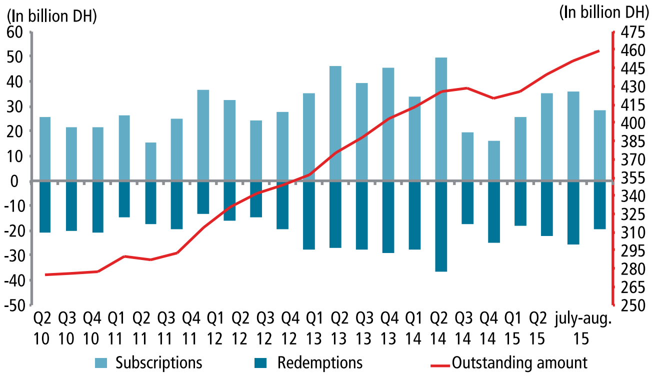
average in July and August, as against 11.9 billion on monthly average in the first half. A rate of 65 percent of emissions focused on medium-term maturities and matched an average rate of 3.04 percent from 3.0 percent in the first half. Long-term maturities accounted for 31 percent of issues, and were performed with an average rate of 4.14 percent, down 13 basis points from the previous semester. Taking into account repayments in July and August amounting to 19.2 billion dirhams, outstanding Treasury bills amounted to 459.3 billion at end-August, up 7.8 percent compared to December.

4.2.2.3 Negotiable debt securities

Issues of negotiable debt securities totaled 3.7 billion dirhams in July after an average of 4.2 billion in the first half. Emissions of certificates of deposit, focusing only on the short term, reached 1.5 billion dirhams, from an average of 2.3 billion in the previous semester and were performed with rates ranging from 3.09 percent to 3.50 percent, after a range of 2.52 percent to 3.75 percent in the first half. Financing companies issued bills, totaling 675 million dirhams, after an average of 466 million in the previous semester and matched average rates varying between 3.53 percent and 3.85 percent, as against rates from 3.31 percent to 4.32 percent.

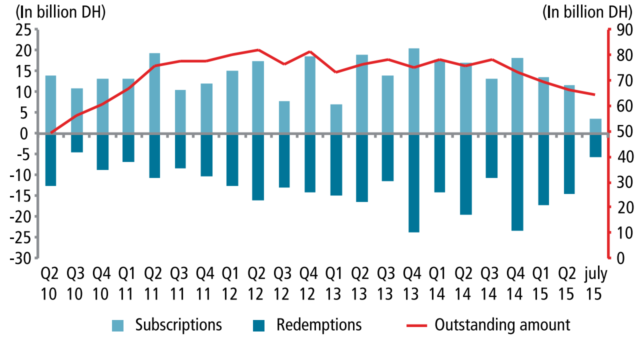
The issuance of commercial paper amounted to 1.6 billion, as against an average of 1.4 billion in the first half, with average rates ranging from 3.85 percent to 4.50 percent, as opposed to a range from 3.75 percent to 5.75 percent. Taking into account repayments of 5.7 billion dirhams, the outstanding amount of negotiable debt securities stood at 64.6 billion dirhams, down 12 percent compared to the end of December.

Chart 4.18: Change in outstanding Treasury bonds



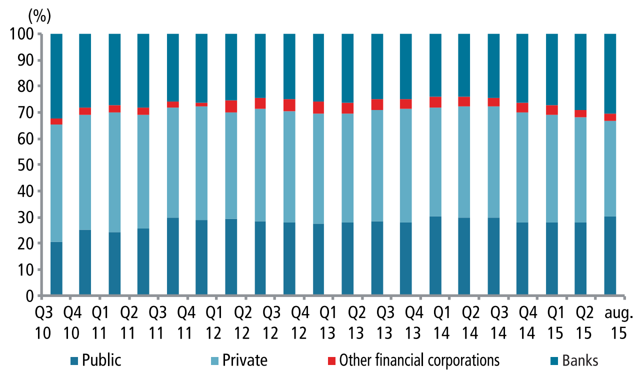
Source: BAM.

Chart 4.19: Change in outstanding amount of negotiable debt securities



Source: BAM.

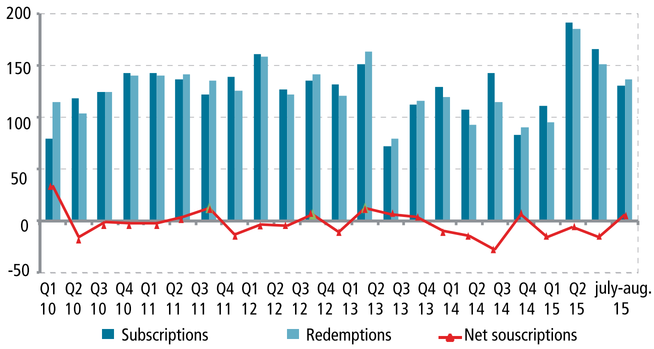
Chart 4.20: Change in the structure of outstanding bonds by issuer (in%)



Source: Casablanca stock exchange.

In the bond market, emissions in July and August reached 4.2 billion dirhams, and were performed by nonfinancial corporations with a rate of 76 percent, of which 53 percent by private companies. The amount of issues performed since the beginning of the year stood at 11.4 billion, as against 9.7 billion in the same period of 2014, bringing outstanding bond issues to 99.1 billion, up 3.5 percent compared to end-December.

Chart 4.21: Change in subscriptions and redemptions of mutual fund shares/units (in billion dirhams)



Source: Casablanca stock exchange.

4.2.2.4 Mutual fund shares

Between July and August, subscriptions to mutual fund shares/units stood on a monthly average at 65.4 billion dirhams, as against 59.6 billion in the first half of 2015. Meanwhile, redemptions totaled 68.5 billion from 56.1 billion dirhams. Under these conditions, the performance index of mutual funds appreciated slightly by 0.2 percent compared to the first half of 2015.

In total, net assets of mutual funds, valued at end-August, reached 311.8 billion dirhams, down 1.5 percent from its level in late June. By category of mutual funds, net assets decreased by 10.5 percent for short-term bond funds, 8.9 percent for money market ones and 2.2 percent for equity funds. However, outstanding medium- and long-term bonds and diversified fund shares/units improved by 4.8 percent and 1.3 percent, respectively.

5. RECENT INFLATION TRENDS

In line with the analysis and forecasts published in the last Monetary Policy Report (MPR), inflation has accelerated markedly since the beginning of the year, mainly due to an increase in volatile food prices, accentuated by higher tobacco prices. Indeed, it rose from 1.5 percent in the first quarter 2015 to 2 percent in the second quarter and 2.4 percent in July. Core inflation moved up from 1.3 percent to 1.5 percent between the first and second quarters, before falling back to 1.4 percent in July. This change affected both inflation of tradables (CPIXT) and that of nontradables (CPIXNT). Inflation of nontradables rose from 1.1 percent in the first quarter to 1.3 percent in the second quarter and in July and that of tradables was up from 1.6 percent to 1.7 percent, before falling to 1.6 percent in July.

Moreover, prices of "fuels and lubricants" dropped further by 10.6 percent in May and June, and 13.7 percent in July, reflecting lower international oil prices. This trend also impacted producer prices of the "coke and refining" industry, which were down 4 percent in July. The manufacturing producer price index decreased accordingly by 0.6 percent in July, as against increases of 0.6 percent in May and 0.2 percent in June. Year on year, industrial producer prices fell further from 2.7 percent in June to 3.7 percent in July.

5.1 Inflation trends

The upward price trends observed since the beginning of the year has been further confirmed in recent months. Inflation stood at 2.4 percent in July, from 1.5 percent in the first quarter and 2 percent in the second quarter. This trend was attributed to higher volatile food prices, and to a lesser extent, the upward revision of prices of certain administered goods excluding fuels and lubricants. However, prices of fuels and lubricants dropped further in July, reflecting a fall in oil prices. Core inflation accelerated slightly in the second quarter, before falling in July to a level similar to that registered in the first quarter.

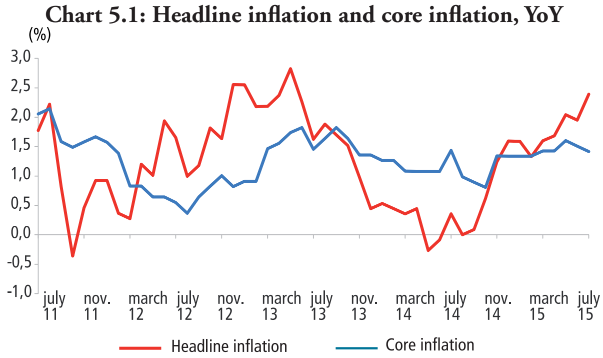
Thus, volatile food prices grew from 2.8 percent in June to 7.6 percent in July, mainly owing to a 64.1 percent increase in citrus prices, as against 28.1 percent in June. Prices of administered goods excluding fuels and lubricants accelerated significantly from 3.5 percent in May to 4.9 percent in June and 4.8 percent in July. This faster pace was due to higher tobacco prices, following the certification of new products in early June and dissipation of the effect of the downward revision of certain drugs prices in 2014.

Table 5.1: Change in inflation and its components

	Monthly change(%)			YoY change(%)		
	May 15	June 15	July 15	May 15	June 15	July 15
Headline inflation	**0.2**	**0.1**	**0.5**	**2.0**	**2.0**	**2.4**
- Volatile food products	0.2	-0.7	3.7	5.1	2.8	7.6
- Fuels and lubricants	5.1	0.9	-0.4	-10.6	-10.6	-13.7
- Administered goods excluding fuels and lubricants	0.0	0.4	0.1	3.5	4.9	4.8
Core inflation	**0.4**	**0.3**	**0.2**	**1.6**	**1.5**	**1.4**
- Food products	0.2	0.1	0.1	2.3	2.3	2.0
- Clothing and footwear	0.1	0.0	0.4	0.8	0.7	0.6
- Housing, water, gas, electricity and other fuels*	0.1	0.1	0.0	1.1	1.0	1.0
- Furniture, household appliances and common house maintenance	-0.1	0.0	0.0	0.2	0.1	0.1
- Health*	0.1	0.0	-0.2	0.9	0.6	0.6
- Transportation*	0.1	0.0	0.0	0.1	0.0	0.1
- Communication	0.0	0.2	0.0	0.0	0.2	0.2
- Entertainment and culture	0.5	0.0	0.0	0.4	0.4	0.5
- Education	0.0	0.0	0.0	3.2	3.2	3.2
- Restaurants and hotels	0.2	0.5	0.0	2.3	2.7	2.4
- Miscellaneous goods and services	0.2	0.0	0.0	0.8	0.7	0.7

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

Chart 5.1: Headline inflation and core inflation, YoY

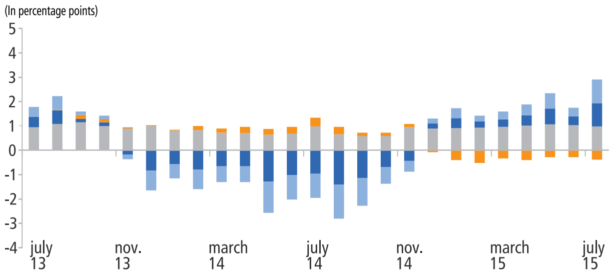


Sources: HCP, and BAM calculations.

However, prices of "fuels and lubricants" registered a steeper decline from 10.6 percent in June to 13.7 percent in July, due to lower international oil prices.

Excluding volatile food and administered products, core inflation declined slightly from 1.6 percent in May to 1.5 percent in June and 1.4 percent in July, mainly reflecting slower growth of food prices, especially cereal prices.

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

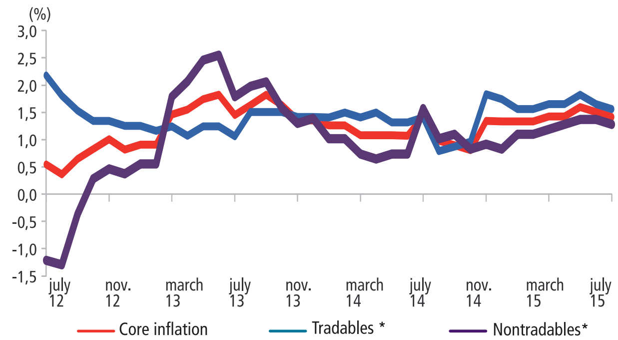
Products	As from 16 June 15	1 July 15	16 July 15	1 Aug. 15	16 Aug. 15	1Sept. 15
Premium gasoline	11.1	11.12	11.24	10.88	10.53	9.78
Diesel 50	9.10	9.03	8.84	8.55	8.20	7.90
Industrial fuel	4133.62	4085.4	3926.59	3723.96	3368.2	2889.59

Source : Ministry of Energy and Mining.

5.2 Tradable and nontradable goods

Price trend analysis by tradables (CPIXT) and nontradables (CPIXNT) indicates that the slight slowdown of core inflation over the last three months affected both categories. Indeed, inflation of tradables fell from 1.8 percent in May to 1.6 percent in June and July, mainly due to slower growth in cereal prices. Their contribution to core inflation dropped from 1 percentage point in May to 0.8 percentage point in July. The annual growth of prices of nontradables moved down from 1.4 percent in June to 1.3 percent in July, mainly due to slower increase in fresh meat prices from 0.7 percent to 0.5 percent. Their contribution to core inflation remained stable at 0.6 percentage point.

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



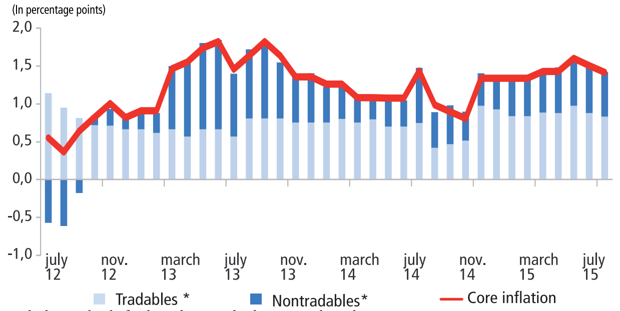
** Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

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

	Monthly change (%) May 15	June 15	July 15	YoY change (%) May 15	June 15	July 15
Tradables (CPIXT)	0.2	-0.1	0.0	1.8	1.6	1.6
Nontradables (CPIXNT)	0.1	0.2	0.2	1.4	1.4	1.3

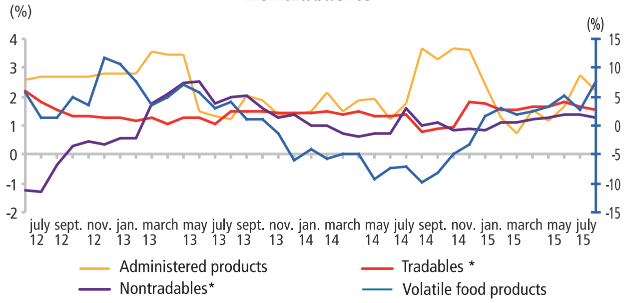
Sources: HCP, and BAM calculations.

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



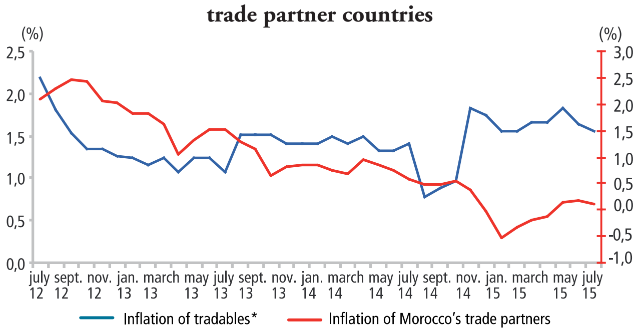
** Excluding volatile food products and administered goods.*
Sources: HCP, and BAM calculations.

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

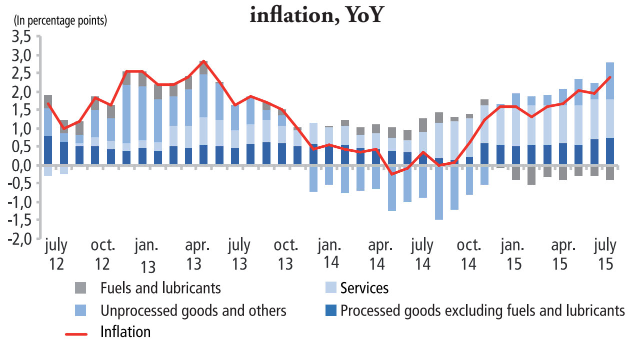
	Monthly contribution to inflation		Yoy contribution to inflation	
	June 15	July 15	June 15	July 15
Products excluded from core inflation index	0.0	0.5	0.9	1.4
Volatile food products	-0.1	0.5	0.4	1.0
Administered products	0.1	0.0	0.6	0.5
Tradables*	0.0	0.0	0.6	0.6
Nontradables*	0.1	0.1	0.4	0.4

** 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 acceleration of inflation over the last two months was mainly driven by inflation in unprocessed goods, which rose from 2 percent in June to 4.5 percent in July. Their contribution to inflation increased from 0.4 percentage point to 1 percentage point. Growth of prices of processed goods and services remained almost stable at 1.8 percent and 3.1 percent, respectively. However, prices of fuels and lubricants continued to decline since December 2014, with a rate of -13.7 percent in July.

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



Sources: HCP, and BAM calculations.

Table 5.5: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	May 15	June 15	July 15	May 15	June 15	July 15
Processed goods*	0.1	0.2	0.0	1.3	1.7	1.8
Services	0.1	0.1	0.0	3.2	3.2	3.1
Unprocessed goods and others	0.2	-0.3	2.4	3.2	2.0	4.5
Fuels and lubricants	5.1	0.9	-0.4	-10.6	-10.6	-13.7

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

5.4 Industrial producer price index

The manufacturing producer price index showed a monthly decline of 0.6 percent in July, after respective increases of 0.6 percent and 0.2 percent in May and

June. This change is mainly attributable to a 4 percent decline in "coke and refining" prices, reflecting a decrease in international crude oil prices.

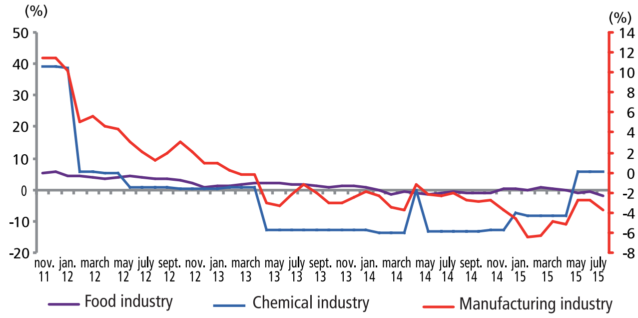
Year on year, the industrial producer price continued to decline over the last two months, from 2.7 percent in June to 3.7 percent in July. This trend reflected a 32 percent decrease in "coke and refining" prices, as against 27.5 percent a month earlier and, to a lesser extent, a 1.7 percent drop in food prices, as opposed to 0.6 percent in June. In contrast, electrical equipment producer prices rose 1.9 percent, as against a 0.3 percent decline a month earlier and prices of motor vehicles, trailers and semi-trailers grew faster from 1 percent to 1.9 percent.

5.5 Inflation expectations

The BAM's business survey for July 2015 shows that manufacturers forecast a slight decline in industrial producer prices over the next three months. Indeed, 20 percent of corporate managers expect a decline in prices, while only 5 percent of them expect an increase (Chart 5.9). For 58 percent of respondents, these producer prices would not change significantly.

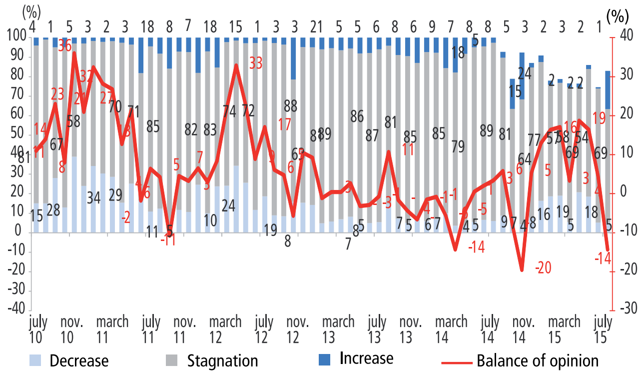
Concerning inflation forecasts over the next three months, the survey findings indicate an upward trend in the growth of the general price level. Indeed, the percentage of corporate managers anticipating an acceleration of inflation stood at 25 percent in July, while 4 percent of them expect a slowdown over this same period (Chart 5.10).

Chart 5.8: YoY change in industrial producer price indexes



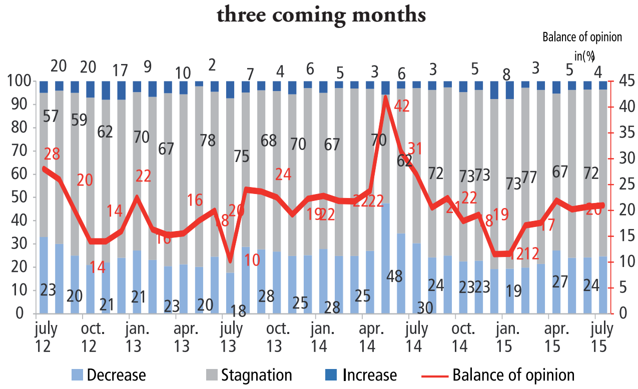
Sources: HCP, and BAM calculations.

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.

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



Source: BAM monthly business survey.

6. INFLATION OUTLOOK

This section presents the inflation trend deemed most probable (central forecast) over the next six quarters and examines the major risks associated thereto (balance of risks). The central forecast 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, as well as billing terms and pricing provisions for electricity, drinking water and sanitation provided for at the Official Gazette No. 6275A. Assuming the non-realization of the major risk factors identified, inflation over the next six quarters would average 1.5 percent, a level close to the average rate expected in the previous MPR (1.4 percent). In 2015, the CPI would show an average increase of 1.8 percent, up slightly compared to March MPR. In 2016, an average rate of 1.3 percent is expected. 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 economic activity continues to show a moderate growth. This trend remains driven by advanced countries, while economic activity is slowing gradually in several emerging countries. In the United States, despite the cold wave that paralyzed some large cities early in the year and a strong dollar, production still shows positive growth, supported by strong domestic demand and good performance of the labor market. In the euro area, although the Greek crisis revived fears, the gradual economic recovery continues to benefit from a supportive monetary policy, progress in fiscal consolidation, significantly moderate energy prices and depreciation of the euro.

In emerging countries, although China's economy still shows a positive growth rate, the downside risks to growth intensified and begin to weigh on financial markets. Similarly, the economies of several other emerging countries slowed down, due to tighter external financial conditions, a decline in commodity prices and its impact on the income of countries exporting such commodities and, finally, geopolitical tensions that persist and worsen in some regions.

Detailed analysis shows that the euro area's economy grew by 1.5 percent in the second quarter of 2015, slightly higher than 1.2 percent, registered in the first quarter of the same year. This momentum is due to a faster economic growth in Spain (3.1 percent in Q2 2015 from 2.7 percent in Q1), positive economic trends in Germany (1.6 percent in Q2 from 1.1 percent in Q1) and France (1 percent in Q2 from 0.9 percent in Q1), and positive growth profile in Italy (0.7 percent in Q2 from 0.2 percent in Q1).

The economic recovery in the euro area is attributable to the uptrend of consumption and investment. Indeed, in the second quarter of 2015, the retail trade and new car registrations recorded increases. Similarly, although lower industrial production, excluding construction, reflects the gradual nature of recovery and persistence of a number of weaknesses, recent indicators of industrial production of capital goods suggest positive investment dynamics. These developments are supported by the latest findings of the composite purchasing managers' index and the Economic Climate Indicator (ESI), which improved during the second quarter. Finally, the euro area's exports continued to grow in the second quarter of 2015, thanks to a dynamic demand from the United States and other developed countries, which offset moderate demand from emerging countries.

In the labor market, despite the slight decline in the unemployment rate to 10.9 percent in July from 11.2 percent in March, this indicator remains high and still shows disparities across countries. Indeed, unemployment declined in Spain (from 22.9 percent in March to 22.2 percent in July) and Italy (from 12.6 to 12 percent) and recorded a virtual stagnation over the same period in Germany (from 4.8 to 4.7 percent) and France (from 10.3 to 10.4 percent). Inflation in the euro area continues to be low. Indeed, after negative rates registered earlier this year, inflation stabilized at 0.2 percent in June and July. In August, it stood at 0.1 percent. This trend results from the rise in food and services prices (1.3 percent and 1.2 percent), which offset the fall in energy prices (-7.2 percent).

Regarding the U.S. economy, after a growth of 2.9 percent in Q1 2015 in spite of social unrest in the West Coast ports and the cold wave, economic activity remained strong in the second quarter and should grow 2.7 percent. This dynamic is driven by strong private consumption and uptrend of exports and non-construction investment, which offset the slowdown in inventory rebuilding and real estate investment.

The good performance of the U.S. economy continues to benefit the labor market, as unemployment stabilized at 5.1 percent in August, from 5.5 percent in March 2015. Nevertheless and unlike the previous year, this decline was also accompanied by an improvement in other labor market indicators. Indeed, the share of unemployed workers for six months decreased significantly, the participation rate increased again and the creation of new jobs continued to grow, approaching its pre-crisis level.

Unlike recent months, inflation rose slightly in the United States from -0.1 percent in March 2015 to 0.2 percent in July and August. This trend reflects the recovery of food and services prices (1.6 percent and 2.6 percent), which more than offset the fall in energy prices (-15 percent).

Taking into account all these developments, the International Monetary Fund (IMF), in its July forecasts, expects a growth of around 1.5 percent in 2015 and 1.7 percent in 2016 in the euro area. For the United States, the IMF expects a growth rate of 2.5 percent in 2015 and 3 percent in 2016. Compared with June MPR, growth forecasts for the U.S. economy were revised downwards (3.1 percent was expected for 2015 and 2016), while those for the euro area did not change significantly (1.5 percent in 2015 and 1.6 percent in 2016 were projected).

Uncertainties about global economic trends remained virtually unchanged and broadly tilted to the downside. Indeed, a rise in financial markets' volatility is increasingly seen as one of the most significant risks to growth forecasts. Firstly, a possible weakening of China's economy could further intensify disturbances on the Chinese financial market and spread through contagion effects to other international financial markets. Secondly, although the Greek crisis has had only limited effects on other countries in the euro area, due to its debt restructuring and the action of European institutions and IMF, increases in sovereign bond yields in certain countries of the euro area are likely to weaken the chances of a more dynamic recovery in these economies. Furthermore, following the monetary policy normalization process, a stronger-than-expected increase in U.S. long-term interest rates could cause a reversal of the moderation of risk premiums, especially in emerging countries. Similarly, monetary policy divergences, growth prospects and change in external positions should continue to heighten volatility in foreign exchange markets. Finally, geopolitical instability in Russia and Ukraine, the Middle East and some countries in Africa could lead to an escalation of tensions and further disrupt trade and financial markets.

Under these conditions, a weighted average growth rate of Morocco's major trading partners (Germany, Spain, France, Italy and the United Kingdom) assumed in this forecasting exercise stands at around 1.6 percent in 2015 and 1.9 percent in 2016. Compared with June MPR, the 2016 forecasts were revised upwards to take account of the favorable growth prospects in the euro area (a rate of 1.7 percent was expected). 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 monetary policy report of July, anticipates inflation to range from 0.6 to 0.8 percent in 2015 and from 1.6 to 1.9 percent in 2016. These rates are similar to those projected in the March report. Meanwhile, the ECB, in its latest macroeconomic projections for the euro area, expects inflation at 0.1 percent in 2015 and 1.1 percent in 2016, down from the previously reported levels (0.3 percent and 1.5 percent were expected). In the medium term, risks to inflation in the euro area are attributed to uncertainties surrounding the economic activity, prices of 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, followed by a virtual stabilization in 2016. This trend would be due to a stable supply at world level and moderate growth prospects in emerging countries, major importers of non-energy commodities.

6.1.2 National environment

In line with assumptions provided in June MPR, national economic growth prospects for 2015 remain broadly positive. This trend is mainly attributed to an outstanding performance of the agricultural sector and a slight improvement of nonagricultural activities.

Indeed, the Ministry of Agriculture and Fisheries announced a record cereal production in 2015 of 115 million quintals, from 110 million quintals reported previously in the last MPR. This performance is mainly due to favorable weather conditions, marked by a significant rainfall volume, well distributed in time and space. Under these conditions, the agricultural value added should grow 15 percent in 2015, after a contraction of 2.5 percent in the past year. For 2016, an average crop year with a cereal production of 70 million quintals is assumed in the baseline scenario.

The growth of nonagricultural activities in 2015 should improve slightly compared to 2014. This trend would benefit from economic growth recovery, albeit moderate, in Morocco's key partner countries, a significant moderation in energy commodity prices and a positive momentum in domestic demand.

Indeed, household final consumption should show a positive profile, as evidenced by the recovery in consumer loans (5.7 percent at end-July) and recovery of transfers from Moroccan expatriates (5.5 percent at end-August). This trend is also prompted by the expected improvement in agricultural incomes and the continued growth of the purchasing power, due to a moderate change in prices, mainly energy ones.

As to private investment, leading indicators show that a relative stabilization is expected during this year. Indeed, FDI flows (21.1 percent at end-August) and imports of capital goods, excluding aircraft purchases (1.7 percent at end-August), suggest a slight recovery. However, the further decline in loans to property developers (-4.9 percent at end-July) and the contraction of the annual growth of equipment loans (1.6 percent at end-July) continue to fuel uncertainties about the strength of the recovery in private investment. With regard to public investment, in light of the planned budget envelope (5.2 percent of GDP) and the implementation rate at end-July (57 percent), its contribution to overall investment dynamics would be limited.

Given all these developments, the nonagricultural GDP growth in 2015 should stand at 3.3 percent, revised slightly downwards compared to June MPR. This revision is mainly due to sluggishness of the mining and tourism sectors in the first quarter of the current year. Overall growth in 2015 should reach 4.6 percent. In 2016, assuming an average crop year and a slight improvement in the nonagricultural value added, growth would stand at 2.4 percent. The main uncertainties surrounding these forecasts are particularly attributed to the scale of the recovery in foreign demand and change in prices, mainly energy commodity prices.

Regarding the labor market, the latest figures point to a decline in the national unemployment rate from 9.3 percent in the second quarter of 2014 to 8.7 percent in the second quarter of 2015, reflecting a decrease from 14.2 to 13.4 percent in urban areas and from 3.6 to 3.3 percent in rural ones. This change covers the creation of 38,000 jobs, mainly in services (66,000), construction (16,000) and industry (14,000) while agriculture, forestry and fishing lost 58,000 jobs.

Furthermore, BAM's latest business survey shows that manufacturers expect a slight improvement of the workforce employed in all sectors in the current quarter, with the exception of chemical and related industries, where virtual stagnation is projected, and textile and leather industries, where a decline in workforce is anticipated. Under these conditions and taking into account the 5 percent increase in the minimum wage applied in July 2015, the central scenario of this forecasting exercise assumes a minimum wage of 13.46 dirham/hour.

Finally, oil price forecasts still point to moderate levels for 2015 and 2016. Indeed, the World Bank, in its July update, expects an oil price of $57.5 in 2015 and $61.2 in 2016. IMF, in its July update, anticipates a price of $58.87 in 2015 and $64.22 in 2016.

The uncertainties surrounding these forecasts are broadly attributed to an adjustment of the supply in major producing countries, more sustained-than-expected recovery in global demand and a possible worsening of geopolitical tensions.

Therefore, given these developments, the price for diesel oil at the pump should remain moderate over the rest of the forecast horizon.

6.2 Inflation outlook and balance of risks

Inflation outlook over the horizon of six quarters remained relatively stable compared with June MPR. In the short term, an upward revision was made and an inflation of 1.8

percent is expected in the second half of 2015, from 1.4 percent projected in the last MPR. For the full year 2015, inflation would average 1.8 percent from 1.5 percent previously reported. For 2016, inflation should average around 1.3 percent. Finally, the central forecast over the coming six quarters would remain at 1.5 percent, a rate close to that anticipated a quarter earlier (1.4 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).

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 the 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 (with a probability of 90 percent).

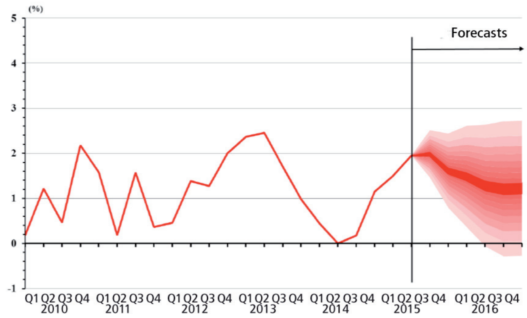
Table 6.1: Inflation outlook for 2015 Q3 –2016 Q4

	2015		2016				Average		FH*
	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	
Central forecast (%)	2.0	1.6	1.5	1.3	1.2	1.2	1.8	1.3	1.5

(Quarterly data, YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2015 Q3–2016 Q4 (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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