بنك المغرب
BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 35/ 2014

Document prepared for
the Bank Board
June 16, 2015

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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, June 16, 2015

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, June 16, 2015.

2. At this meeting, the Board reviewed and approved the Annual Report 2014 on the domestic economic, monetary and financial situation as well as on the Bank's activities.

3. The Board also examined recent economic, monetary and financial developments and inflation forecasts up to the third quarter of 2016.

4. Internationally, the Board noted the slow recovery in the euro area, as GDP grew by 1 percent in the first quarter after 0.9 percent a quarter earlier and the unemployment rate fell slightly to 11.1 percent in April. In the United States, despite the negative impact of transitory factors in the first quarter, year-on-year growth strengthened to 2.7 percent from 2.4 percent, while the jobless rate remained stable in May at 5.5 percent. In contrast, economic activity continued to slacken in the main emerging countries, with a slowdown in growth to 7 percent in China and 6.1 percent in India and a GDP contraction of 6.1 percent in Brazil. In terms of outlook, the IMF in April revised upward its growth projection for the euro area in 2015 from 1.2 to 1.5 percent and lowered that of the United States from 3.6 to 3.1 percent, and then to 2.5 percent in May under Article IV consultation. In commodity markets, the price of Brent oil fell in May by 40.6 percent year on year to an average of $65.2 a barrel, but was up 9.0 percent from April and 33.2 percent compared to January. Under these conditions, inflation in the euro area accelerated to 0.3 percent in May after a zero rate a month earlier, while in the United States it fell to -0.2 percent in April after -0.1 percent in March. In terms of monetary policy decisions, the ECB at its meeting of June 3 kept its key interest rates unchanged and said that its asset purchase program will run until the end of September 2016 and, in any case, until it sees a sustained adjustment in the path of inflation that is consistent with its price stability objective. Similarly, at its meeting of April 29 the Fed held rates unchanged, indicating that the duration of maintaining them in the current target range depends on progress made in achieving its objectives of maximum employment and 2 percent inflation. Overall, all of these developments do not suggest external inflationary pressures.

5. At the national level, data published on June 4 according to the new base year 2007, which now replaces 1998, indicate a growth rate of 2.4 percent in 2014, resulting from a decline of 2.5 percent in the agricultural value added and an increase of 3.1 percent in nonagricultural GDP. In 2015, growth is expected at about 5 percent, driven by a rise of nearly 15 percent in the agricultural value added, while nonagricultural activity would accelerate somewhat to around 3.5 percent. In the labor market, first quarter data show the net creation of 27,000 jobs and a decline in the labor force participation rate by 0.7 point to 47 percent. The unemployment rate was down 0.3 point to 9.9 percent nationally and 14.3 percent in urban areas. Under these circumstances, nonagricultural output gap continued to be negative and would remain so in the medium term, suggesting the absence of demand-driven inflationary pressures.

6. External accounts preliminary data as at end-May show that the trade deficit narrowed by 25.3 percent, reflecting a drop of 9.6 percent in imports due mainly to a 33.3 percent contraction in energy purchases. Meanwhile, exports maintained momentum with an increase of 5.8 percent, particularly led by an improvement of 22.3 percent in shipments of phosphates and derivatives and 15.4 percent in the sales of automotive industry. Regarding other items of the current account, travel receipts decreased by 6.4 percent while transfers from Moroccans living abroad were up 5.5 percent. Based on these data and assuming an average Brent oil price at $63 a barrel and a

13 billion-dirham inflow of grants from GCC countries, the current account deficit should hover around 3 percent in 2015. These developments, combined with a rise of 22.8 percent in net FDI inflows, impacted foreign exchange reserves which, at end-May, reached 194 billion dirhams, the equivalent of 5 months and 25 days of goods and services' imports. They should further improve to cover around 6 months of imports by the end of the year.

7. As regards public finance, current revenues rose by 4.8 percent at end-April, largely driven by monopoly revenues which rose from 429 million to 4.2 billion while tax receipts increased by a mere 0.4 percent. At the same time, overall expenses were down 7.1 percent, mainly reflecting decreases of 59.6 percent in subsidy costs and 6.7 percent in capital expenditure. Overall, budget implementation during the first four months of the year resulted in a 49.6 percent decline in fiscal deficit. If this trend continues, the deficit target of 4.3 percent of GDP in 2015, set in the Finance Act, will be achieved.

8. On the monetary side, April data show slight slowdown in M3 aggregate to 6.8 percent from 7.1 percent on average in the first quarter, reflecting in particular a drop in the growth rate of bank lending from 3.8 to 2.5 percent. The moderate growth in lending is attributable, according to the results of the Bank Al-Maghrib Survey on Lending Conditions, to the weaker demand from businesses while individuals' demand increased, especially for real estate loans. In 2015, M3 growth is expected at 6 percent and bank lending would increase by about 4 percent. The money gap is therefore negative, suggesting the absence of money-driven inflationary pressures. Bank liquidity improved in April and May by 3.4 billion compared to the first quarter, largely due to stronger foreign exchange reserves. As a result, the Bank reduced the volume of its interventions from a weekly average of 42.5 billion to 39.1 billion. Concerning lending rates, the overall lending rate fell 22 basis points to 5.81 percent, owing to the consecutive cuts in the key rate in September and December 2014. This decline was widespread across the various loan categories, except for consumer loans.

9. In the assets' market, the Real Estate Price Index slightly edged down in the first quarter by 0.2 percent year on year, covering a 1.6 percent drop in commercial real estate and a virtual stagnation in residential property while urban land prices moved up 0.4 percent. In the stock market, following a 6.8 percent rise in the first quarter, the benchmark index went on a downward trend, posting as at June 10 a year-to-date decline of 0.3 percent.

10. Against this background, inflation reached 1.7 percent in April up from 1.5 percent in the first quarter, due mainly to an accelerated rise in volatile food prices from 2.4 to 3.3 percent. Core inflation, which reflects the underlying trend of prices, remained essentially unchanged at 1.4 percent, covering stable prices for tradables at 1.6 percent and slightly higher prices for nontradables at 1.3 percent. Industrial producer prices continued to trend downward, posting again a year-on-year decline of 5.1 percent in April from an average 5.9 percent drop in the first quarter.

11. Taking into consideration all these developments, the impact of the minimum wage increase in July as well as the expected trend in international oil prices, inflation would remain consistent with the price stability objective. It is expected at 1.5 percent in 2015 and 1.4 percent on average over the next six quarters.

12. In this context characterized by an inflation central forecast in line with the price stability objective but still surrounded with uncertainties related externally in particular to the medium-term trend in oil prices, the Board decided to keep the key rate unchanged at 2.5 percent while continuing to closely monitor all these developments.

OVERVIEW

In the first quarter of 2015, the economic recovery remained subdued in the euro area, as GDP grew by 1 percent from 0.9 percent in the previous quarter. In the United States, growth accelerated from 2.4 to 2.7 percent but decelerated quarter on quarter, particularly due to severe weather conditions and strikes in West Coast ports. In contrast, Japan's GDP contracted further from 0.8 to 1.4 percent, while in the United Kingdom annual growth slowed down from 3 to 2.4 percent. Against this backdrop, the unemployment rate edged down in April from 11.2 to 11.1 percent in the euro area and was stable at 5.5 percent in the United States, according to data released in May.

In major emerging countries, the economic slowdown continued, with a deceleration in growth from 7.3 to 7 percent in China and from 6.8 to 6.1 percent in India, while in Brazil GDP contracted further from 0.2 to 1.6 percent. In Turkey, growth stood at 2.5 percent for the third consecutive quarter.

In terms of outlook, the IMF forecast in April a faster growth to 2.4 percent in 2015 and 2016 in advanced economies and a deceleration to 4.3 percent followed by an improvement to 4.7 percent in emerging and developing countries. In terms of employment, the IMF expects an unemployment rate of 5.5 percent in 2015 and 5.1 percent in 2016 in the United States and 11.1 percent then 10.6 percent in the euro area.

In financial markets, stock indexes of major advanced economies showed divergent trends between April and May. Indeed, the Dow Jones and Nikkei 225 were up, while the EUROSTOXX50, DAX 30, CAC 40 and FTSE 100 were down. In emerging countries, the MSCI EM rose by 0.2 percent between April and May, covering a decline of 5.1 percent in India and increases of 1.3 percent in China and 3.1 percent in Turkey. In the bond markets, 10-year yields were tilted to the upside between April and May from 1.9 to 2.2 percent in the United States, from 0.2 to 0.6 percent in Germany, from 0.4 to 0.9 percent in France and from 1.3 to 1.7 percent in Spain. On the foreign exchange market, the euro appreciated by 3.4 percent vis-à-vis the dollar, 4.2 percent against the Japanese yen, and remained unchanged versus the pound sterling.

Concerning monetary policy decisions, the ECB kept on June 3 its key rate unchanged, while pursuing the implementation of its expanded bond-buying program. Similarly, at its meeting of April 28-29, the Fed kept its rates unchanged and noted that determining how long to maintain this target range depends on progress toward the realization of its objectives of maximum employment and 2 percent inflation. Growth in bank lending stagnated in the euro area in April, after a slight increase of 0.1 percent, while its annual growth in the United States slowed to 7.9 percent in May from 8.1 percent a month earlier.

In emerging markets, the Central Bank of China reduced its key rate on May 10 by 25 basis points to 5.10 percent and that of Russia lessened it from 14 to 12.5 percent on April 30. However, the Central Bank of Brazil continued its monetary tightening to fight against inflationary pressures, thus raising its rate from 13.25 to 13.75 percent on June 3.

In commodity markets, prices in May remained well below those of the previous year. The agricultural and base metal price indexes showed respective declines of 28.7 percent and 6 percent. In terms of energy commodities, the Brent price averaged $65.2 per barrel, down 40.6 percent from one year to the next, but up 9 percent from its April level. The average prices of phosphates and derivatives rose in May by 2.7 percent to $115 per tonne for crude phosphate, by 4.1 percent to $380 per tonne for TSP and by 5.7 percent to $470 per tonne for DAP. Durum wheat prices decreased in May by 3.7 percent, month on month, and 35.7 percent, year on year.

Under these conditions, after a zero rate in April, inflation accelerated to 0.3 percent in the euro area in May. In the United States, April data indicate a deeper price decline from 0.1 percent to 0.2 percent. All these developments show the absence of external inflationary pressures.

Nationally, the data developed using the new base year 2007 and published by the HCP on June 4, 2015 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 GDP. For 2015, growth should stand at 4.8 percent, driven by a record cereal production of 110 million quintals. In contrast, growth of nonagricultural activities should be limited to 3.5 percent. In the labor market, the unemployment rate fell by 0.3 point to 9.9 percent in the first quarter 2015, with a decrease to 14.3 percent in urban areas and to 4.7 percent in rural ones. On this basis and taking into account data from the monthly business survey in industry that indicate a capacity utilization rate at 71 percent in April, nonagricultural output gap continues to be negative, suggesting the absence of demand-led inflationary pressures.

As to external accounts, trade deficit continued to ease, posting a decrease of 25.3 percent at end-May compared to the same period in 2014. Imports were down 9.6 percent, with particularly a 33.3 percent decrease in the energy bill, while exports rose by 5.8 percent, mainly reflecting respective improvements of 22.3 percent and 15.4 percent in shipments of phosphates and derivatives, and automotive industries. Concerning the other current account items, travel receipts fell by 6.4 percent, as against an increase of 3.7 percent over the same period of 2014, while remittances of Moroccan expatriates rose by 5.5 percent, after a decline of 1.1 percent. On the basis of these data and assuming an average Brent price of $63 per barrel and the collection of 13 billion dirhams as donations from the Gulf Cooperation Council countries provided for by the 2015 Finance Act, the current account deficit should be around 3 percent of GDP at end-2015, as against 5.6 percent in 2014. Taking into account the change in net foreign direct investment flows, which moved up 22.8 percent and the trend of others financial account components, the stock of net international reserves stood at 194 billion dirhams at end-May, providing coverage for 5 months and 25 days of goods and services' imports. It should strengthen further to end the year at around 6 months of imports.

Concerning public finances, budget execution at end-April resulted in a deficit of 15 billion, down by almost half compared to 2014. This result is attributable to a 4.8 percent increase in current receipts, driven mainly by respective rises of 0.4 percent and 57.4 percent in tax revenues and nontax receipts. It is also due to a decrease of 7.1 percent in overall expenditure, mainly as a result of decreases of 59.6 percent in the subsidy costs and 6.7 percent in investment spending, while payroll trended upward by 1.2 percent. The current balance was negative at 2.2 billion, albeit reflecting a 9.6 billion deceleration compared to April 2014. At end-2015, the deficit target of 4.3 percent of GDP set in the Finance Act should be achieved.

On the monetary side, M3 aggregate growth slowed slightly from 7.1 percent on average in the first quarter to 6.8 percent in April 2015. Thus, money gap remains negative, suggesting the absence of monetary-driven inflationary pressures. Bank lending decelerated from 3.8 percent to 2.5 percent, covering a contraction after an increase in loans to businesses and acceleration of credit to individuals. At the end of 2015, considering end-May data, credit growth should be around 4 percent. Owing to stronger foreign exchange reserves, bank liquidity requirements averaged 38.7 billion dirhams in April and May, down 3.4 billion from the previous quarter. Under these conditions, Bank Al-Maghrib's interventions stood at 39.1 billion, causing the interbank rate to remain at 2.51 percent on average. Due to policy rate cuts decided in September and December 2014, lending rates fell by 22 basis points to 5.81 percent in the first quarter 2015, reflecting a decline in rates on all loan categories with the exception of those on consumer loans. Similarly, deposit rates dropped by 9 basis points in the first quarter of 2015 to 3.76 percent. Moreover, the dirham's effective exchange rate depreciated in the first quarter 2015 by 0.34 percent in nominal terms and appreciated by 0.18 percent in real terms.

In the assets market, real estate prices in the first quarter 2015 rose slightly by 0.2 percent, from one year to another, covering a 0.4 percent increase in land prices, a 1.6 percent decline in commercial property prices and virtual stagnation in residential ones. After rising 11.9 percent in 2014, the volume of transactions moved up 7.4 percent, involving all categories of goods.

On the stock market, after rising 6.8 percent in the first quarter, the benchmark index was down 5.4 percent in May, bringing its performance over the first 5 months of the year to 0.9 percent. The volume of transactions over this period reached 16.0 billion dirhams, as against 16.5 billion a year earlier.

Under these conditions, inflation continued to accelerate since the fourth quarter 2014, to 1.7 percent in April and an average of 1.6 percent over the first four months of the year. This change mainly reflects a 2.6 percent increase on average in volatile food prices since the beginning of the year, as against a fall of 5.6 percent in 2014. Core inflation remained almost stable at 1.4 percent between January and April from 1.2 percent in 2014, with faster prices of tradables from 1.4 percent to 1.6 percent and from 0.9 percent to 1.2 percent for nontradables. Meanwhile, manufacturing producer prices continued to drop since early 2013, posting an annual decline of 5.1 percent in April from 4.9 percent a month earlier, mainly in connection with a decrease of 32.5 percent in "coking and refining" prices as opposed to that of 31.6 percent.

Based on all of these developments and taking into account the effect of increases in the minimum wage and water and electricity prices as well as the expected changes in oil prices, inflation should remain in line with the price stability objective. It would stand at 1.5 percent in 2015, average 1.4 percent over the next six quarters and stand at 1.3 percent at the end of the forecast horizon (third quarter of 2016).

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1. AGGREGATE SUPPLY AND DEMAND

In the first quarter 2015, national growth would have stood at 4.7 percent, covering increases of 14 percent in the agricultural value added and 3.1 percent in nonagricultural GDP. Based on a cereal production of 110 million quintals, according to estimates from the Ministry of Agriculture and Fisheries, and taking into account a change of the base year of national accounts to 2007, prospects for growth in 2015 were revised downward to 4.8 percent, with increases of 15 percent in the agricultural value added and 3.5 percent in nonagricultural GDP. Regarding demand, the household final consumption should benefit from an improved agricultural income and a moderate inflation rate. Meanwhile, investment remains dependent upon the pace of budget execution and the overall business climate.

1.1 Output

Throughout 2014, growth stood at 2.4 percent, reflecting a 3.1 percent increase in nonagricultural GDP and a 2.5 percent decline in the agricultural value added. The performance of nonagricultural activities covers a further decrease in the value added and a faster contribution of taxes on products net of subsidies for the second consecutive year. Indeed, growth of the nonagricultural value added stood at 2 percent in 2014 from 1.9 percent in 2013 and that of net taxes was 13.4 percent as against 14.7 percent.

In the first quarter 2015[1], the national economic activity would have improved by 4.7 percent, reflecting increases of 14 percent in the agricultural value added and 3.1 percent in nonagricultural GDP. This performance is due to an exceptional crop year and a slight improvement in nonagricultural activities.

At the sectoral level, according to the Ministry of Agriculture, cereal production is estimated at 110 million quintals in the 2014/2015 crop year, including 55 million quintals of soft wheat, 33 million quintals of barely and 22 million quintals of durum wheat.

As to secondary activities, growth of the value added of the extractive industry would have declined by 6.5 percent in the first quarter, after an increase of 6.4 percent in the same quarter of the previous year. This change

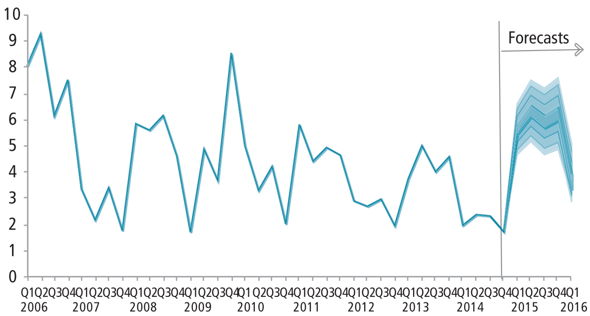
Table 1.1: YoY growth of quarterly GDP[1] at chained prices per major sectors (%)

Activity sectors	2013			2014				2015	
	QII	QIII	QIV	QI	QII	QIII	QIV	QI_F	QII_F
Agriculture	20.2	18.7	21.2	-1.8	-2.0	-1.6	-1.4	14.0	15.7
Nonagricultural VA	2.6	1.5	2.0	2.6	3.1	3.1	2.3	3.1	3.2
Extractive industry	1.7	-2.9	-6.6	6.4	6.8	6.5	-2.8	-6.5	-6.5
Processing industry	1.1	-0.7	2.3	0.9	1.3	3.0	1.6	1.7	1.9
Electricity and water	-1.1	1.7	5.8	3.8	5.0	2.1	3.0	4.8	4.6
Construction	-1.3	3.8	6.0	0.3	0.2	0.5	0.6	1.0	1.6
Trade	1.6	1.0	1.9	1.4	1.7	1.7	1.9	2.0	2.1
Hotels and restaurants	6.2	3.2	3.7	6.6	3.9	0.5	-3.4	-3.5	-3.0
Transportation	3.0	3.3	2.9	5.0	5.6	3.2	2.7	3.5	3.6
Post and telecommunication	3.2	1.4	1.4	4.9	7.0	6.5	5.9	6.8	6.3
General government and social security	6.0	1.7	0.0	2.6	2.2	2.0	2.0	2.5	3.0
Other services*	3.3	2.6	2.7	4.0	4.2	4.4	3.9	4.2	4.4
Taxes on products net of subsidies	6.4	6.8	5.8	2.7	3.7	2.6	2.4	2.8	3.2
Nonagricultural GDP	2.9	2.0	2.3	2.6	3.2	3.0	2.3	3.1	3.2
Gross domestic product	5.0	4.1	4.6	2.0	2.4	2.4	1.8	4.7	5.2

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

Sources: HCP, and BAM forecasts.

Chart 1.1: GDP projected growth Q1-2015 - Q1-2016



Sources: HCP, and BAM forecasts.

1 Pending the publication of new quarterly series base 2007 by the HCP, the chapter is based on quarterly national accounts data compiled on the basis of 1998.

is attributed to a fall of 12.3 percent in the saleable production of crude phosphate, as against an increase of 4.3 percent.

In the second quarter of the year, the mining industry should continue to evolve at the same pace as in the previous quarter. The value added of processing industries would have increased by 1.7 percent in the first quarter, from 0.9 percent a year earlier, and should grow by 1.9 percent in the second quarter of the year, as opposed to 1.3 percent.

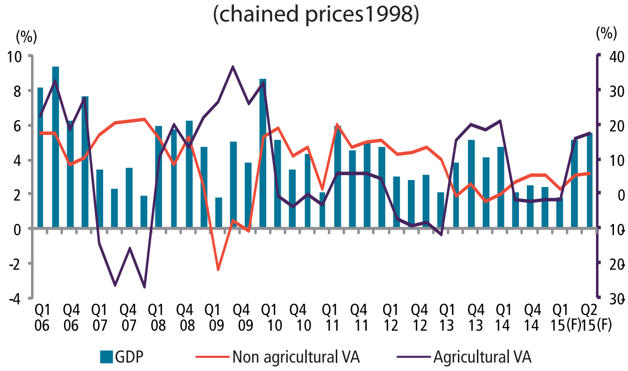
Available monthly indicators show that medium and high voltage electricity sales grew by 1.2 percent in the first quarter from 1.5 percent a year earlier.

Moreover, according to BAM's monthly business survey in industry for April, the capacity utilization rate rose by 5 percentage points from the previous month to 71 percent. In this context, manufacturers anticipate an improvement in production and sales over the next three months of the year.

After rising 3.8 percent in the first quarter of the previous year, the electricity and water value added should increase by 4.8 percent in the first quarter. This trend would be due to an 8.2 percent increase in the local net production of the National Electricity and Water Office, as against 3.8 percent in the first quarter of the previous year. In the second quarter of 2015, this branch should grow by 4.6 percent.

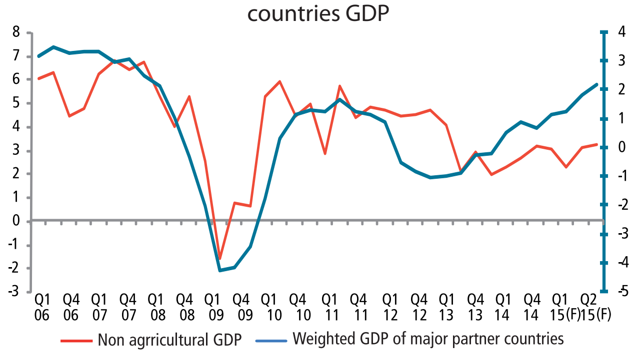
The value added of the construction sector would have risen by 1 percent in the first quarter 2015, from 0.3 percent in the same quarter of the previous year and 0.6 percent in the previous quarter. It should increase by 1.6 percent in the second quarter. These forecasts are corroborated by changes in cements sales, which were up 0.6 percent, after falling by 3.2 percent in the first quarter a year earlier.

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



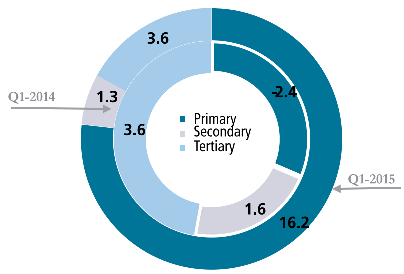
Sources: HCP, BAM calculations and forecasts.

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



Sources: HCP, IMF and BAM calculations and forecasts.

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



Sources: HCP, and BAM calculations and forecasts.

Regarding the tertiary sector, the value added of posts and telecommunications would have increased by 6.8 percent in the first quarter and should slow slightly to 6.3 percent in the second quarter.

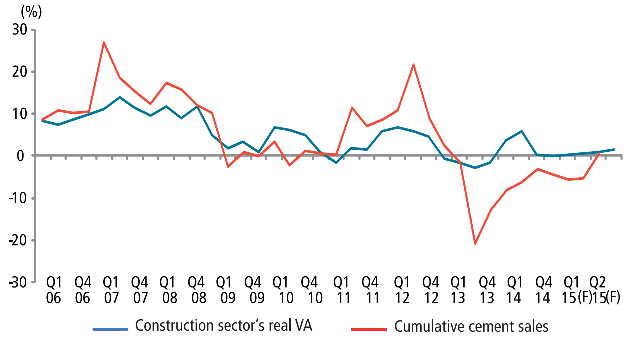
The trade and transport value added, dependent on the performance of other sectors, would have risen respectively by 2 percent and 3.5 percent in the first quarter and should grow 2.1 percent and 3.6 percent in the second quarter.

The value added of hotels and restaurants would have declined by 3.5 percent after rising 6.6 percent in the first quarter of 2014. This prospect is supported by preliminary foreign trade data at end-April, which show a decrease of 5.4 percent in travel receipts, as against a 6.5 percent increase a year earlier.

In addition, data from the Ministry of Tourism for the first quarter show a 0.5 percent fall in arrivals at border posts and a decline in the occupancy rate in hotels to 38 percent on average over the first three months of the year. Assuming that this trend would continue, the value added of this branch should drop by 3 percent in the second quarter of the current year.

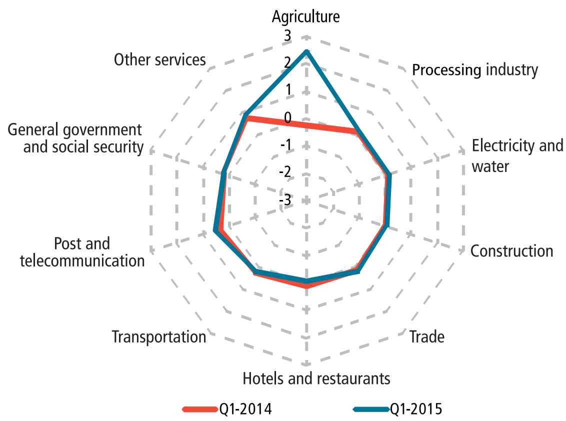
Overall, growth forecasts in 2015 were revised downward compared with those reported in the last monetary policy report. Growth should stand at 4.8 percent, as against an initial forecast of 5 percent. These developments reflect an upward evaluation of the agricultural growth and a downward revision of nonagricultural GDP from 4 percent to 3.5 percent. These adjustments take into account a record cereal production estimated at 110 million quintals, as against an assumption of 90 million quintals reported in the previous MPR, as well as a change in national accounts.

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



Sources: APC, HCP, and BAM calculations and forecasts.

Chart 1.6: Sectoral contribution to overall growth



Sources: HCP, BAM forecasts and calculations.

Box 1.1: National accounts, change of the base year and 2015 forcasts

The HCP released the first national accounts data prepared with 2007 as the new base year. This change of the base year of national accounts from 1998 to 2007 would not be without impacts on BAM's medium-term macroeconomic forecasts. Indeed, changes in structures and volatilities should significantly affect the estimated elasticities.

Between 2007 and 2013, the national accounts structure had a change in the main macroeconomic aggregates. The change of the base year impacted both demand and supply elements. Indeed, the primary sector accounted for 13.8 percent of GDP on average between 2007 and 2013 under the old structure and 12.5 percent with the new system. The contribution of the secondary sector to GDP was revised downward to 25.8 percent on average over the same period, as against 26.6 percent, while the tertiary sector's share in GDP averaged 52.1 percent from 50.3 percent.

As to the nonagricultural value added, adjustments to the national accounts show a rise of only 2 percent in 2014 (base year= 2007) as against an average increase of 2.8 percent, according to quarterly national accounts (base = 1998).

Table B 1.1.1 : Change in the economic structure

	Base 2007	Base 1998	Ecart
Primary sector	12.5	13.8	-1.3
Secondary sector	25.8	26.6	-0.8
Tertiary sector	52.1	50.3	1.8
Nonagricultural value added	78.7	77.8	0.9
Taxes on goods net of subsidies	9.6	9.3	0.2
Nonagricultural GDP	88.3	87.2	1.1

Based on the available elements, a rate of 2.8 percent in the nonagricultural value added is forecast for 2015. Meanwhile, the growth of taxes on products net of subsidies accelerated to 13.4 percent in 2014, according to national accounts (base year= 2007) as against an annual average of 2.8 percent (quarterly accounts). This adjustment results from the consideration of the significant decrease of 9 billion in the subsidy costs. Thanks to a further easing in the subsidy costs in 2015, the change in the value added of taxes on products net of subsidies should stand at 11.9 percent, bringing the growth of nonagricultural GDP to 3.5 percent.

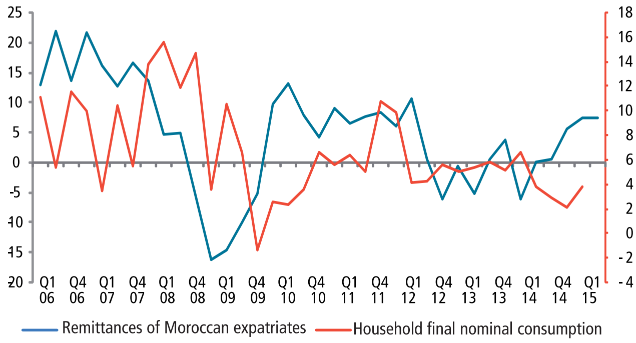
Overall, the growth forecast for 2015 would stand at 4.8 percent, reflecting increases of 15 percent in the agricultural value added and 3.5 percent in nonagricultural GDP.

1.2 Consumption

Domestic final consumption showed some deceleration in 2014. Indeed, growth in household final consumption slowed down from 3.7 percent in 2013 to 3.2 percent, causing a decline in its contribution to growth from 2.8 points to 1.9 percentage point. At the same time, government final consumption was limited to 1.8 percent in 2014 from 4.2 percent in 2013, representing a decline from 0.5 point to 0.3 percentage point in its contribution to growth.

In 2015, it should accelerate slightly to 3.4 percent, particularly thanks to the direct and indirect effects of the improvement of agricultural income, in a context of further moderate consumer prices and rising

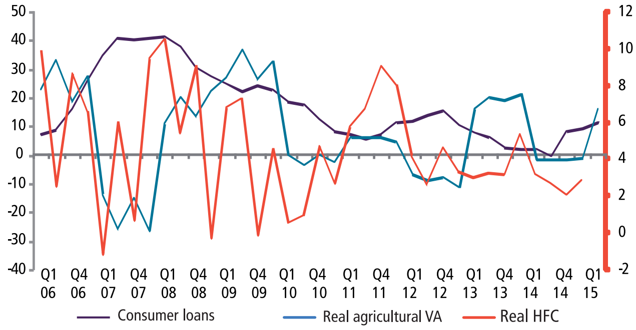
Chart 1.7: YoY change in household final consumption and remittances of Moroccan expatriates (%)



Sources: HCP, Foreign Exchange Office and BAM calculations.

external revenues. This slight recovery should be supported by a relative improvement in labor market conditions. Indeed, the unemployment rate fell by 0.3 point in the first quarter 2015, moving down in one year from 10.2 percent to 9.9 percent.

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



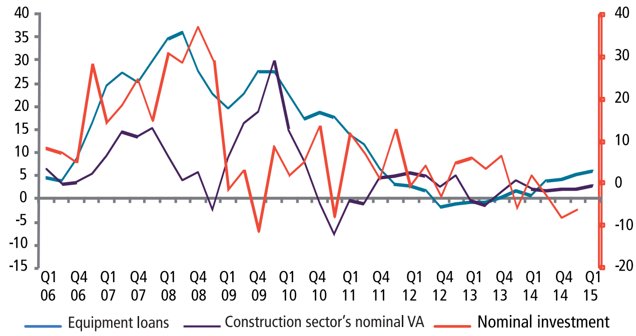
Sources: HCP, BAM and BAM calculations.

Government consumption would have risen in the first quarter 2015, as evidenced by the increase in operating expenses. Indeed, in the first quarter 2015, data on Treasury expenses and revenues reveal a faster rise in operating expenses to 5.7 percent from 4.2 percent a year earlier.

1.3 Investment

Investment declined in 2014, both in connection with contractions of 0.4 percent in gross fixed capital formation and 23.3 percent in the change in inventories. Thus, its contribution to growth became negative at 1.1 percentage point in 2014, after a positive contribution of about 1.8 percentage point in 2013. In light of recent developments of indicators available at end-April 2015, investment in 2015 would be marked by a relative recovery of gross fixed capital formation and a further decline in inventories.

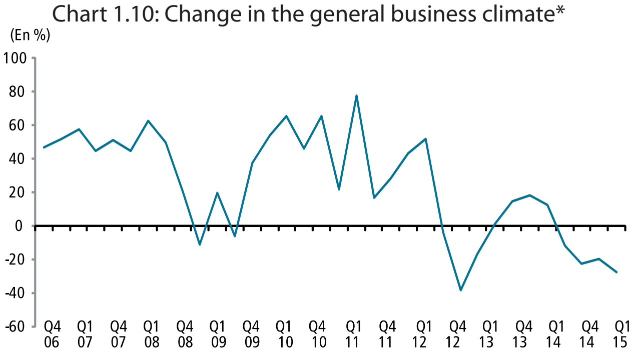
Chart 1.9: YoY change in total investment. construction sector's value added and equipment loans (%)



Sources: HCP, BAM and BAM calculations.

In late April 2015, available indicators tend to confirm this trend, with mainly a 6.5 percent increase in imports of capital goods, as against a decrease of 4.1 percent a year earlier, and an increase of 7.5 percent in foreign direct investment inflows, as against a decline of 45.1 percent. Meanwhile, the monthly business survey for April particularly highlights an increase in investment spending over the three coming months.

Chart 1.10: Change in the general business climate*



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

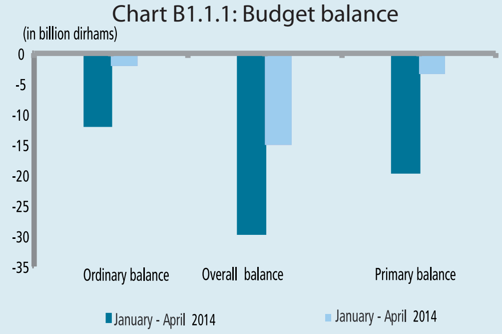
Source: BAM monthly business survey.

Regarding residential investment, the decline in loans to property developers continued, with a rate of 6.4 percent as against 4.7 percent.

Box 1.2 : Budget execution as at April 2015

The first four months of the 2015 fiscal year resulted in a deficit of 15 billion, down by almost half compared to the same period of 2014. This result is attributed to higher current revenues against lower expenditures. In addition, the positive balance of Treasury special accounts improved by 3.6 billion. The ordinary deficit stood at 2.2 billion, down 9.6 billion compared to end-April 2014.

Chart B1.1.1: Budget balance



Source: Ministry of Economy and Finance

The Treasury's current revenues grew by 4.8 percent to 76.5 billion, covering increases of 0.4 percent in tax receipts to 67.2 billion and 57.4 percent in nontax ones to 8.3 billion compared to end-April 2014. Changes in tax revenue reflect higher direct taxes, customs duties and registration and stamp fees, while indirect taxes were down. Indeed, direct taxes receipts rose by 1.1 percent to 26.2 billion, covering mainly a 6.5 percent increase in income tax proceeds to 12 billion and a 3.1 percent drop in corporate tax revenues to 13.8 billion. The decrease in the latter is mainly due to the exceptional collection of revenue from the sale of Centrale Laitière in 2014. Indirect taxes receipts were down 2.2 percent to 32.5 billion dirhams. The VAT receipts fell by 0.7 percent to 24.8 billion, covering a 7 percent increase in domestic VAT to 10.1 billion and a 5.4 percent fall in import VAT to 14.7 billion. The domestic consumption tax (DCT) generated 7.7 billion, down 6.9 percent, mainly reflecting a change in revenues from energy DCT, which dropped by 9.7 percent to 4.5 billion. Revenues from customs duties and registration and stamp fees rose by 8.4 percent to 2.7 billion and 9.5 percent to 5.8 billion, respectively.

Nontax receipts generated 8.3 billion, or one and a half times the level of end-April 2014. This trend is primarily attributable to stronger monopoly receipts, which rose from 429 million to 4.2 billion at end-April 2015, mainly including 1 billion from OCP, 394 million from Bank Al-Maghrib, 300 million from ONDA and 250 million from Marsa Maroc. However, other nontax revenues were down 15.4 percent to 4.1 billion, reflecting in particular the collection of 102 million dirhams as donations from the Gulf Cooperation Council countries, as against 2.2 billion at end-April 2014, and a 197.5 percent appreciation of income-offsetting debt expenditure to 2.2 billion.

Chart B1.1.2: Current revenues

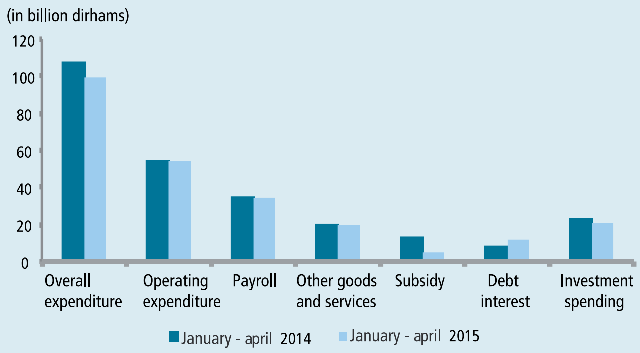
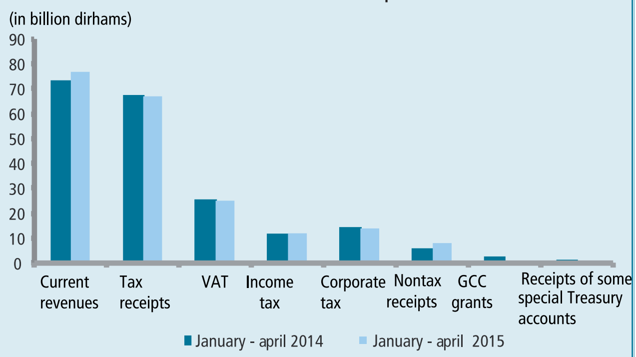


Chart B1.1.3: Overall expenditure



Source: Ministry of Economy and Finance

Overall expenditure, totaling 99.2 billion dirhams, were down 7.1 percent, reflecting drops of 6.7 percent in investment spending to 20.6 billion and 7.2 percent in current expenditure to 78.6 billion, in connection with a 59.6 percent easing in subsidy costs to 5.3 billion. Moreover, operating expenses heightened slightly by 0.6 percent to 54.4 billion, covering a 1.2 percent increase in payroll to 34.9 billion and a 0.4 percent decrease in spending on other goods and services to 19.5 billion. Debt interest charges increased by 14.1 percent to 11.5 billion, owing to an increase of 16.1 percent to 10.8 billion in interests on domestic debt, while those on external debt fell by 10 percent to 701 million dirhams.

Altogether and given the reduction of arrears, amounting to 5.5 billion, bringing the stock at end-April 2015 to 7.9 billion, data from the Treasury revealed a cash deficit of 20.5 billion from 28.7 billion a year earlier. This borrowing requirement and the external net flow of 2.6 billion were covered by domestic market for an amount of 23.1 billion, down 6.3 billion compared to April 2014.

Moreover, public finance data show a decrease of 6.7 percent at end-April 2015. The Treasury's investment spending totaled 20.6 billion dirhams, representing an implementation rate of 41.9 percent.

1.4 External accounts

In late May 2015, the trade deficit was reduced by 25.3 percent compared to the same period in 2014. This trend was due to the combined effect of a 9.6 percent decline in imports to 154.2 billion dirhams and a 5.8 percent increase in exports to 91 billion dirhams. Thus, the import coverage rate improved by 8.7 percentage points to 59.1 percent.

The decrease in imports is mainly attributed to a 33.3 percent decline in the energy bill, particularly following drops of 54 percent in crude oil purchases and 29.1 percent in diesel and fuel imports. Similarly, food purchases were down 15.1 percent, mainly reflecting a 31.1 percent decline in wheat supplies. Imports of consumer goods also fell by 5.9 percent, following a 14.5 percent decrease in passenger car purchases. In contrast, capital equipment purchases showed an increase of 4 percent to 36.4 billion dirhams, but excluding the purchase of new aircrafts, they showed a decline of 3.4 percent. Meanwhile, purchases of semi-finished goods rose by 2 percent to 35.4 billion dirhams and raw materials supplies moved up 6.8 percent to 8.6 billion.

Export trends were primarily attributed to respective increases of 22.3 percent and 11 percent in shipments of phosphates and derivatives, and the automotive sector. Agricultural and agri-food exports rose 11.2 percent, mainly in connection with an increase of 22.7 percent in food

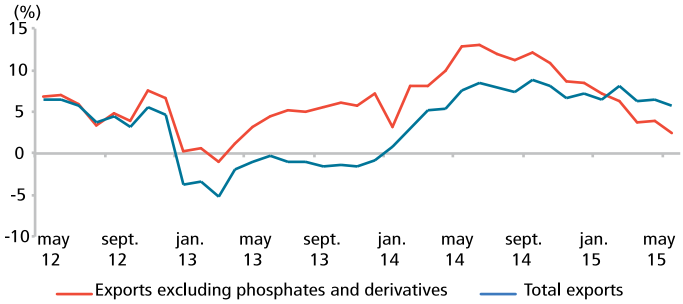
Table 1.2 : Change in the trade balance at end May 2015

(In millions of dirhams)	may 2014	may 2015*	change may 2014/2013		change may 2015/2014	
			Amount	%	Amount	%
Exports	86 009	91 029	7 932	10.2	5 020	5.8
Phosphates and derivatives' exports	14 713	17 994	-1 868	-11.3	3 281	22.3
Agriculture and food industry	17 285	19 220	1 469	9.3	1 935	11.2
Automotive	17 897	19 862	5 172	40.6	1 965	11.0
Electronics	3 299	3 316	450	15.8	17	0.5
Aeronautics	3 155	3 067	-227	-6.7	-88	-2.8
Textile and leather	14 768	14 623	946	6.8	-145	-1.0
Imports	170 548	154 154	9 303	5.8	-16 394	-9.6
Food products	21 268	18 059	3 618	20.5	-3 209	-15.1
Consumer goods	29 576	27 826	2 950	11.1	-1 750	-5.9
Unprocessed goods	8 041	8 590	246	3.2	549	6.8
Semi-finished goods	34 686	35 366	235	0.7	680	2.0
Capital goods	35 015	36 413	-484	-1.4	1 398	4.0
Energy imports	41 832	27 888	2 640	6.7	-13 944	-33.3
Imports excluding energy	128 716	126 266	6 663	5.5	-2 450	-1.9
Trade deficit	84 539	63 125	1 371	1.6	-21 414	-25.3

* *Provisional data*

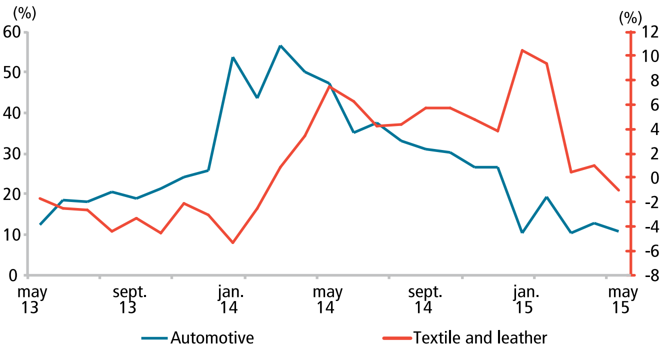
Source: Foreign Exchange Office.

Chart 1.11: YoY cumulative exports `



Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

sales. However, textile and leather shipments fell 1 percent, after a 6.8 percent increase a year earlier. For other sectors, aeronautics and pharmaceutical shipments recorded respective decreases of 2.8 percent and 3.3 percent, while electronics sales stabilized at 3.3 billion dirhams.

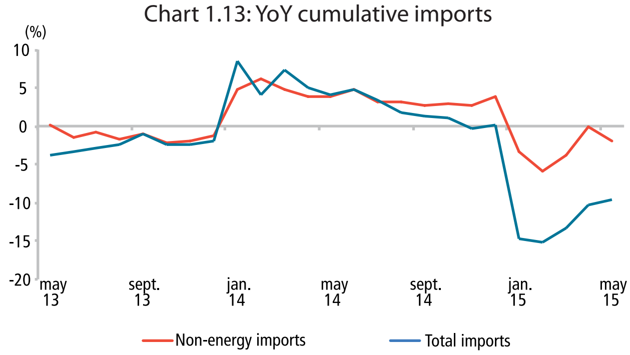
Concerning other current account sections, travel receipts were down 6.4 percent after rising 3.7 percent over the same period of 2014, while transfers from Moroccan expatriates increased by 5.5 percent, after falling 1.1 percent in the previous year.

Given these developments, the current account deficit at the end of 2015 should be around 3 percent of GDP, from 5.6 percent in 2014.

In the capital account, net flows for FDI stood at 11.7 billion, up 22.8 percent compared to May 2014, following a 19.6 percent increase in inflows, a rate greater than 7.1 percent under outflows.

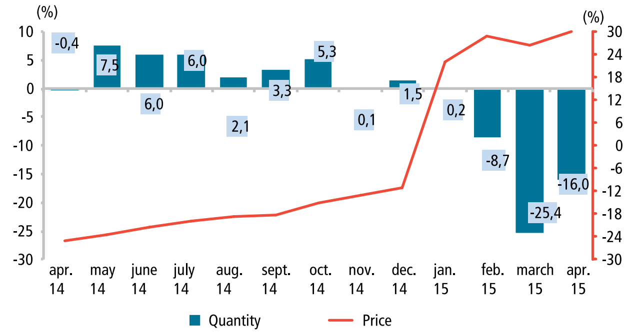
Given other elements of the capital account, the outstanding international reserves improved by 18 percent, year on year, to 194 billion dirhams. They should improve further in 2015, equaling 6 months of goods and services' imports at the end of the year.

Chart 1.13: YoY cumulative imports



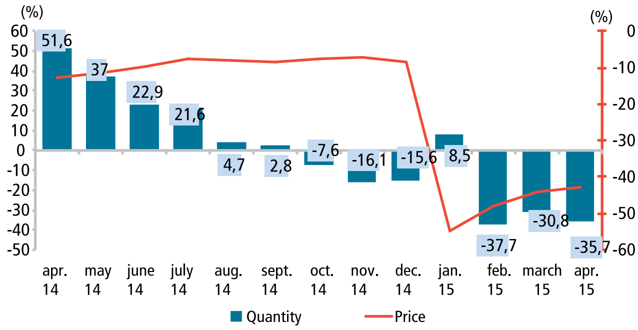
Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

According to estimates by Bank Al-Maghrib, nonagricultural output gap continued to be negative in the first half of 2015, while the capacity utilization rate (CUR) in the industrial sector rose between March and April by five percentage points to 71 percent, its historical average. Meanwhile, the labor market conditions were characterized in the first quarter by a decline of 0.3 percentage point in the unemployment rate to 9.9 percent, with a creation of only 27,000 jobs, as against 89,000 over the same period last year. With regard to labor costs, date on the private sector's average wage index show in the first quarter a year-on-year increase of 4 percent in nominal terms and 2.5 percent in real terms.

Overall, although the data highlight some pressures on production costs, the persistence of the economic slack does not suggest significant pricing pressures in the coming quarters.

2.1 Pressures on output capacity

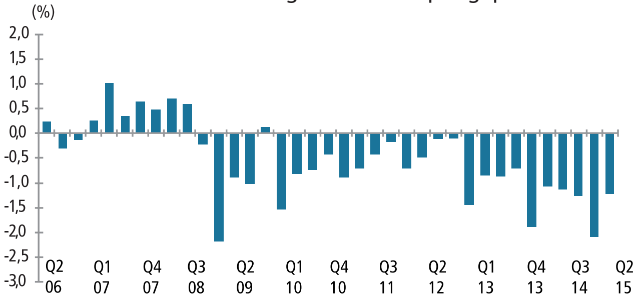
The latest estimates by Bank Al-Maghrib show that nonagricultural activities would have remained below its potential level in the first and second quarters 2015 (Chart 2.1), suggesting a continued moderation in demand-led inflationary pressures.

Data from the monthly business survey in industry indicate that the CUR rose by five points, between March and April, to 71 percent, its historical level (Chart 2.2). This trend involved chemical and related industries, mechanical and metallurgical as well as textile and leather industries, while the CUR dropped in other branches.

According to the same survey, the unit production costs would have increased overall during the first quarter of 2015 (Chart 2.3). By component, this change would have concerned the level of wages and raw material costs. However, financial costs would have recorded stagnation.

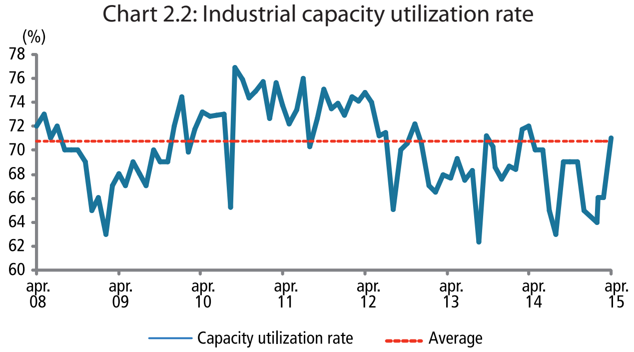
Apparent labor productivity in nonagricultural activities registered a year-on-year increase of 2.9 percent in first quarter 2015 from 2.1 percent a year earlier. This change reflects a

Chart 2.1: Nonagricultural output gap



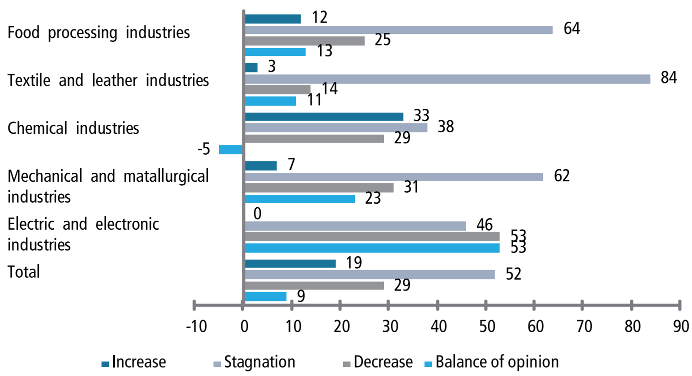
Sources: HCP Eurostat and BAM estimates.

Chart 2.2: Industrial capacity utilization rate



Source: BAM monthly business survey.

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



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

faster growth of the nonagricultural added value from 2.6 percent to 3.1 percent and a slower nonagricultural employment from 0.6 percent to 0.2 percent (Chart 2.4).

2.2 Pressures on the labor market

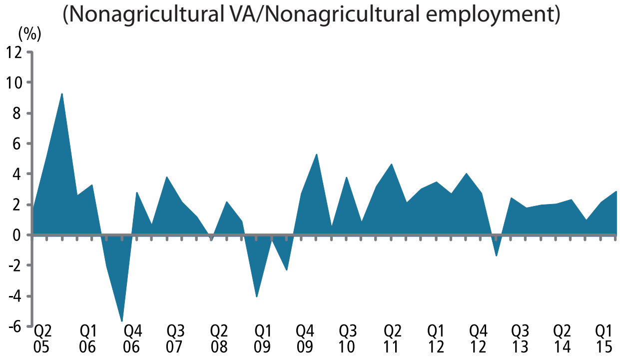
At the end of the first quarter, the labor force aged 15 and over showed a slight decrease of 0.1 percent to 11.7 million people, covering a 0.5 percent increase in urban areas and a 0.7 percent decline in rural ones. The participation rate continued to fall to 47 percent from 47.7 percent in the same period last year.

The national economy created 27,000 jobs, covering a creation of 45,000 jobs in urban areas and a loss of 18,000 in rural ones (Chart 2.5). The primary sector was the first job-providing sector with 14,000 positions, followed by industry, including handicrafts, with 9,000 jobs and services with 4,000 positions as against an average of 88,500 in the last three years. The number of jobs in the construction sector stagnated.

Under these conditions, employed labor force increased by 0.3 percent, to 10.5 million persons and the national employment rate moved down from 42.9 percent to 42.3 percent, with declines of 0.4 point to 35.6 percent in urban areas and 0.6 point to 52.9 percent in rural ones (Table 2.1).

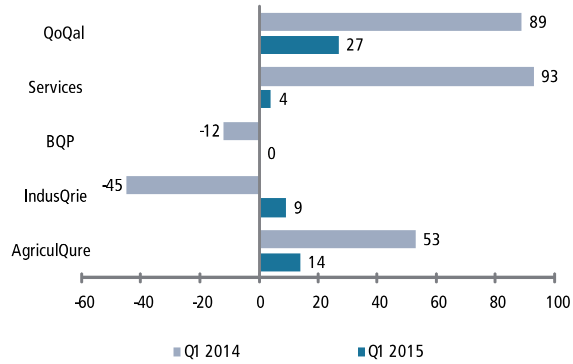
Overall, the unemployment rate fell by 0.3 points to 9.9 percent, reflecting a decline of 0.3 point to 14.3 percent in urban areas and 0.4 point to 4.7 percent in rural ones. The largest decreases were registered

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 %	Q1- 2014			Q1- 2015		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (1)	6,265	5,412	11,677	6,298	5,372	11,670
Labor force participation rate (%) (2)	42.2	56.3	47.7	41.6	55.5	47.0
Employed labor force	5.349	5.137	10.486	5.394	5.119	10.513
Employment rate (%) (3)	36.0	53.5	42.9	35.6	52.9	42.3
Unemployment						
Unemployed labor force	916	275	1,191	904	253	1,157
Unemployment rate (in %) (4)	14.6	5.1	10.2	14.3	4.7	9.9
By age						
.15 - 24 years	36.7	9.9	20.2	39.1	10.0	21.3
.25 - 34 years	20.4	5.1	14.0	20.4	5.6	14.1
.35 - 44 years	8.3	3.8	6.5	7.3	2.7	5.5
By degree						
. Non-graduates	7.6	3.7	5.2	7.4	3.0	4.7
. Graduates	19.9	10.3	17.5	19.1	11.2	17.3

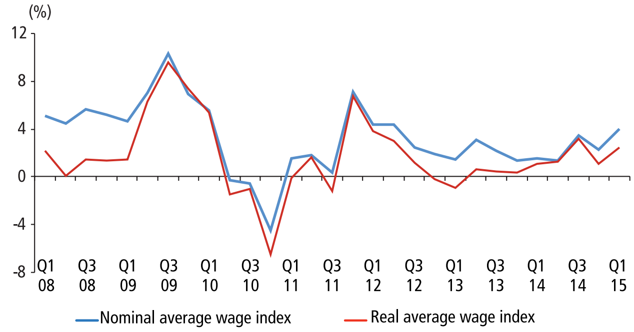
(1) Population aged 15 years and above.
(2) Labor force aged 15 years and above /total population aged 15 years and above.
(3) Employed labor force aged 15 years and above /total population aged 15 years and above.
(4) Unemployed labor force aged 15 years and above /labor force aged 15 years and above.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

among the 35-44 years age group and non-graduates. However, the unemployment rate among urban youth again worsened by 2.4 points to 21.3 percent (Table 2.1).

Regarding labor costs, the private sector's wage average index recorded in the first quarter a year-on-year increase of 4 percent in nominal terms and 2.5 percent in real terms (Chart 2.6).

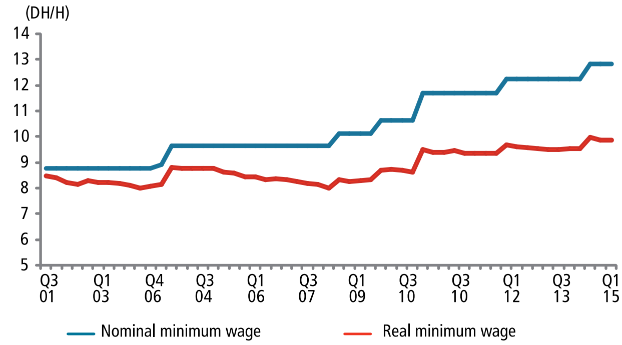
The hourly minimum wage was up, year on year, by 3.4 percent in real terms in the first quarter of 2015 (Chart 2.7).

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



Sources: CNSS, and BAM calculations.

Chart 2.7: Minimum wage in real and nominal terms



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

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The latest available data on national accounts highlight contrasting trends in major developed countries and a further slowdown in emerging economies. Indeed, the consolidation of growth in the United States continued and impacted the labor market, as the unemployment rate reached in April its lowest level since May 2008. In the euro area, the economic activity continued its moderate recovery, but remained marked by persistently high unemployment rates. In the United Kingdom, growth slowed down, but continues to be robust. In key emerging economies, growth decelerated in China and India, while the contraction of GDP in Brazil worsened in the first quarter of 2015. Financial markets were characterized particularly by an upward trend in bond yields and an appreciation of the euro against the dollar. On international commodity markets, prices were overall tilted to the downside. Against this backdrop, inflation in the United States was negative in April for the second consecutive month, while in the euro area, it accelerated in May. All these developments indicate a total absence of external inflationary pressures.

3.1 Global financial conditions and economic activity

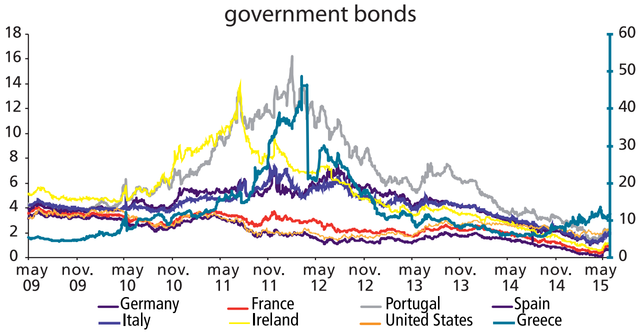
3.1.1 Financial conditions

In stock markets, advanced economies' major indexes showed divergent trends. Indeed, between April and May, the EUROSTOXX50, DAX 30, CAC 40 and FTSE 100 fell by 3 percent, 2.9 percent, 2.1 percent and 0.2 percent, respectively. In contrast, the Dow Jones and Nikkei 225 rose 1 percent and 0.3 percent, respectively. In terms of volatility, the VSTOXX moved up from 21 basis points to 21.9 points, while the VIX fell from 13.5 percentage points to 13.3 points. In emerging markets, the MSCI EM rose slightly by 0.2 percent, reflecting increases of 1.3 percent in China and 3.1 percent in Turkey, as well as a decrease of 5.1 percent in India.

In bond markets, yields broadly increased in advanced countries. Thus, 10-year yields rose between April and May, from 0.2 percent to 0.6 percent in Germany, from 0.4 percent to 0.9 percent in France and from 1.3 percent to 1.7 percent in Spain. Similarly, they moved up from 1.7 percent to 2.1 percent in Portugal, from 1.4 percent to 1.8 percent in Italy, while in Greece they fell from 12 percent to 11 percent. Yields on U.S. Treasury bills rose to 2.2 percent in May from 1.9 percent in the previous month.

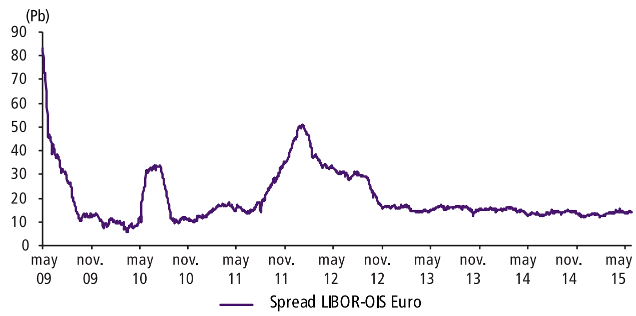
In major emerging economies, 10-year yields recorded contrasting trends. Indeed, they

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



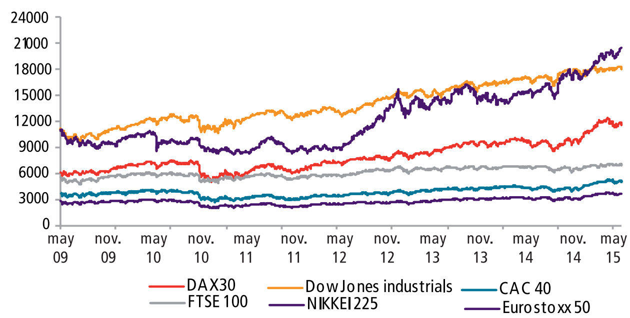
Source: Datastream .

Chart 3.2: Change in the LIBOR-OIS spread*



**Data on The «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.

stabilized at 12.7 percent in Brazil, while they dropped from 3.6 percent to 3.4 percent in China. However, they increased from 7.8 percent to 7.9 percent in India and from 8.6 percent to 9 percent in Turkey.

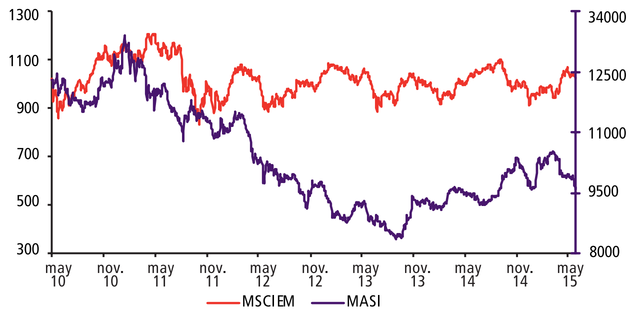
In money markets, the 3-month Euribor stood at -0.01 percent in May from 0.01 percent a month ago, while the 3-month Libor remained unchanged at 0.28 percent. The dollar Libor-OIS spreads moved down from 14.3 basis points to 14 points. With regard to bank credit, after a slight increase of 0.1 percent in the euro area, its level stagnated in April, while its annual growth slowed in the United States to 7.9 percent in May from 8.1 percent a month earlier.

In foreign exchange markets, the euro rebounded against major currencies. Thus, it appreciated by 3.4 percent against the dollar and by 4.2 percent vis-à-vis the Japanese yen, while it remained unchanged versus the pound sterling. Regarding currencies of key emerging countries against the dollar, the Brazilian real and the Chinese yuan remained unchanged from the previous month, while the Indian rupee depreciated by 1.6 percent and Turkish lira appreciated by 0.4 percent.

Under these conditions, monetary policies of central banks in major advanced economies did not change significantly. The ECB and the Bank of Eng maintained their key rates unchanged at 0.05 percent and 0.5 percent, respectively. The Fed kept its key rate within a range of 0 percent to 0.25 percent, while noting that the period during which this level should be maintained would depend on the progress towards the realization of its objectives of maximum employment and 2 percent inflation.

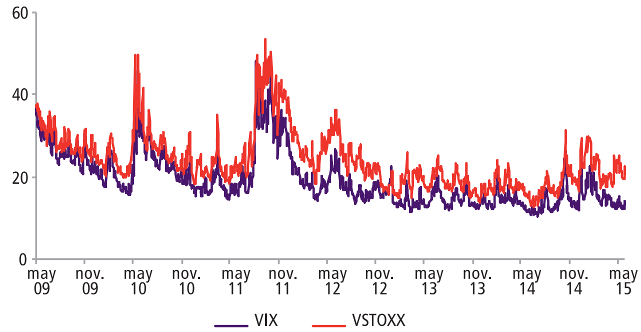
In emerging countries, China's central bank reduced its policy rate by 25 basis points to 5.10 percent, which is the third reduction in the last six months, in order to lower financing costs for businesses and support sustainable and balanced development of the real economy. Likewise, the Central Bank of

Chart 3.4: Change in the MSCI EM and MASI



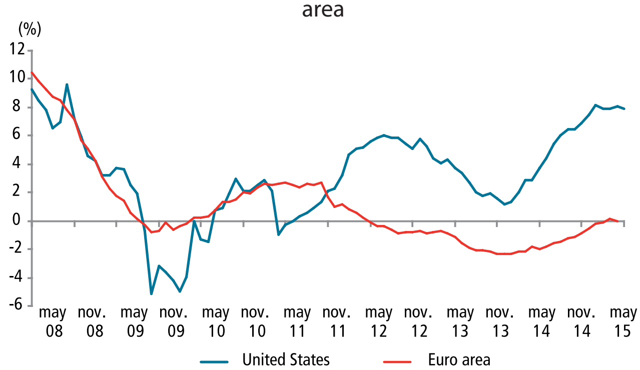
Source: Datastream.

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.

India decided to lower its key rate by 25 basis points to 7.25 percent in order to consolidate economic growth. The Russian Central Bank also reduced its rate on April 30 from 14 percent to 12.5 percent, justifying its decision by the easing of inflationary pressures and the continuing risks of a significant economic slowdown. However, the Central Bank of Brazil raised on June 2 its rate from 13.25 percent to 13.75 percent, thus continuing its monetary tightening to fight against inflationary pressures.

Table 3.1: YoY change in quarterly growth

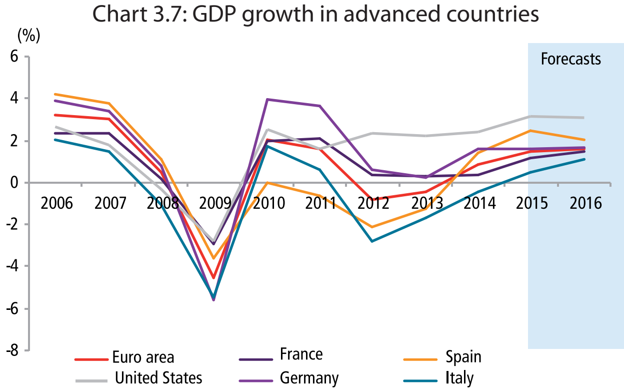
	2013			2014				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
United States	1.8	2.3	3.1	1.9	2.6	2.7	2.4	2.7
Euro area	-0.6	-0.3	0.4	1.1	0.8	0.8	0.9	1.0
France	1.2	0.8	1.0	0.7	-0.2	0.2	0	0.7
Germany	0.1	0.3	1.1	2.3	1.4	1.2	1.5	1.0
Italy	-2.0	-1.4	-0.9	-0.2	-0.3	-0.5	-0.4	0.1
Spain	-1.6	-1.1	-0.2	0.7	1.3	1.6	2.0	2.6
United Kingdom	1.7	1.6	2.4	2.7	2.9	2.8	3.0	2.4
Japan	1.4	2.4	2.3	2.1	-0.4	-1.4	-0.8	-1.4
China	7.5	7.9	7.6	7.4	7.5	7.3	7.3	7.0
India	7.2	7.5	6.6	5.3	7.4	8.4	6.8	6.1
Brazil	3.9	2.4	2.1	2.7	-1.2	-0.6	-0.2	-1.6
Turkey	4.3	4.3	4.7	4.3	2.2	2.5	2.5	2.5
Russia	1.2	1.3	2.1	0.6	0.7	0.9	0.4	-2.2

Source : Datastream.

3.1.2 Global economic activity

In the first quarter of 2015, economic conditions remain marked by contrasting trends across countries. However, forecasts by various international bodies are optimistic about growth prospects, assuming a gradual recovery in global economic activity, supported by that of developed countries.

Chart 3.7: GDP growth in advanced countries

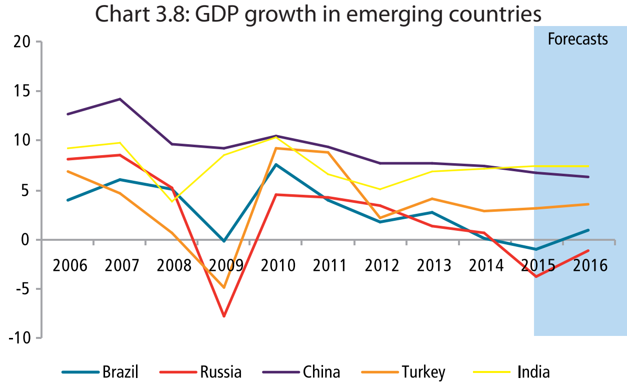


Source: IMF(April 2015 forecasts).

In the United States, year-on-year GDP growth improved from 2.4 percent to 2.7 percent in the first quarter of 2015, driven mainly by household consumption expenditure. However, quarter on quarter, it deceleration from 0.6 percent to 0.2 percent. In the United Kingdom, annual growth slowed to 2.4 percent from 3 percent, due to lower activities in the construction and agriculture sectors. In Japan, the contraction in GDP worsened to 1.4 percent from 0.8 percent in the fourth quarter 2014.

In the euro area, growth continued to improve from 0.9 percent to 1 percent. Particularly, it moved up from 0 percent to 0.7 percent in France and from 2 percent to 2.6 percent in Spain, but it decelerated from 1.5 percent to 1 percent in Germany. Moreover, GDP grew by 0.1 percent in Italy after contracting by 0.4 percent.

Chart 3.8: GDP growth in emerging countries



Source: IMF(April 2015 forecasts).

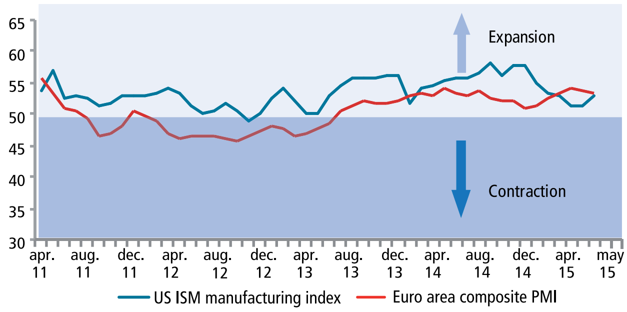
In key emerging countries, growth slowed down from 7.3 percent to 7 percent in China, from 6.8 percent to 6.1 percent in India and stabilized at 2.5 percent in Turkey, while GDP in Russia contracted by 2.2 percent after rising 0.4 percent. In Brazil, GDP decline worsened from 0.2 percent to 1.6 percent.

Regarding high-frequency indicators, the composite PMI for the euro area fell in May from 53.9 to 53.6 points. However, the ISM manufacturing index in the United States rose from 51.5 to 52.8 points, exceeding the expansion threshold by 5.6 percent.

In terms of outlook, the IMF maintained its projections of April unchanged compared to January. Thus, growth should stand at 3.5 percent in 2015, covering an increase from 1.8 percent to 2.4 percent in advanced economies and a deceleration from 4.6 percent to 4.3 percent in emerging and developing countries. In 2016, world GDP should grow by 3.8 percent, with an improved growth to 4.7 percent in emerging and developing economies and stabilization at 2.4 percent in advanced countries. By country, growth should stand at 3.1 percent in 2015 and 2016 in the United States, 1.5 percent and 1.6 percent in the euro area and 1 percent and 1.2 percent in Japan. Moreover, it is expected to slow to 6.8 percent then to 6.3 percent in China, to stabilize at 7.5 percent in India, while in Russia, GDP should contract by 3.8 percent, then 1.1 percent. The outlook remains surrounded by downside risks, due to geopolitical unrest and disruptions in financial markets.

The European Commission forecasts that global growth would stand at 3.5 percent in 2015 and 3.9 percent in 2016, supported in particular by the gradual recovery in advanced countries. The OECD revised downwards its outlook, due to the weakness of investment.

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	3.5	3.8	3.1	3.8
United States	3.1	3	3.1	3.1	2.0	2.8
Euro area	1.5	1.9	1.5	1.6	1.4	2.1
Germany	1.9	2	1.6	1.7	1.6	2.3
France	1.1	1.7	1.2	1.5	1.1	1.7
Italy	0.6	1.4	0.5	1.1	0.6	1.5
Spain	2.8	2.6	2.5	2.0	2.9	2.8
United Kingdom	2.6	2.4	2.7	2.3	2.4	2.3
Japan	1.1	1.4	1	1.2	0.7	1.4
China	7.0	6.8	6.8	6.3	6.8	6.7
India	7.6	7.9	7.5	7.5	6.9	7.6
Brazil	-0.9	1.3	-1	1.0	-0.8	1.1
Turkey	3.2	3.7	3.1	3.6	3.1	3.9
Russia	-3.5	0.2	-3.8	-1.1	-3.1	0.8

Sources : European Commission (May 2015), IMF (April 2015) and OECD (June 2015).

3.1.3 Labor market

In May 2015, the unemployment rate in the United States remained stable at 5.5 percent compared to the previous month, registering its lowest level since May 2008. In the euro area, April data reveal a slightly lower rate to 11.1 percent from 11.2 percent in March, its lowest level since April 2012. In partner countries, this rate remained unchanged at 10.5 percent in France and 4.7 percent in Germany. However, it fell in Italy and Spain to 12.4 percent and 22.7 percent, respectively, from 12.6 percent and 22.9 percent a month earlier.

Regarding short-term forecasts for advanced economies, the IMF, in its update of April 2015, lowered unemployment rates in most countries compared to previous forecasts of October 2014.

It predicts unemployment in the United States to decline to 5.5 percent in 2015 and 5.1 percent in 2016. In the euro area, this rate would stand at 11.1 percent and 10.6 percent. In partner countries, it is expected to decline in France and Germany respectively to 10.1 percent and 4.9 percent in 2015 and to 9.9 percent and 4.8 percent in 2016. In Italy and Spain, it would drop respectively to 12.6 percent and 22.6 percent in 2015, and to 12.3 percent and 21.1 percent in 2016.

May projections of the European Commission remain broadly in line with those of the IMF. The Commission predicts in the United States an unemployment rate of 5.4 percent in 2015 and 5 percent in 2016 and a rate of 11 percent and 10.5 percent in the euro area.

In partner countries, the unemployment rate should decline in 2015 and 2016, respectively, to 10.3 percent and 10 percent in France, to 4.6 percent and 4.4 percent in Germany and to 22.4 percent and 20.5 percent in Spain. This rate would stabilize at 12.4 percent in Italy in 2015 and 2016.

The latest OECD projections for June 2015 show a similar downward trend in unemployment rates in advanced economies compared to previous forecasts for November 2014.

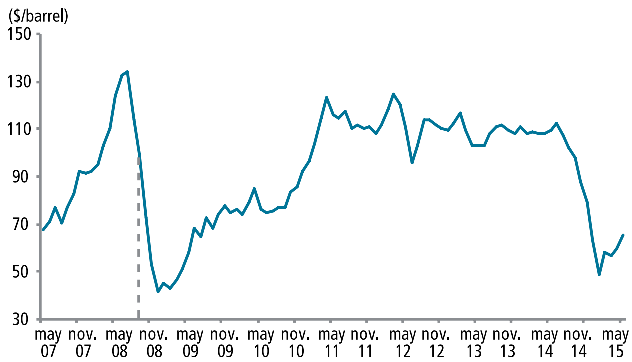
Thus, the OECD expects in the United States respective unemployment rates of 5.5 percent and 5.1 percent in 2015 and 2016, and 11.1 percent and 10.5 percent in the euro area over the same period.

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

	2013	2014	March 2014	April 2015	May 2015
United States	7.4	6.2	5.5	5.4	5.5
Euro area	12.0	11.6	11.2	11.1	N.D
France	10.3	10.3	10.5	10.5	N.D
Italy	12.1	12.7	12.6	12.4	N.D
Germany	5.2	5.0	4.7	4.7	N.D
Spain	26.1	24.5	22.9	22.7	N.D
United Kingdom	7.6	6.1	N.D	N.D	N.D

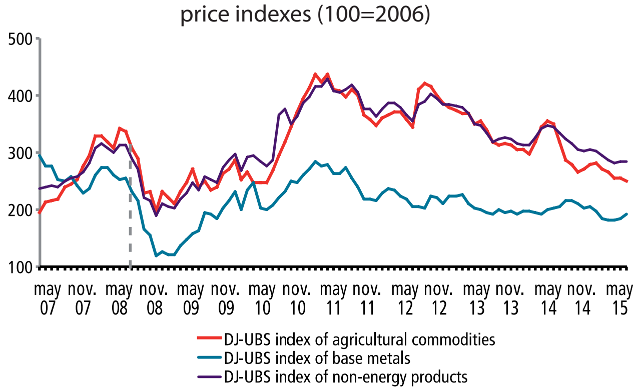
Source : Eurostat.

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.

In partner countries, this rate would stand respectively at 10.1 percent and 10 percent in 2015 and 2016 in France, 4.7 percent and 4.5 percent in Germany, 12.7 percent and 12.1 percent Italy, and 22.3 percent and 20.3 percent in Spain.

3.2 Commodity prices and inflation

During the last three months, commodity prices were overall tilted to the downside, year on year. The inflation rate was negative in the United States in April for the second consecutive month, while it accelerated in the euro area between April and May.

3.2.1 Energy commodity prices

The Brent price recorded a monthly increase of 9 percent in May, averaging $65.2 per barrel, from $59.8 in the previous month. This change is attributed to a decline in US stocks and ongoing geopolitical tensions in the Middle East. Year on year, the Brent price was down 40.6 percent.

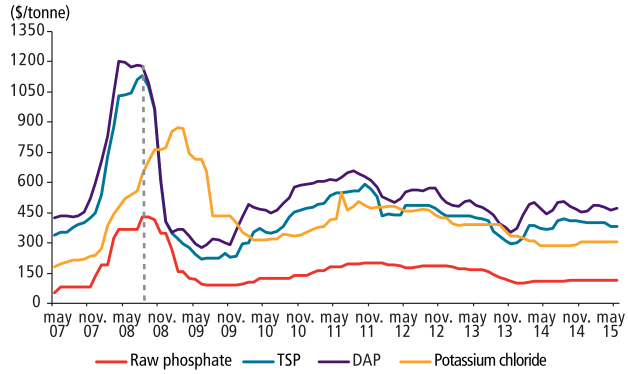
Regarding the oil price outlook[1], the World Bank maintained its estimate unchanged at $53.2 per barrel in 2015, while it revised up slightly its forecasts in 2016 to $57.2 in the April update. Similarly, the IMF expected, in its WEO of April, a price of $58.1 per barrel in 2015 and $65.6 in 2016. As to the Brent price, the European Commission revised upwards its forecasts to $59.4 per barrel in 2015 and $66 in 2016.

3.2.2 Non-energy commodity prices

Non-energy prices showed a year-on-year decline in May. The relevant Dow Jones-UBS fell by 17.6 percent, reflecting a 28.7 percent decline in the agricultural commodity price index and a 6 percent decrease in base metal prices.

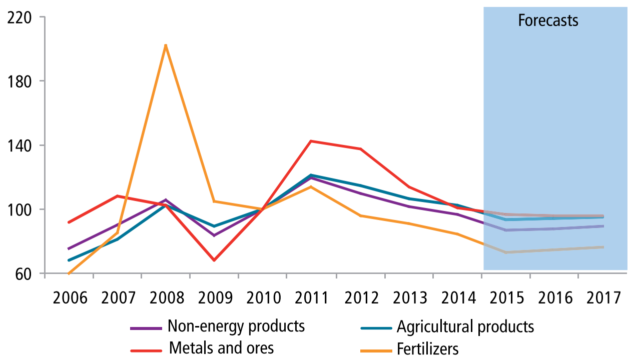
In the world market of phosphates and derivatives, crude prices stood at $115 per tonne in May, unchanged for the eighth

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



Source: World Bank.

Chart 3.13: Outlook for commodity price indexes

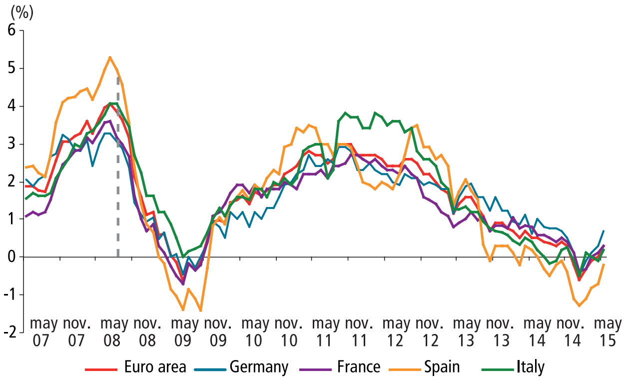


Source: World Bank.

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

consecutive month. Similarly, TSP and Potassium Chloride prices stabilized at $380 and $307 per tonne. DAP prices rose by 1.3 percent to $470 per tonne in May. However, the price of urea fell by 2.3 percent from one month to another. Year on year, prices fell by 15.4 percent for urea, while they increased by 2.7 percent for crude phosphate, 4.1 percent for TSP, 5.7 percent for DAP and 7 percent for Potassium Chloride. Durum wheat prices were down 3.7 percent, month on month, and 35.7 percent from one year to the next.

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat.

3.2.3 Inflation in the world

In April, consumer prices fell by 0.2 percent in the United States, after a 0.1 percent decline a month earlier, while in Japan, inflation decelerated markedly from 2.3 percent to 0.6 percent. In the euro area, an initial Eurostat estimate for May showed an inflation rate of 0.3 percent, after a stagnation of consumer prices in April. Thus, inflation increased from 0.1 percent to 0.3 percent in France, from 0.3 percent to 0.7 percent in Germany and from -0.1 percent to 0.2 percent in Italy, while the decline in prices in Spain eased from 0.7 percent to 0.2 percent. In the United Kingdom, the latest available data remain those of April and show a slight decline in inflation from 0 percent to -0.1 percent.

In key emerging and developing countries, inflation fell from 1.5 percent to 1.2 percent in China, while it accelerated from 8.2 percent to 8.5 percent in Brazil. In Russia, the latest available data remain those of April and indicate a lower inflation rate from 16.9 percent to 16.4 percent.

According to the IMF WEO update of April, inflation should stand at 0.4 percent in 2015 and 1.4 percent in 2016 in advanced economies, while in emerging and developing countries it is expected at 5.4 percent in 2015 before declining to 4.8 percent in 2016. The

Table 3.4: World inflation outlook, YoY

	February 2015	March 2015	April 2015	May 2015
United States	0.0	-0.1	-0.2	n.d.
Euro area	-0.3	-0.1	0.0	0.3
Germany	-0.1	0.1	0.3	0.7
France	-0.3	0.0	0.1	0.3
Spain	-1.1	-0.8	-0.7	-0.2
Italy	0.1	0.0	-0.1	0.2
United Kingdom	0.0	0.0	-0.1	n.d.
Japan	2.2	2.3	0.6	n.d.

Source : Eurostat, Datastream

Table 3.5 : World inflation forecasts

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

Sources : IMF (April 2015, OECD (June 2015) and the European Commission (May 2015)

European Commission, in its spring update, projects an inflation rate of 0.1 percent in 2015 and 1.5 percent in 2016 in the euro area, while in the United States, this rate would stand at 0.4 percent in 2015, before accelerating to 2.2 percent in 2016.

3.3 Morocco's import price index

on quarter, the non-energy import price index (IPI) almost stabilized in the first quarter 2015, after a decrease of 1.7 percent a quarter earlier. Increases of 14.1 percent in the food index and 1.8 percent in the mining IPI were offset by a 2.2 percent decrease in semi-finished prices.

The food IPI growth reflects increases of 22.8 percent in the wheat unit price and 12.1 percent in the corn one, after falling 15.2 percent and 3.7 percent, respectively.

The mining price increase reflects both a slower decline in the average unit price of iron and steel from 5.9 percent to 1.7 percent as well as a 4.3 percent rise in sulfur prices, as against 3.9 percent a quarter earlier.

With regard to semi-finished goods, unit prices of natural and chemical fertilizers were down 6.2 percent, after rising 12.4 percent, while the unit price of rolled products of iron and steel dropped by 1.7 percent after a 5.9 percent decrease in the previous quarter.

Concerning the energy IPI, the 11.9 percent decline in the fourth quarter 2014 worsened to 27.7 percent in the first quarter of 2015. This change reflects a continued decline in prices of all its components, especially crude oil prices, which fell by 33.1 percent, as against 14.4 percent, while prices for diesel and fuel dropped by 21.1 percent, as against 10 percent in the previous quarter.

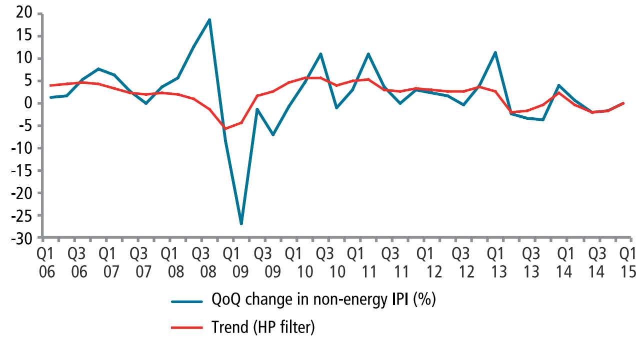
Year on year, the non-energy IPI fell by 2.7 percent, after increasing slightly by 1 percent

Table 3.6: IPI change

	Quarterly change in %			Annual change in %		
	Q3 2014	Q4 2014	Q1 2015	Q3 2014	Q4 2014	Q1 2015
Energy IPI	-0.9	-11.9	-27.7	-3.2	-13.2	-36.0
Crude oil AUP*	-1.0	-14.4	-33.1	-3.4	-14.1	-40.7
Gasoline and fuel AUP	1.5	-10.0	-21.1	-3.1	-12.6	-30.7
Petroleum gas AUP	0.4	-4.0	-16.6	-2.2	-14.5	-30.8
Non-energy IPI	-2.0	-1.7	-0.1	-1.0	1.0	-2.7
Food IPI	-7.6	-8.3	14.1	-13.2	-13.0	2.5
Wheat AUP	-10.0	-15.2	22.8	-17.0	-23.0	2.8
Corn AUP	-11.0	-3.7	12.1	-15.4	-4.0	-0.2
Mining IPI	1.3	-0.3	1.8	14.8	33.3	20.8
Sulfur AUP	2.0	3.9	4.3	23.0	68.5	44.0
Iron and steal AUP	0.3	-5.9	-1.7	6.0	3.0	-2.8
Semi-finished products IPI	-1.9	-1.6	-2.2	13.4	7.1	-4.5
Chemical and natural fertilizers AUP	-9.8	12.4	-6.2	-6.4	5.8	-14.6
Iron and steel rolled products AUP	0.3	-5.9	-1.7	28.9	12.9	-1.8

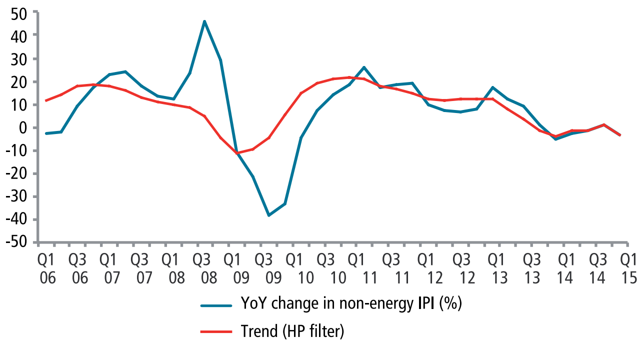
NB: Indexes are calculated based on the unit prices in dirhams
*Average Unit Price**
Source : OC and BAM calculations.

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)



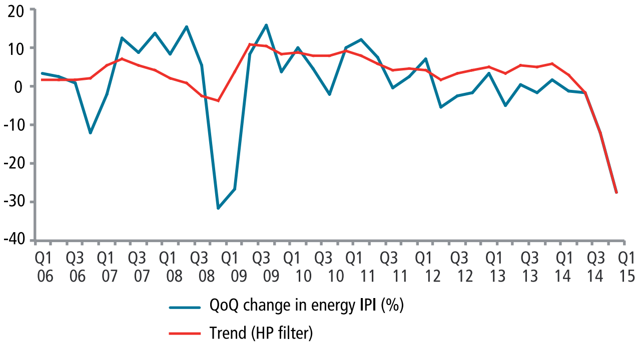
Sources: Foreign Exchange Office, and BAM calculations.

in the fourth quarter 2014. This trend is attributed to a slower growth of the mining IPI from 33.3 to 20.8 percent and a decrease of 4.5 percent in the IPI of semi-finished goods, after an increase of 7.1 percent. This change is due to a 14.6 percent decline in average unit prices of natural fertilizers, after a rise of 5.8 percent in the fourth quarter 2014.

However, the food IPI was up 2.5 percent as against a 13 percent decline in the fourth quarter 2014, mainly owing to a 2.8 percent increase in the average unit price of wheat after a decline of 23 percent.

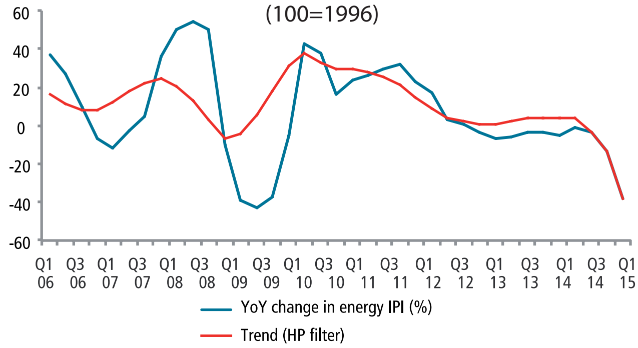
With regard to energy commodities, the downward trend accelerated in late March 2015, with a contraction of 36 percent in the IPI after that of 13.2 percent. This decrease affected the main goods with a particular deeper decline in the average unit price of crude oil from 14.1 percent to 40.7 percent, quarter on quarter.

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

The M3 growth slowed down slightly from 7.1 percent on average in the first quarter to 6.8 percent in April 2015, while the money gap remained negative and close to zero. Similarly, the annual bank lending growth decelerated from 3.8 percent to 2.5 percent, reflecting a slowdown in all loan categories except for consumer loans, which accelerated. The dirham's effective exchange rate depreciated in the first quarter 2015 by 0.34 percent in nominal terms, while it appreciated by 0.18 percent in real terms. Recent money market developments reveal the alignment of the interbank rate with the key rate, standing at 2.51 percent on average in April and May 2015. Lending rates were down 22 basis points to 5.81 percent on average in the first quarter 2015, reflecting lower rates on all loan categories except for those on consumer loans. As to deposit rates, the weighted average rate of 6- and 12-month deposits decreased by 9 basis points to 3.76 percent between the fourth quarter 2014 and the first quarter 2015.

In asset markets, real estate prices rose slightly by 0.2 percent from one year to the next, with an increase of 0.4 percent in urban land prices, a decrease of 1.6 percent in commercial property prices and virtual stagnation in residential property ones. Meanwhile, the number of transactions rose by 7.4 percent, reflecting respective increases of 8.8 percent, 2.5 percent and 7 percent in residential property, urban land and commercial property prices. In the stock market, the benchmark index of the Casablanca Stock Exchange fell in April and May, bringing its performance since the year to 0.5 percent from 6.8 percent in first quarter 2015. The trading volume reached 14.1 billion dirhams since the beginning of the year, as against 16.5 billion in the same period of the previous year.

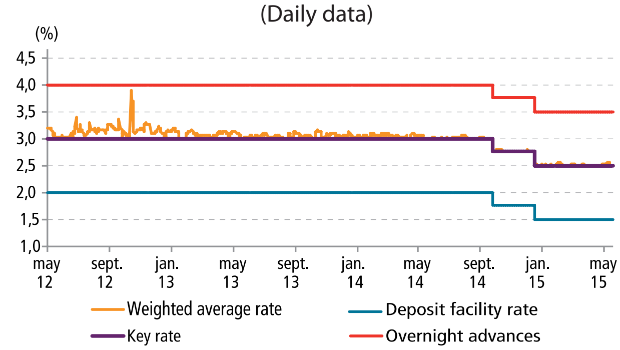
Overall, these developments suggest the absence of monetary and real-estate inflationary pressures in the medium term.

4.1 Monetary conditions

4.1.1 Interest rates

At its meeting of March 24, 2015, the Bank Board decided to keep the key rate unchanged at 2.5 percent. Thus, the interbank market weighted average rate stood at 2.51 percent, on average, in April and May 2015, thus remaining stable compared to the first quarter of 2015.

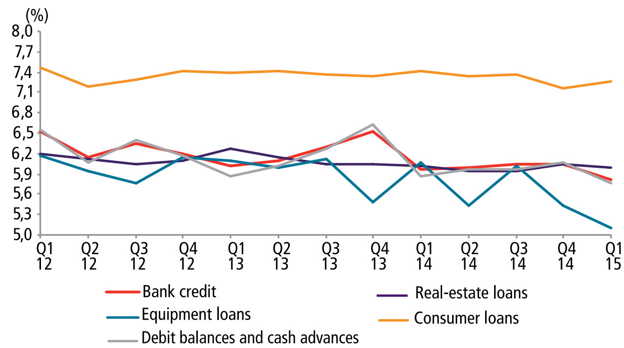
Chart 4.1: Change in the interbank rate*
(Daily data)



**Data at May 27, 2015.*
Source : BAM.

As to lending rates, BAM's survey among banks for the first quarter 2015 shows a decrease of 22 basis points in the overall average rate, to 5.81 percent, reflecting lower rates on all credit categories, with the exception of those on consumer loans, which moved up 10 basis points to 7.27 percent. Thus, rates on cash advances and equipment loans declined by 31 basis points each, standing respectively at 5.77 percent and 5.11 percent, while rates on real estate loans fell by 7 points to 5.98 percent.

Chart 4.2 : Change in lending rates*



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

Regarding deposit rates, the weighted average rate of 6- and 12-month deposits stood at 3.76 percent in the first quarter of

2015, down 9 basis points from the fourth quarter 2014. This change particularly reflects declines of 7 basis points in the 6-month deposit rate to 3.64 percent and 8 points in the one-year deposit rate to 3.85 percent.

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

	2013				2014				2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
6 months	3.52	3.56	3.55	3.59	3.51	3.68	3.69	3.71	3.64
12 months	4.02	3.89	3.83	3.92	3.86	3.91	3.86	3.94	3.85
Weightedaverage	3.85	3.76	3.73	3.79	3.71	3.81	3.80	3.85	3.76

Source : BAM.

Concerning Treasury bond yields on the primary market, after a sharp decline in the first quarter, rates trended overall upwards in April, compared to the first quarter, with 18 basis points for 52-week bonds and 31 basis points for 5-year ones. In the secondary market, the same trend pattern was also registered in various maturities.

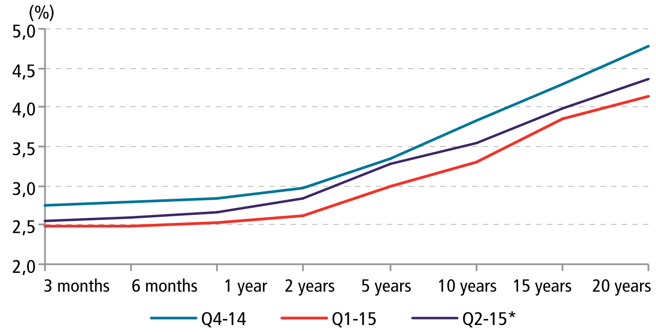
Table 4.2: Change in Treasury bond yields on the primary market (%)

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
13 weeks	3.50	3.48	3.30	3.08	2.97	2.68	2.48	2.60
26 weeks	3.82	3.74	3.45	3.15	-	2.79	2.50	-
52 weeks	4.11	4.13	3.63	3.25	3.14	2.83	2.53	2.71
2 years	4.61	4.69	4.04	3.35	-	3.02	2.59	-
5 years	4.93	5.08	4.62	3.91	3.80	3.33	2.98	3.29
10 years	5.42	5.60	5.43	4.47	-	3.75	3.30	-
15 years	5.71	5.85	5.87	5.15	-	4.30	3.89	-
20 years		-	5.96	5.66	5.57	4.60	4.20	-
30 years	-	-	-	-	-	5.69	5.0	5.0

4.1.2 Money. credit and liquid investments

M3 growth

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

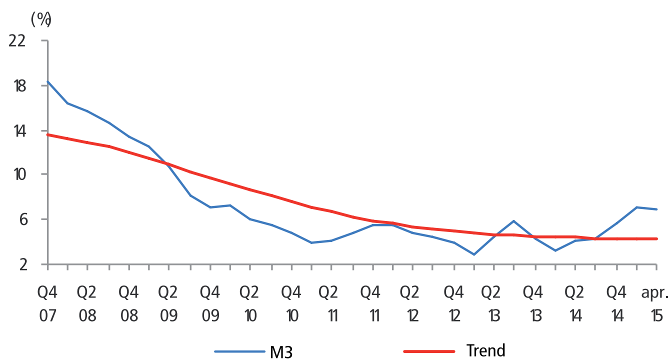


**Observation of the first quarter of 2015 corresponds to the daily average of data from April 1st to May 20, 2015.*
Source : BAM.

April 2015 data show a slightly slower annual growth of the money supply. Under these conditions, the money gap remained negative and close to zero, indicating the absence of monetary inflationary pressures in the medium term.

The annual growth rate of M3 declined from 7.1 percent on average in the first quarter to 6.8 percent in April 2015, reflecting a slower growth of bank credit from 3.8 percent to 2.5 percent and net international reserves from 21 percent to 17.1 percent. Net claims on central government did not contribute significantly to the money supply trends.

Chart 4.4: YoY M3 growth and its trend



Source : BAM.

Regarding the main M3 components, the annual growth of money market fund

Box 4.1: Liquidity and monetary policy implementation

In the first quarter of 2015, autonomous factors had a negative impact of 3.7 billion dirhams on bank liquidity, mainly due to Treasury operations. Indeed, the latter had a restrictive impact of 7.2 billion dirhams on liquidity, resulting mainly from the difference between:

- On the one hand, bank subscriptions to T-bond auctions (35.1 billion dirhams) and collection of tax and customs revenues;
- On the other hand, the repayment of domestic debt to the banking system (23.9 billion dirhams), payment of civil service salaries (16.4 billion dirhams) and settlement of subsidy costs (7.4 billion dirhams).

To a lesser extent, the increase in currency in circulation resulted in a liquidity drain of 700 million dirhams. However, foreign currency transactions resulted in a liquidity injection of 2.1 billion dirhams, mainly owing to foreign banknotes sales against dirhams, which amounted to 3.1 billion dirhams.

Finally, other factors contributed to an improvement of 2.1 billion dirhams in bank liquidity.

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

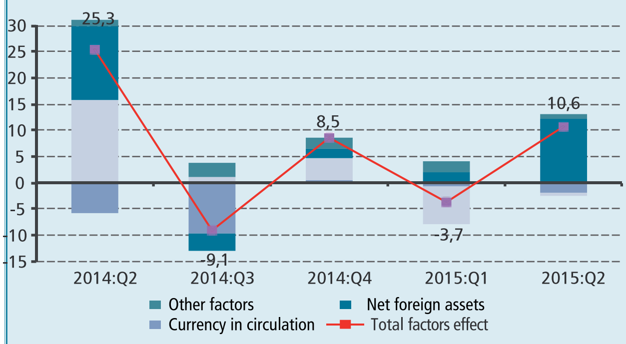


Chart B 4.1.2: Monthly change in the impact of autonomous liquidity factors (in billion dirhams)

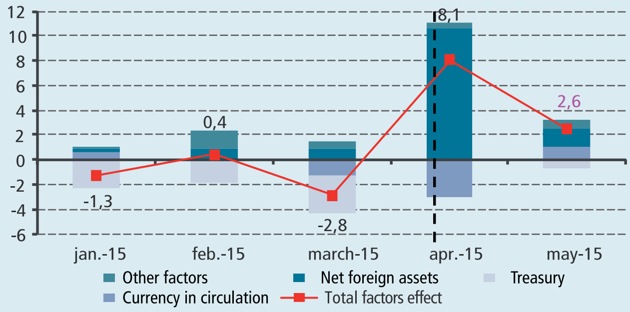


Chart B 4.1.3: Change in reserve requirements (in millions of DH)

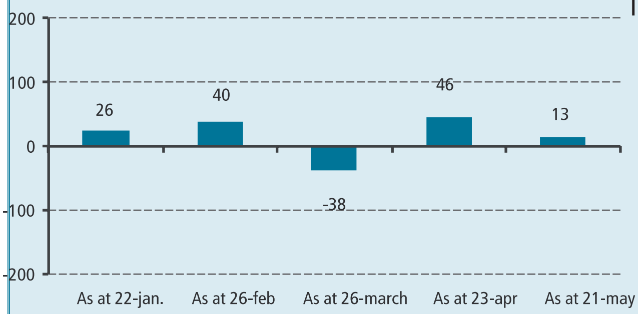
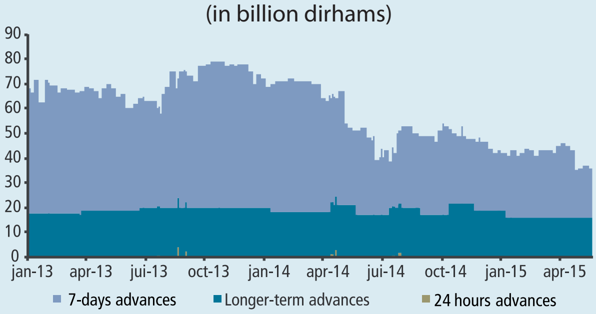


Chart B 4.1.4: BAM interventions on the money market (in billion dirhams)



In the second quarter 2015*, bank liquidity improved by 10.6 billion dirhams, due to an increase in net foreign assets. Indeed, foreign currency operations had an expansive impact of 12.1 billion dirhams on liquidity, as a result of an OCP bond issue on international markets, totaling to one billion.

*Q2 2015: the second quarter of 2015 includes only the period from April 1 to May 21, 2015.

The expansive impact of transactions on net foreign assets was partly offset by an increase in money in circulation and treasury operations. Indeed, net withdrawals of currency in circulation reached 1.9 billion dirhams. In addition, Treasury operations had a restrictive impact of 600 million dirhams on liquidity, resulting particularly from the difference between:

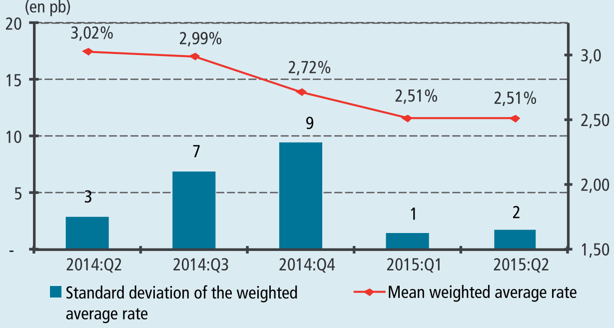
- On the one hand, banking subscriptions to T-bond auctions (20.6 billion dirhams) and tax and customs revenues, including the first installment of corporate taxes;
- On the other hand, the repayment of domestic debt to the banking system (21.7 billion dirhams), payment of civil service salaries (5.5 billion dirhams), settlement of subsidy costs (1.8 billion dirhams) as well as an increase in the outstanding investments in the money market (4.1 billion dirhams).

Moreover, BAM's customer operations, excluding the Treasury, had a positive impact of one billion dirhams on liquidity.

Given the expansive impact of autonomous factors observed throughout the second quarter, the outstanding amount of BAM's interventions stood at 36 billion dirhams as at May 21, 2015, down 9 billion compared to the end of the previous quarter. This decrease affected 7-day advances, which were reduced to 20 billion, while operations of one-year secured loans remained at 16 billion dirhams.

The weighted average rate of the overnight interbank market remained, as in previous quarters, close to the key rate, or 2.51 percent on average, with low volatility of two basis points.

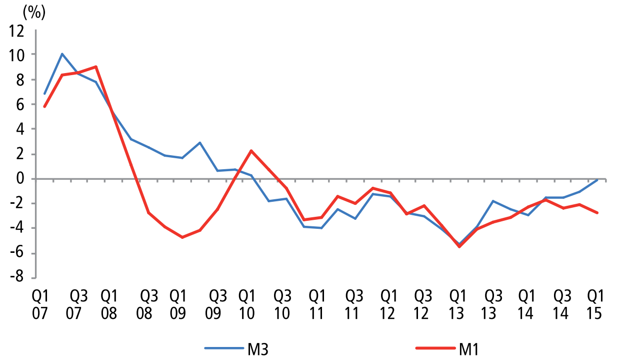
Chart B 4.1.5: Change in the mean and standard deviation of the interbank market weighted average rate



shares/units slowed from 6.6 percent to 0.4 percent. Foreign currency deposits decelerated from 52.5 percent to 34.7 percent. In contrast, demand deposits with banks rose by 4.7 percent, as against 3.9 percent in the previous quarter. Similarly, time deposits strengthened by 18.6 percent from 10.3 percent. Currency in circulation was up 5.2 percent, year on year, a rate similar to that recorded in the previous quarter.

By economic unit, demand deposits of private nonfinancial companies increased by 7 percent, as against a decrease of 1 percent, particularly reflecting a base effect caused by the significant decline recorded a year earlier. Growth of time deposits accelerated from 7.9 percent to 22.9 percent. Regarding households, the pace of demand deposits decelerated

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.

from 4.8 percent to 3.7 percent, while that of time deposits continued to improve since the second quarter 2014, from 9.9 percent to 10.8 percent. Concerning the public sector, demand deposits decelerated from 23.3 percent to 17.3 percent, while time deposits rose significantly from 7.6 billion dirhams on average in the first quarter to 14.5 billion at end-April

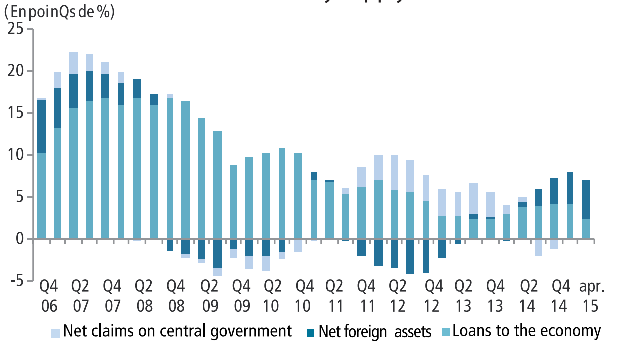
Credit

April 2015 data show a deceleration in the annual bank lending growth to 2.5 percent from 3.8 percent on average in the first quarter 2015.

This trend reflects a slower growth of all credit categories except for consumer loans, which rose 11.5 percent, year on year, from 10.9 percent in the previous quarter. Thus, cash advances slowed down from 2.8 percent to zero growth. Similarly, the annual growth of equipment loans declined from 4.7 percent in the first quarter to 1.9 percent in April. Growth of real estate loans stood at 2.9 percent from 3.2 percent a quarter earlier, covering an increase from 5.9 percent to 6.2 percent in housing loans and steeper decline in loans to developers from 3.8 percent to 6.4 percent. Regarding nonperforming loans, although their growth fell back from 16.1 percent in the first quarter to 15.5 percent, their ratio to bank credit moved up from 6.9 percent to 7.2 percent.

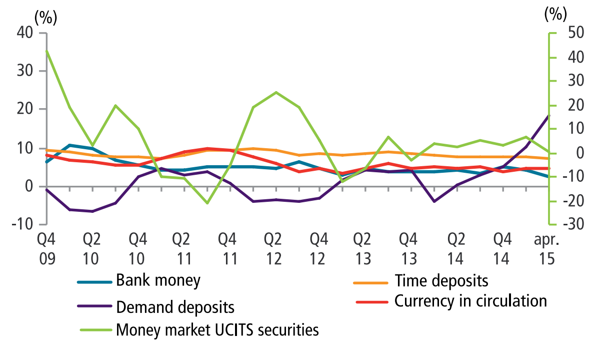
The analysis of bank credit by institutional sector shows a slower growth of loans to both the private and public sectors. Indeed, growth of loans to the private

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



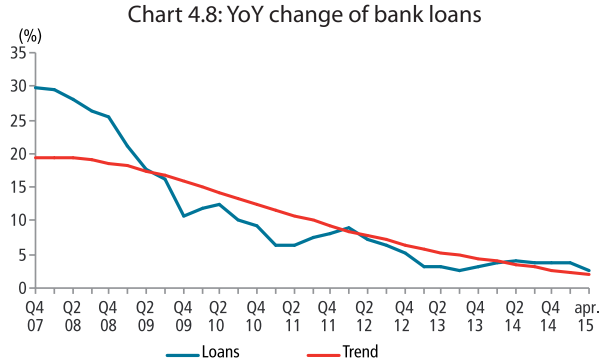
Source : BAM.

Chart 4.7: YoY change in the major M3 components



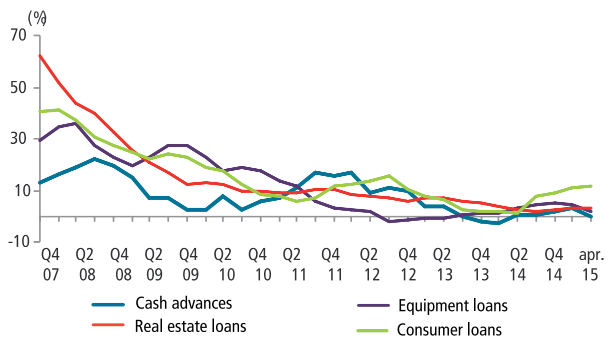
Source : BAM.

Chart 4.8: YoY change of bank loans



Source : BAM.

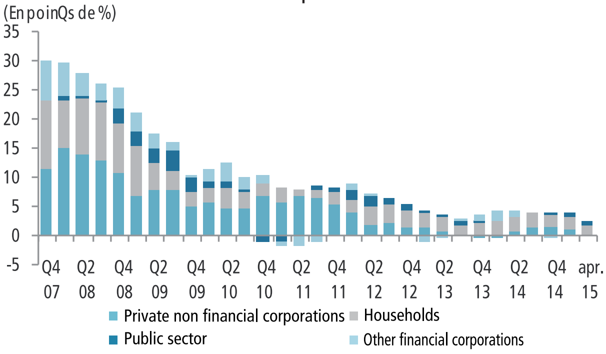
Chart 4.9: YoY change of major bank loan categories



Source : BAM.

sector stood at 2.2 percent, from 3.7 percent in the first quarter. This change is attributed to a deceleration from 5.7 percent to 5.3 percent in loans to households and a contraction of 0.3 percent in those granted to private nonfinancial companies, after rising 2.2 percent. Similarly, loans to the public sector slowed from 15.2 percent to 9.1 percent, while loans to financial companies posted an annual increase of 1.2 percent, as against a 1.1 percent average decline in the first three months of 2015.

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



Source : BAM.

BAM's lending conditions survey indicate a further easing of credit supply, with a slight improvement in the first quarter 2015 compared to the previous quarter. This relaxation would have concerned both households and businesses. For the latter, banks would have relaxed conditions for equipment loans and cash advances, while they would have tightened them for loans to real estate development. Concerning individuals, banks would have relaxed conditions for housing loans and tightened them for consumer loans. In contrast, demand would have been tilted slightly to the downside, according to banks, with a decrease in demand for equipment loans and real estate development, and an improvement in demand for housing loans.

By economic branch, data for the first quarter of 2015 indicate annual declines of 4.6 percent in loans allocated to manufacturing industries, as against 1.2 percent in the previous quarter, and 1 percent in loans allocated to the "building and public works" sector, as against 0.5 percent. However, loans to the "electricity, gas and water" sector continued to show significant increases, or 24.6 percent as against 31.4 percent, and loans to services grew 3.8 percent, after an increase of 4.3 percent.

Loans granted to nonfinancial sectors by other financial companies, not included in the monetary position, decreased in the first quarter 2015 by 1.3 percent, as against 0.4 percent in the fourth quarter 2014, especially in connection with a 3.1 percent decline in loans accorded by finance companies. By purpose, consumer loans dropped by 14 percent, as against 13.7 percent a quarter earlier. Factoring loans contracted by 4.5 percent, after rising 30.5 percent. Conversely, the leasing growth accelerated from 1.3 percent to 2 percent. Excluding the take-over of a finance company by its bank, loans accorded by other financial corporations would have risen by 0.4 percent, as against 2.5 percent, while consumption loans would have declined by 2.8 percent, as opposed to 2.7 percent.

Other sources of money creation

The annual growth of net international reserves slowed from 21 percent in the first quarter 2015 to 17.1 percent in April.

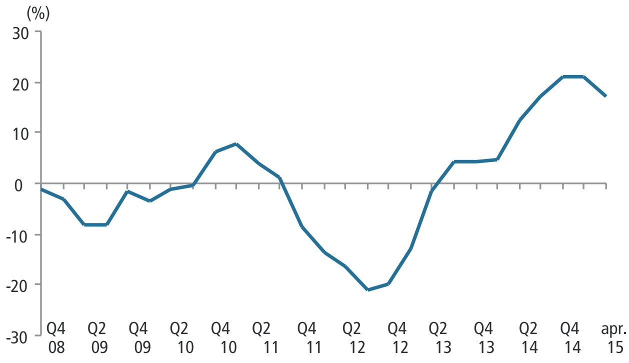
Net claims on central government grew by 0.6 percent in April, a rate almost similar to that registered in the first quarter. This change covers a decrease of 5.6 percent in Treasury bills held by banks, as opposed to 2.4 percent, and a growth of 85.7 percent in money market fund shares/units, as against 35.8 percent. Outstanding liabilities of other depository corporations increased from 13.8 billion dirhams on average to 14.9 billion.

Liquid investments

The annual growth rate of liquid investment aggregates grew 15.9 percent in April 2015, from 20.5 percent on average in the first quarter 2015. This slowdown affected all categories of liquid investments.

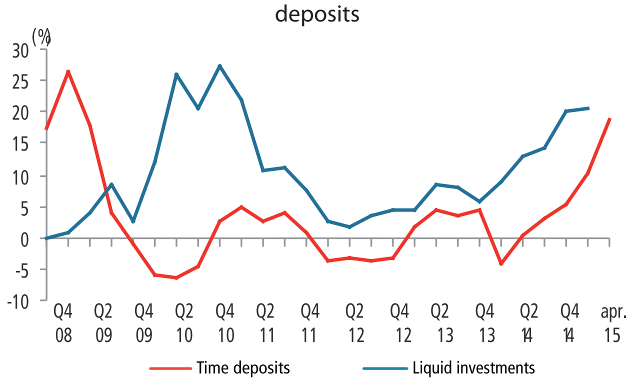
Indeed, securities included in the LI1 aggregate rose by 11.4 percent in April, as against 14.8 percent a quarter earlier, in connection with a slower growth of outstanding treasury bills from 13.6 percent to 9.8 percent. Similarly, the growth rate of securities of bond fund shares/units, included in the LI2 aggregate, decelerated from 32.6 percent to 25.5 percent. At the same time, the outstanding equity and diversified fund shares/units, which constitute the LI3 aggregate, grew by 17.8 percent in April, from 25.4 percent in the first quarter 2015, primarily reflecting the depreciation of prices at Casablanca Stock Exchange

Chart 4.11: Annual growth of net internationales reserves



Source : BAM.

Chart 4.12: YoY change in liquid investments and time deposits



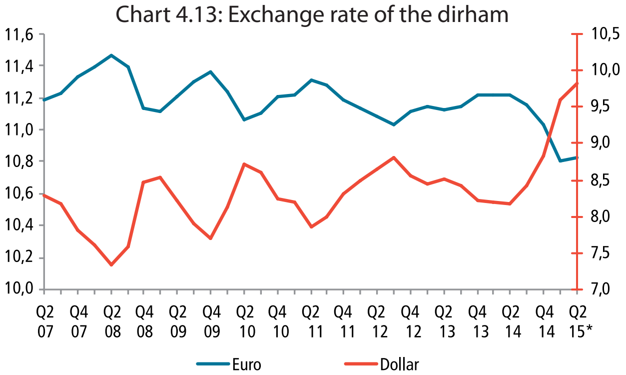
Source : BAM.

Exchange rate

At the end of the second quarter[1], compared to the previous quarter, the national currency depreciated by 0.8 percent vis-à-vis the euro and appreciated by 0.64 percent against the US dollar.

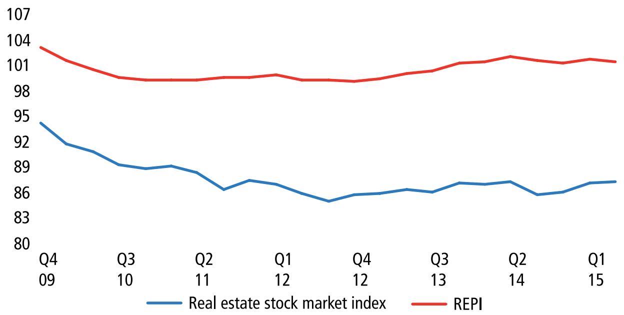
The dirham's effective exchange rate[2] depreciated in the first quarter 2015 by 0.34 percent in nominal terms, while it appreciated by 0.18 percent in real terms, due to the inflation rate of Morocco, which was broadly higher than that of partner countries and competitors

Chart 4.13: Exchange rate of the dirham



** Observation of the first quarter of 2015 corresponds to the arithmetic average from April 1st to May 26, 2015.*
Source : BAM.

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



Sources: IMF and BAM calculations.

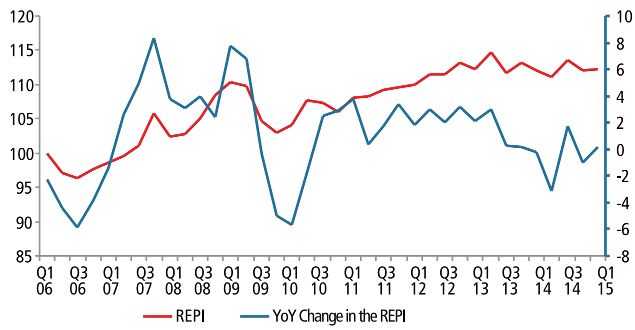
4.2. Asset price

In the first quarter of 2015, real estate prices registered a slight increase of 0.2 percent, year on year. The 0.4 percent increase in urban land prices was offset by the 1.6 percent decrease in commercial property ones. Residential property prices remained virtually unchanged from their level of the first quarter 2014.

Sales increased by 7.4 percent, with 8.8 percent for residential property prices, 2.5 percent for urban land ones and 7 percent for commercial property prices.

By main city, prices were down, covering 0.3 percent in Casablanca and Rabat-Salé-Temara, 1.9 percent in Tangier, and 4.1 percent in Marrakech. Under these conditions, the number of transactions showed increases of 18.5 percent in Casablanca, 9.3 percent in Tangier and 16 percent in Rabat-Sale-Temara.

Chart 4.15: QoQ change in real estate price index

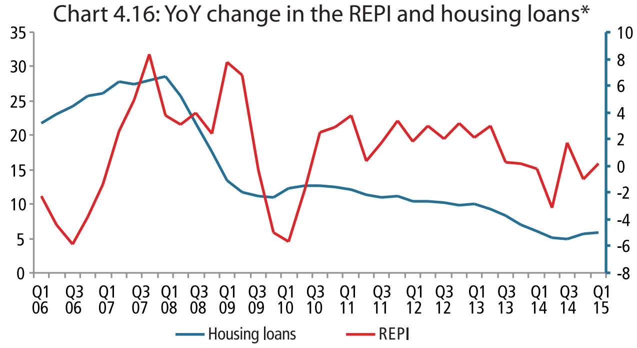


1 The second quarter of 2015 includes only the period from April 1 to Mai 26, 2015.

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

Moreover, recent data on real estate loans show that housing loans grew by 6.2 percent in April, year on year, as against 5.9 percent in the first quarter 2015 and an average of 5.4 percent in 2014. Loans to property development continued to show negative trends, or -6.4 percent from -3.8 percent in the first quarter 2015 and an average of -4.2 percent in 2014.

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



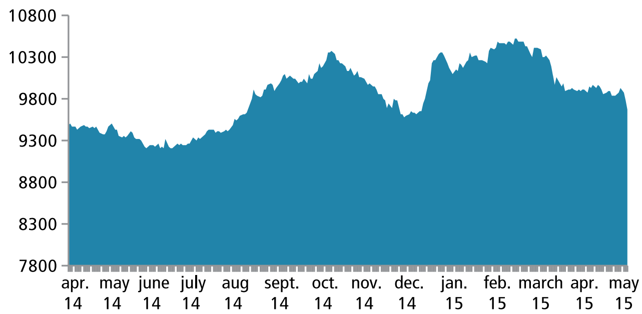
** Housing loans do not include loans to real estate developers.*

4.2.2 Financial assets

4.2.2.1 Shares

After an increase of 6.8 percent in the first quarter 2015, the MASI registered declines in April (-3.2 percent) and May (-2.3 percent), bringing its performance since the beginning of the year to 0.9 percent. By sector, the index fell 4.3 percent after rising 16.1 percent for "construction and building materials", decreased by 3.8 percent after an increase of 6.5 percent for "banks" and moved down 12.1 percent after rising 16.9 percent for "telecommunications". The real estate sector recorded a further decline of 3.5 percent as against 15.5 percent a quarter earlier.

Chart 4.17: Daily change in MASI

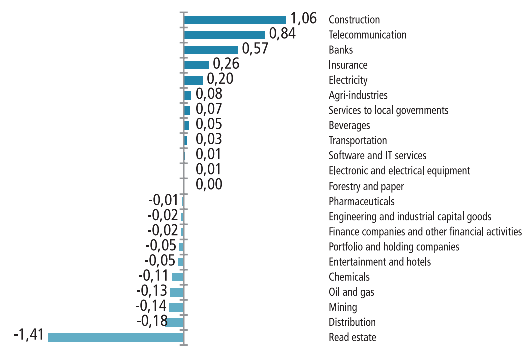


Source: Casablanca Stock Exchange.

The market capitalization increased by 1.8 percent to 487.3 billion, bringing its ratio to GDP to 51 percent.

Under these conditions, the Price Earnings Ratio stood at end-May at 19.8 as against 19.2 in late December 2014. The Price to Book Ratio depreciated slightly to 2.38.

Chart 4.18: Contribution of sectoral indexes to MASI growth, in%



Source: Casablanca stock exchange.

The trading volume declined from an average of 3.9 billion dirhams in the first quarter 2015 to 2.2 billion in April and May. Thus, it stood at 16.0 billion dirhams since the beginning of the year from 16.5

billion in the same period of the previous year. The central market attracted 67 percent of the trading volume, or 10.7 billion.

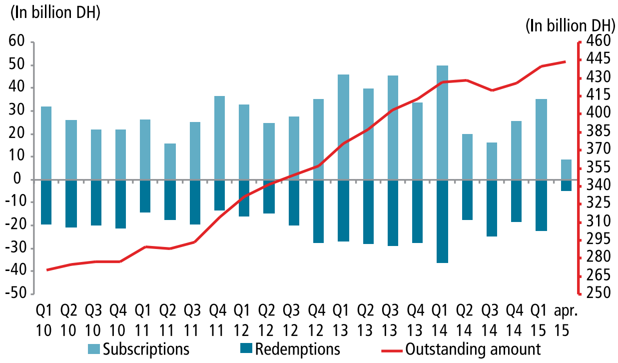
4.2.2.2 Treasury bonds

In the sovereign debt market, Treasury issues amounted to 8.7 billion dirhams in April, as against a monthly average of 11.7 billion in the first quarter 2015 and 9.3 billion in 2014. They focused on short-term maturities, with a share of 81 percent. These issues matched rising rates, particularly in the short term where they ranged from 2.6 percent to 2.7 percent, as against 2.43 percent and 2.55 percent in the previous quarter. Taking into account repayments of 4.9 billion dirhams, outstanding Treasury bills amounted to 443.4 billion, up 4.1 percent compared to end-December.

4.2.2.3 Other debt securities

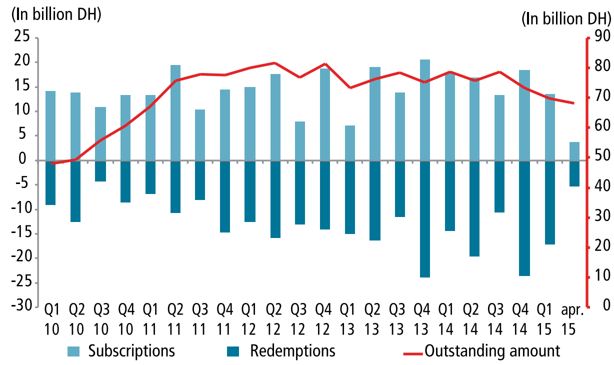
Issues of other negotiable debt securities totaled 3.8 billion dirhams in April after an average of 4.5 billion in the first quarter 2015 and 5.5 billion in 2014, with rising rates for bills of finance companies and falling rates for commercial paper. Issues of certificates of deposit reached 1.9 billion dirhams, after an average of 2.9 billion a quarter earlier, and were performed with rates varying between 2.8 percent and 3.75 percent, as against a range of 2.52 percent to 3.93 percent in the first quarter. Finance companies issued bills, totaling 455 million dirhams, after an average of 337 million matching rates between 3.57 percent and 3.99 percent, as opposed to 3.09 percent and 4 percent. The issuance of commercial paper increased by 200 million to 1.4 billion dirhams, with rates ranging from 3

Chart 4.19: Change in outstanding Treasury bonds



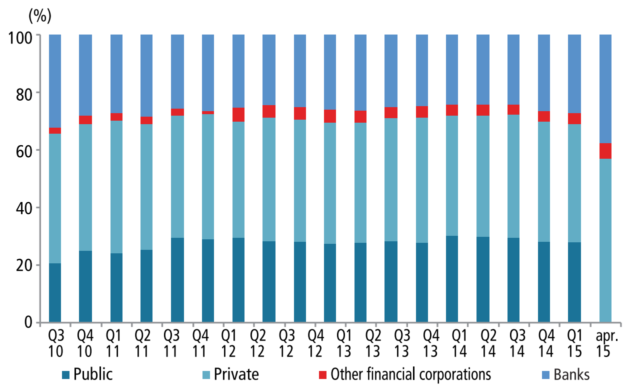
Source: Casablanca stock exchange.

Chart 4.20: Change in outstanding amount of negotiable debt securities



Source: Casablanca stock exchange.

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



percent to 4.8 percent, as against 3 percent and 5.75 percent. Taking into account repayments of 5.3 billion dirhams, the outstanding amount of other negotiable debt securities stood at 68.2 billion, down 7 percent compared to end-December.

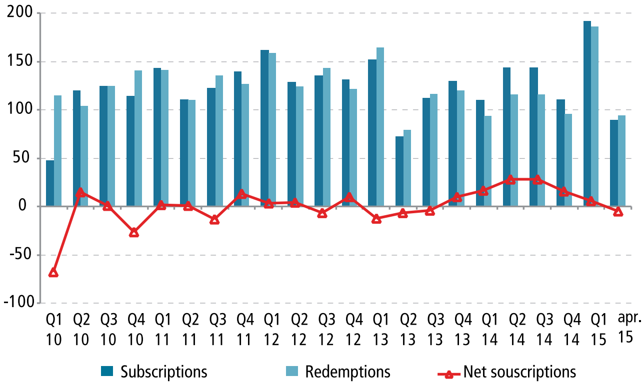
The bond market did not see any issues in April, after issues of 2.8 billion in the first quarter 2015, as against 4 billion in the same period a year earlier. The outstanding amount stood at 96.9 billion, up 1.3 percent compared to end-December.

4.2.2.4 Mutual funds

Between April and May[1], subscriptions to mutual fund shares/units showed a decrease, registering a monthly average of 44.7 billion dirhams, from 63.8 billion a quarter earlier. Similarly, redemptions totaled a monthly average of 47.2 billion, as against 61.9 billion. The performance index of mutual funds depreciated by 1 percent compared to the previous quarter. Under these conditions, net assets of mutual funds, valued at end-May, reached 304.6 billion dirhams, down 2.1 percent from one quarter to another.

By category of mutual funds, net assets decreased by 1.3 percent for bond funds, 3.1 percent for money market ones and 5 percent for equity funds.

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



1 Mutual funds data as at May 15, 2015.

5. RECENT INFLATION TRENDS

April data on consumer price trends indicate that inflation continued to rise since the fourth quarter 2014. It stood at 1.7 percent in April and 1.6 percent on average in the first four months of the year, from 0.4 percent in 2014. This change is primarily attributed to higher volatile food prices, which rose by 2.6 percent on average since the beginning of the year, as against a 5.6 percent decline in 2014. Core inflation, which reflects the underlying trend of prices, remained virtually stable at 1.4 percent between January and April, from 1.2 percent in 2014. By component, this change reflects increases from 1.4 percent to 1.6 percent in inflation of tradables (CPIXT) and from 0.9 percent to 1.2 percent in that of nontradables (CPIXNT). These developments more than offset the effects of lower prices of fuels and lubricants, mainly due to the decline in international oil prices and the removal of the equalization tax. Industrial producer prices continued to drop since January 2013, showing an annual decline of 5.1 percent in April, as against 4.9 percent a month earlier, mainly in connection with a 32.5 percent decrease in "coke and refining" prices, as opposed to 31.6 percent.

5.1 Inflation trends

After having averaged 0.4 percent in 2014, inflation accelerated significantly in the first four months of the year, mainly due to a trend reversal of volatile food prices.

Thus, consumer prices were up 1.7 percent in April, from 1.6 percent in March. Inflation averaged 1.5 percent in the first quarter and 1.6 percent in the first four months of the year.

This inflation trend is mainly attributed to a 3.3 percent increase in volatile food prices, as against 2.4 percent in March and 1.9 percent in February. In particular, prices rose by 4 percent in April from 3.1 percent in March for vegetables, by 5.7 percent from 0.6 percent for fresh fish and by 1.5 percent from 0.3 percent for poultry and rabbits.

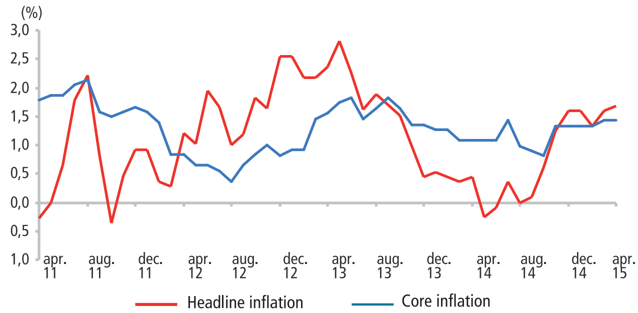
However, the pace of decline in prices of fuels and lubricants eased from 19.9 percent in February to 12.6 percent in March, before worsening to 14.9 percent in April, impacted by oil price fluctuations on the international market. Their negative contribution to inflation thus dropped from 0.5 to 0.3 and then to 0.4 percentage point. Prices of other administered goods and services moved

Table 5.1: Change in inflation and its components

	Monthly change (%)			YoY change (%)		
	feb. 15	march 15	apr. 15	feb. 15	march 15	apr. 15
Headline inflation	-0.4	0.0	0.2	1.3	1.6	1.7
- Volatile food products excluded from core inflation	-3.4	-1.8	0.6	1.9	2.4	3.3
- Fuels and lubricants	0.5	9.2	-0.3	-19.9	-12.6	-14.9
- Administered goods excluding fuels and lubricants	0.0	0.0	0.0	3.8	3.7	3.6
Core inflation	0.0	0.0	0.1	1.3	1.4	1.4
- Food products	0.0	0.2	0.2	1.8	2.0	2.3
- Clothing and footwear	-0.1	-0.3	-0.1	0.7	0.4	0.5
- Housing. water. gas. electricity and other fuels*	0.1	0.1	0.2	1.2	1.3	1.1
- Furniture. household appliances and common house maintenance	0.0	0.0	0.1	0.6	0.3	0.4
- Health*	-0.2	0.1	0.1	1.1	0.7	0.8
- Transportation*	0.2	0.0	-0.1	0.6	0.6	-0.1
- Communication	0.0	0.0	0.0	0.0	0.0	0.0
- Entertainment and culture	0.0	-0.2	0.1	0.0	-0.2	-0.1
- Education	0.0	0.0	0.0	3.2	3.2	3.2
- Restaurants and hotels	0.1	0.2	0.3	2.0	1.8	2.2
- Miscellaneous goods and services	0.2	0.1	0.0	0.6	0.7	0.7

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

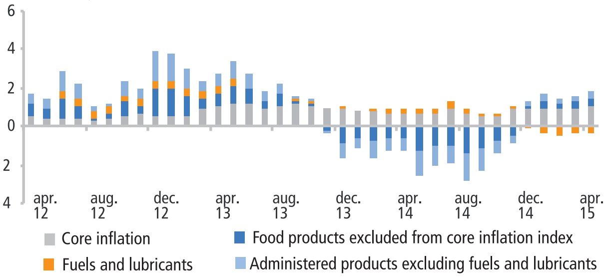
Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

up by 3.6 percent, as against 3.7 percent in March and 3.8 percent in February, mainly in connection with a slower growth of transport, medical and paramedical services.

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 1march 15	16 march 15	1 apr. 15	16 apr. 15	1 may 15	16 may 15
Premium gasoline	9.96	10.31	10.35	10.37	10.80	10.93
Diesel 50	8.96	8.96	8.67	8.69	9.12	9.26
Industrial fuel	3 916	3 898	3 743	3 782	4 159	4 339

Source : Ministry of Energy and Mining.

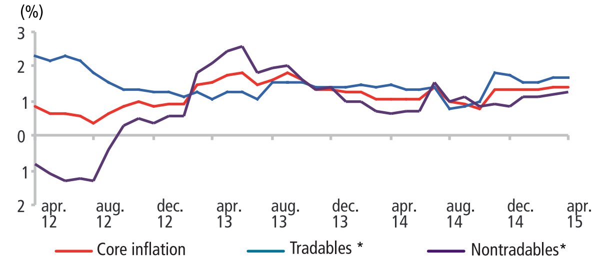
Excluding volatile food and administered products, core inflation remained stable at 1.4 percent. This stagnation covers an acceleration from 1.8 percent to 2.2 percent in the growth of restaurants and hotels prices, a 0.1 percent decline in transport prices, as against a 0.6 percent rise, and a virtual stagnation of inflation in other headings.

5.2 Tradable and nontradable goods

Price analysis by category of goods indicates that core inflation trends are attributed to a relative stability of inflation of both tradables and nontradables. Indeed, in a context of lower inflation rates in Morocco's main trading partners, growth of prices of tradables remained at 1.6 percent since the beginning of the year, thus stabilizing their contribution to core inflation at 0.9 percentage point.

Inflation of nontradables remained virtually unchanged at 1.3 percent between March and April, contributing 0.6 percentage point to core inflation. However, this trend covers divergent changes in its components. While the growth of transport and rent prices slowed down, fresh meat ones accelerated. Meanwhile, prices in other headings kept the same

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



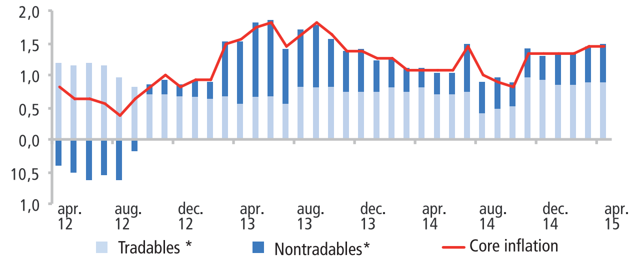
** Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

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

	Monthly change (%) feb. 15	march 15	apr. 15	YoY change (%) feb. 15	march 15	apr. 15
Tradables (CPIXT)	0.1	0.1	0.0	1.6	1.6	1.6
Nontradables (CPIXNT)	0.0	0.1	0.2	1.1	1.2	1.3

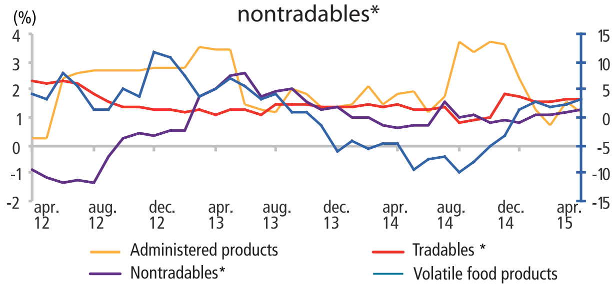
Sources: HCP, and BAM calculations.

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



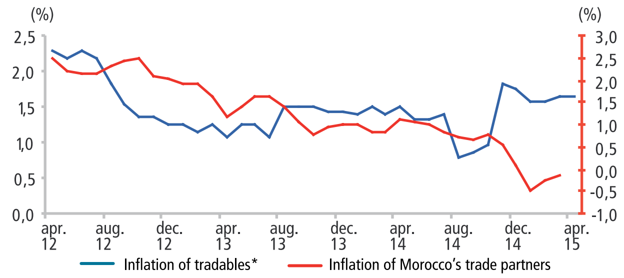
* *Excluding volatile food products and administered goods.*
Sources: HCP, and BAM calculations.

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	
	march 15	apr. 15	march 15	apr. 15
Products excluded from core inflation index	0.0	0.1	0.6	0.7
Volatile food products	-0.2	0.1	0.3	0.4
Administered products	0.2	0.0	0.3	0.2
Tradables*	0.0	0.0	0.6	0.6
Nontradables*	0.0	0.1	0.4	0.4

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

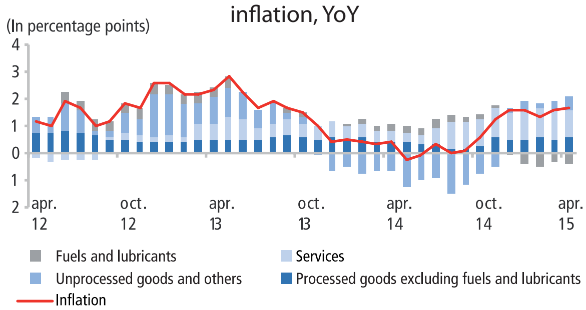
5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that the increase in inflation in April was driven by a rise from 1.4 percent to 2.1 percent in inflation in unprocessed goods and to a lesser extent by a slightly faster growth of prices of processed goods, from 1.2 percent to 1.3 percent. The contribution of these two categories of goods to inflation stood at 1 percentage point from 0.8 point a month earlier. These developments more than offset the deeper decline in prices of fuels and lubricants from 12.6 percent to 14.9 percent.

5.4 Industrial producer price index

Manufacturing producer price index showed a monthly decline of 0.3 percent in April, after increasing 1.6 percent a month earlier. This change is mainly attributable

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 (%)		
	feb. 15	march 15	apr. 15	feb. 15	march 15	apr. 15
Processed goods*	0.1	0.0	0.0	1.2	1.2	1.3
Services	0.1	0.0	0.1	3.3	3.3	3.1
Unprocessed goods and others	-2.1	-0.9	0.6	0.9	1.4	2.1
Fuels and lubricants	0.5	9.2	-0.3	-19.9	-12.6	-14.9

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

to respective price decreases of 2.4 percent, 0.6 percent and 1.7 percent in the industries of "coke and refining", "food" and "woodwork and manufacturing of products of wood". These drops more than offset respective increases of 0.7 percent and 0.1 percent in "clothing" and "chemical" industries.

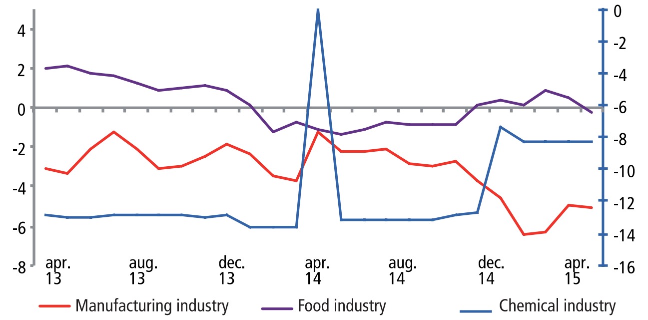
Year on year, industrial producer prices continue to show declines, with a rate of 5.1 percent in April, from 4.9 percent in March, mainly due to a decrease of 32.5 percent in "coke and refining" prices after that of 31.6 percent in the previous month. At the same time, prices rose 6.7 percent in "the clothing industry" and 1.7 percent in "the tobacco industry".

5.5 Inflation expectations

The BAM's business survey for April 2015 indicates that industrial producer prices should trend upwards over the next three months. Indeed, 21 percent of corporate managers anticipate an increase in prices during this period, while 2 percent of them expect a decrease (Chart 5.9). For 54 percent of respondents, these producer prices would not change significantly.

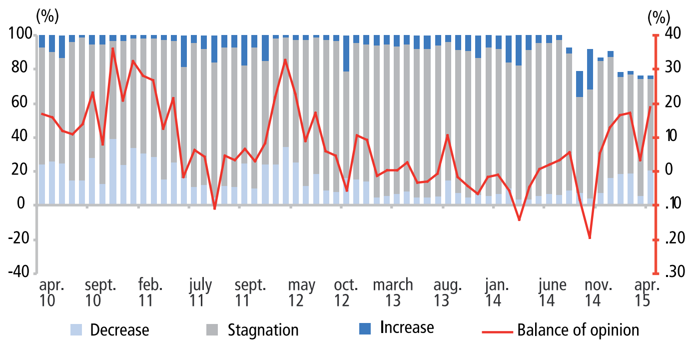
Data from this survey also show upward inflation forecasts over the next three months. The percentage of corporate managers anticipating a faster inflation stood at 27 percent, while 5 percent of them expect a slower growth of prices (Chart 5.10).

Chart 5.8: YoY change in industrial producer price indexes



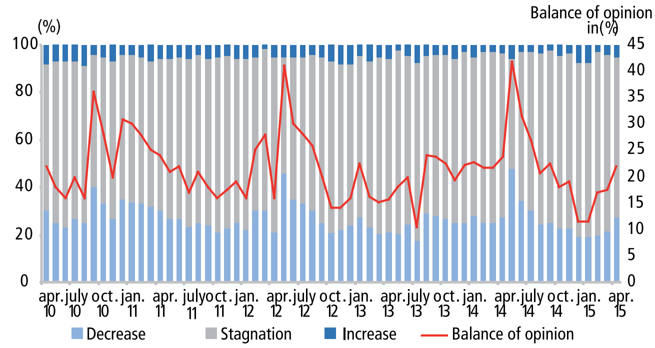
Sources: HCP, and BAM calculations.

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 will take effect as of 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 1.4 percent, a level similar to the average rate expected in the previous MPR. In 2015, it would show an average increase of 1.5 percent, up slightly compared to March MPR. In the first three quarters of 2016, an average rate of 1.4 percent is still 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

In light of recent data, the global economy continues to show overall positive trends. This momentum is driven more by advanced countries, as evidenced by the performance of the U.S. and U.K. economies, which take advantage of the strength of domestic demand and recovery of the labor market. The euro area is seeing a gradual recovery, prompted by the support of the monetary policy and progress made in fiscal consolidation. Also, moderation in oil prices contributes significantly to a dynamic demand from energy importing countries, particularly due to the improvement in real household income. Finally, geopolitical instabilities that have intensified in some areas have, up to now, had only limited repercussions.

Nevertheless, in the first half of the current year, a number of vulnerabilities have been confirmed. Indeed, growth weakened in some emerging countries like Brazil, where the contraction of GDP worsened, and Russia who suffers the consequences of economic sanctions and lower energy export revenue. Similarly, while economic growth remained high in China, its pace slowed down, mainly owing to the persistent sluggishness on the real estate market. Moreover, foreign exchange market experienced some volatility in recent months, mainly due to divergent trends of monetary policies of the most influential central banks.

Detailed analyzes show that economic growth in the euro area recorded a rate of 1 percent in the first quarter 2015, slightly higher than 0.9 percent, registered in the fourth quarter of 2014. This performance reflects the further recovery of the Spanish economy (2.7 percent in Q1 2015 as against 2 percent in Q4 2014) and relatively positive growth in France (0.7 percent in Q1 2015 as against 0 percent in Q4 2014) which offset the economic slowdown in Germany (1 percent in Q1 2015 as against 1.5 percent in Q4 2014) and persistently sluggish growth in Italy (0.1 percent in Q1 2015 as against -0.4 percent in Q4 2014).

The slight economic recovery in the euro area is attributed to consumption and investment performance. Indeed, in the first quarter of 2015, the retail trade and car registrations recorded increases, reflecting a recovery of domestic demand. Similarly, industrial production, excluding construction, grew by about 0.7 percent compared to the fourth quarter of 2014, while production in the construction sector rose by about 2 percent over the same period. These performances are supported by the latest findings of the composite purchasing managers' index and the Economic Sentiment Indicator (ESI), which showed levels above their long-term averages. Furthermore, as part of efforts exerted by the ECB to ease monetary conditions, the recent bank lending survey revealed that constraints on credit supply were further mitigated in the first quarter of 2015, which should support demand dynamics.

Regarding the euro area labor market, despite a drop in the unemployment rate to 11.1 percent in April, this indicator remains high and contains disparities between countries. Indeed, unemployment fell in Spain (from 23.3 percent in January to 22.7 percent in April), declined slightly in Germany (from 4.8 percent to 4.7 percent), virtually stagnated in France (at 10.5 percent over the same period), while it edged up in Italy from 12.3 percent in January to 12.4 percent in April.

In line with the moderation of international energy prices, inflation in the euro area continues to display low rates, although a slight recovery was observed in the last months. Indeed, it rose from -0.6 percent in January to 0.3 percent in May. This trend stems from the moderate rise in food and services prices (1.2 percent and 1.3 percent, respectively), which offset the fall in energy prices (-5 percent).

With regard to the U.S. economy, despite social unrest in the West Coast ports and the cold wave that paralyzed some large cities at the beginning of the year, the positive growth continued in the first quarter of 2015, as a rate of 2.7 percent is expected from 2.4 percent in the fourth quarter of 2014. This momentum is driven by strong private consumption and inventory rebuilding which more than offset the negative effects of lower exports, weaker government spending and slower non-residential investment.

The good performance of the U.S. economy continues to benefit the labor market, as unemployment stabilized at 5.5 percent in May from 5.7 percent in January. Nevertheless, and unlike the previous year, this decline was also accompanied by improved conditions in the labor market. Indeed, the participation rate and the employment rate increased in the first two months of the current year and the proportion of part-time employees for economic reasons dropped.

Furthermore, the price decline observed at the beginning of this year in the United States continued, as inflation fell from -0.1 percent in January to -0.2 percent in April. This trend reflects a drop in energy prices (-19.4 percent), which more than offset the rise in food and services prices ((2 percent and 1.8 percent, respectively).

Taking into account all these developments, the International Monetary Fund (IMF), in its April forecasts, projects a growth of around 1.5 percent in 2015 and 1.6 percent in 2016 in the area euro. For the United States, the IMF expects a growth rate of 3.1 percent in both 2015 and 2016. Compared with March MPR, growth forecasts for the euro area were slightly revised upwards (1.2 percent and 1.4 percent were expected in 2015 in 2016, respectively), while those for the US economy were adjusted downwards (3.6 percent and 3.3 percent were projected for 2015 and 2016, respectively).

Risks to the economic outlook mitigated compared to the previous MPR, though still broadly tilted to the downside. Indeed, a quick reversal in oil prices, following a possible decline in supply from producing countries or excessive market correction, could slow the expansion of demand in energy importing countries. Furthermore, following the monetary policy normalization process, a stronger-than-expected rise in U.S. long-term interest rates could cause a reversal of the moderation of risk premiums and an increase in financial markets' volatility, especially in emerging countries. Similarly, monetary policy divergences, growth prospects and change in external positions should continue to heighten volatility in foreign exchange markets. Therefore, if the dollar appreciates sustainably, debtors' balance sheets in dollar could become significantly fragile, especially if commercial gains accrued by the improvement of price competitiveness do not cover the weight caused by rising debt burdens. Also, a further decline in prices, particularly in the euro area, exacerbates fears about a sustained low inflation. Finally, geopolitical instability in Russia, 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 1.7 percent in 2015 and 2016. Compared with March MPR, these forecasts were revised upwards to take into account the favorable growth prospects in the euro area (a rate of 1.4 percent was expected in 2015 and 1.5 percent in 2016). For the record, these rates are calculated on the basis of an average weighted by these countries' respective shares in Moroccan foreign trade.

Against this backdrop, in line with recent forecasts by international financial institutions, non-energy import prices should decrease slightly in 2015, followed by a virtual stabilization in 2016. This trend is 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 accordance with assumptions provided in the MPR of March, economic growth prospects remain positive in 2015. This momentum is attributable to an exceptional crop year and a gradual improvement of nonagricultural activities, due to the growth recovery, albeit moderate, in key partner countries.

According to recent statements by the Minister of Agriculture and Fisheries, cereal production in the current year is expected to reach 110 million quintals, up 62 percent compared to the previous crop year and 47 percent compared to the average of the past five years. This performance is mainly due to favorable weather conditions, marked by a significant rainfall volume, well distributed in time and space.

Therefore, Bank Al-Maghrib revised upwards its projections for the current crop year and a cereal production of 110 million quintals is now assumed, as against 90 million quintals provided in the March MPR. Thus, a 15 percent increase in the agricultural value added is expected in 2015, after a contraction of 2.5 percent recorded in the previous year. For 2016, an average crop year is assumed.

Compared to 2014, nonagricultural activities should improve slightly, due to the strong momentum in domestic demand and recovery of economic activity, albeit moderate, in Morocco's key partner countries. Indeed, household final consumption should show a positive profile, as evidenced by the recovery in consumer loans (11.5 percent at end-April, including the merger of the BMCI and BMCI Crédit Consommation) and recovery of transfers from Moroccan expatriates (5.5 percent at end-May). This trend is also prompted by the expected improvement in agricultural incomes and the continued growth of purchasing power, due to a moderate change in prices, including energy ones.

As to private investment, a slight recovery is expected, as evidenced by an improvement in housing loans (6.2 percent at end-April) and continued growth of equipment loans, which recorded an increase of 1.9 percent at end-April. FDI flows and imports of capital goods (including aircraft purchases by Royal Air Maroc (RAM)) registered respective year-on-year increases of 22.8 percent and 4 percent in late May. Public investment should contribute positively to overall investment dynamics, in light of the planned budget envelope (5.2 percent of GDP) and the implementation rate at end-April (37 percent).

In light of all these developments, the nonagricultural GDP growth should stand at 3.5 percent, which is a downward revision compared to the previous MPR. Also, given the prospects for an exceptional crop year, overall growth is projected at 4.8 percent. The main uncertainties surrounding these forecasts are particularly attributed to the scale of the recovery in foreign demand as well as future energy prices.

Regarding the labor market, the latest figures point to a decline in the national unemployment rate from 10.2 percent in the first quarter 2014 to 9.9 percent in the first quarter 2015, reflecting a decrease from 14.6 percent to 14.3 percent in urban areas and from 5.1 percent to 4.7 percent in rural ones. These changes cover the creation of 27,000 jobs, mainly in agriculture (14,000 jobs), industry including handicrafts (9,000 jobs) and services (4,000 jobs). However, jobs created in the construction sector almost offset the losses.

Moreover, the labor market tensions remain overall weak, as indicated by BAM's latest quarterly business survey about the current quarter. Indeed, manufacturers expect a virtual stagnation of the workforce employed in all industrial sectors. Under these conditions and in accordance with the decisions taken by the Government as part of the social dialogue, the central scenario of this forecasting exercise shows a 5 percent increase in the minimum wage in July 2015.

In connection with the continued high level of production, limited repercussions of geopolitical risks, moderate economic prospects in emerging countries and an appreciation of the dollar, oil price forecasts still point to moderate levels for 2015 and 2016. Thus, the World Bank, in its April update, kept its projections at $53.2 per barrel in 2015. For 2016, the price should be around $57.2 per barrel, up slightly compared to the rate reported in the January update ($56.9/barrel). The IMF, in its January update, predicts a price of $58.1 and $65.6 per barrel, respectively, in 2015 and 2016, as against $56.7 and $63.8 per barrel. The uncertainties surrounding these forecasts are broadly attributed to an adjustment of supply in major producing countries, more sustained-than-expected recovery in global demand and a possible worsening of geopolitical tensions.

Therefore, and given recent developments in energy markets, retail price for diesel oil would grow moderately over the rest of the forecast horizon.

6.2 Inflation outlook and balance of risks

The gradual recovery in inflation observed up to the end of April 2015 should continue throughout the forecast horizon. The reversal of the downward price trend that marked 2014 would be attributed to a rise in inflation of volatile food prices and an anticipated dynamic aggregate demand, in connection with an exceptional crop year and a relatively favorable trend of economic activities in partner countries.

Under these conditions, inflation outlook over the horizon of six quarters remained virtually stable compared with the March MPR. In the short term, a slightly upward revision was made and an inflation of 1.8 percent is expected in the second quarter of 2015, from 1.5 percent projected in the last MPR. For the full year 2015, the forecast inflation would average 1.5 percent, virtually stagnant compared to the rate reported in the March MPR (1.4 percent). Finally, the central forecast of the coming six quarters would remain at 1.4 percent, a rate similar to that anticipated a quarter earlier.

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

The balance of risks to the baseline scenario of this exercise is broadly balanced 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).

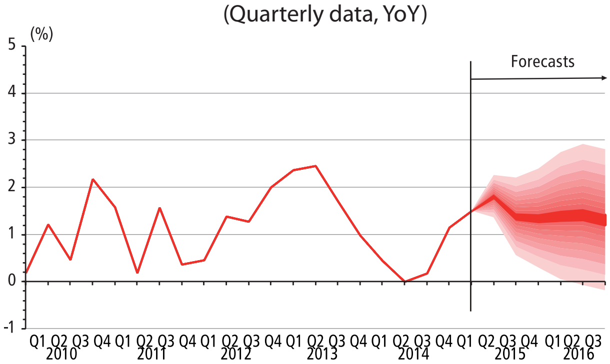
Table 6.1: Inflation outlook for 2015 Q2 –2016 Q3

	2015			2016			Average	FH*
	Q2	Q3	Q4	Q1	Q2	Q3	2015	
Central forecast (%)	1.8	1.4	1.3	1.4	1.4	1.3	1.5	1.4

(Quarterly data, YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2015 Q2–2016 Q3
(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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