BANK AL MAGHRIB

RAPPORT SUR LA POLITIQUE MONÉTAIRE

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Monetary Policy Report

Document prepared for
the Bank Board

March 24, 2015

بنك المغرب

LIST OF ABBREVIATIONS

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

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 24, 2015

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, March 24, 2015.

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

3. At the international level, the Board noted that in the fourth quarter 2014 economic activity in the euro area improved slightly to 0.9 percent from 0.8 percent a quarter earlier. The U.S. economy continued to grow strongly, albeit at a somewhat moderate rate of 2.4 percent, compared to 2.7 percent in the third quarter. These changes impacted the labor market, particularly in the United States where the jobless rate decreased to 5.5 percent in February. Unemployment rate in the euro area reached 11.2 percent in January, down 0.1 point from the previous month. In the main emerging economies, growth stabilized in China and decelerated in India, while Brazil's third quarter data showed lesser GDP contraction. Looking ahead, the European Central Bank (ECB) revised upward in March its growth forecasts for the euro area by 0.5 point to 1.5 percent for 2015 and by 0.4 point to 1.9 percent for 2016. For the United States, the Federal Reserve slightly lowered growth forecasts to a range between 2.3 percent to 2.7 percent for 2015 and 2016. In commodity markets, oil prices remain sharply down from their level of June 2014, despite their decrease in February. The IMF and the World Bank expect them to remain slightly below $60 a barrel on average in 2015. In this context, the price decline in the euro area eased from -0.6 percent to -0.3 percent in February, while inflation rate in the United States was slightly negative in January after reaching 0.7 percent a month earlier. Regarding monetary policy decisions, the ECB decided on March 5 to keep its policy rate unchanged and to start its new larger purchase program that would last until September 2016. The Fed also maintained the federal funds rate at the current 0 to 0.25 percent target range and revised its forward guidance, indicating that an increase in the target range remains unlikely at its April meeting. Overall, growth and inflation forecasts in the main partner countries together with energy price projections suggest the absence of external inflationary pressures.

4. Domestically, the national economy would have expanded by 2.5 percent in 2014, after 4.4 percent in the previous year. It is expected to grow more strongly by 5 percent in 2015, boosted by a good crop year and continued improvement in nonagricultural activity. In the labor market, unemployment rate reported a third consecutive annual increase in 2014 to 9.9 percent, up from 9.2 percent in 2013, with a 0.8 point rise in urban areas to 14.8 percent. Overall, nonagricultural output gap remains negative, suggesting the absence of demand-led inflationary pressures in the medium term.

5. Regarding external accounts, trade deficit narrowed further, posting a year-on-year decline of 37.2 percent as at end-February, after decreasing by 6.4 percent in 2014. Imports were down 15.2 percent, particularly as the value of energy purchases fell by 45.2 percent. On the opposite, exports rose by 8.2 percent, mostly driven by higher sales of phosphates and derivatives, automotive and food industries. Concerning the other current account items, travel receipts were down 8.2 percent as at end-February, after virtually stabilizing in 2014, while remittances of Moroccan expatriates were up 6.9 percent, after rising 2.3 percent. Taking account of these developments and assuming an average oil price of $60 a barrel, current account deficit would decrease to about 4 percent of GDP in 2015, from 5.9 percent in 2014. Moreover, considering the 15.2 percent decline in net foreign direct investment, after increasing by 7.8 percent in 2014, the stock of net international reserves stood at 182.4 billion dirhams as at end-February, providing coverage for 5 months and 13 days of goods and services' imports. It is expected to improve further in 2015 to equal more than 6 months of imports.

6. After a deficit of 4.9 percent of GDP in 2014, fiscal balance showed a deficit of 13.4 billion dirhams as at end-February 2015, down 5.6 billion year on year. Ordinary income decreased by 2.3 percent,

largely reflecting lower receipts of domestic consumption tax and import VAT. Overall expenditure shrank by 10.8 percent, mainly on a 64.3 percent reduction in subsidy costs to 2.6 billion dirhams.

7. On the monetary side, after rising by 6.6 percent as at end-December 2014, M3 growth accelerated to 7.4 percent in January. However, money gap remains negative, suggesting the absence of money-driven inflationary pressures. Bank lending expanded by 4.3 percent, up from 2.2 percent in December 2014, and would grow by nearly 5 percent for the full year 2015. In the money market, the Bank Board decision of December 16, to cut the key rate from 2.75 percent to 2.5 percent, has caused the interbank rate to decline by 21 basis points between the fourth quarter and the first two months of 2015 to 2.51 percent on average. Concerning lending rates, they stabilized at 6.03 percent during the fourth quarter, covering decreases by 59 basis points in equipment loans and 20 basis points in consumer loans and an increase by 11 basis points in cash advances and real estate loans.

8. On the property market, the Real Estate Price Index fell by 1.4 percent in the fourth quarter, after a year-on-year decrease of 0.6 percent on average during the first three quarters of 2014. This development mainly reflects decreases by 1.9 percent in residential property and 2.7 percent in commercial real estate.

9. Under these circumstances, inflation accelerated to 1.5 percent on average in the first two months of the year, after reaching 0.4 percent in 2014. Core inflation, which reflects the underlying trend of prices, moved from 1.2 percent to 1.3 percent. The downward trend in industrial producer prices, which started in January 2013, has intensified in recent months, as they fell by 6.4 percent in January 2015 as against an average of 2.9 percent in 2014.

10. In light of these data and taking into consideration the minimum wage increase of July 2014 and the one expected in July 2015 as well as the review of the water and electricity pricing system, notwithstanding any potential element with a possible negative impact, inflation would remain subdued, with balanced risks. It is expected at 1.4 percent on average in 2015 and at the end of the forecast horizon, i.e. the second quarter of 2016.

11. Considering this inflation forecast and the expected improvement in economic activity and bank lending, the Board decided to keep unchanged the key rate at 2.5 percent, while keeping a close eye on all these developments.

12. The Board then examined and approved the Bank accounts, the management report and the allocation of profits for fiscal 2014, after seeking the opinion of the Audit Committee.

13. The Board also reviewed and approved the currency program for 2015.

OVERVIEW

In the fourth quarter 2014, growth improved slightly in the euro area to 0.9 percent from 0.8 percent a quarter earlier, reflecting in particular a GDP acceleration from 1.2 to 1.5 percent in Germany and from 1.6 to 2 percent in Spain as well as a slowdown in France from 0.4 to 0.2 percent. In other advanced countries, economic activity remained strong in the United States, albeit with a moderation of growth to 2.4 percent, and accelerated in the United Kingdom to 2.7 percent, while Japan's GDP contraction eased from 1.4 to 0.7 percent. In the major emerging economies, growth stabilized at 7.3 percent in China and slowed down from 7.8 to 7.5 percent in India, according to national accounts data established with the new base year 2011-2012. In the labor market, unemployment rate continued to decline, reaching 5.5 percent in the United States in February, from 5.7 percent a month earlier, and 11.2 percent in the euro area in January from 11.3 percent in December.

In the financial sector, major stock indexes of advanced economies were up and their volatility eased. Similarly, the MSCI EM was up 1.6 percent, covering increases of 3.4 percent in India and 0.8 percent in China and a contraction of 8.4 percent in Turkey. In the sovereign debt market, 10-year yields increased by 10 basis points to 2 percent in the United States in February while they fell in the major countries of the euro area, standing at 0.3 percent in Germany and 0.6 percent in France. Bank credit growth decelerated slightly from 8.3 percent in January to 8 percent in February in the United States and its contraction in the euro area eased to 0.1 percent in January from 0.5 percent a month earlier. On the foreign exchange market, the euro continued to depreciate against the dollar, trading at 1.14 dollar in February, its lowest rate since November 2003. The Swiss franc appreciated by 3.5 percent vis-à-vis the euro, following the decision taken by the Swiss National Bank on January 15, to abandon its currency peg against the euro. Concerning monetary policy decisions, the ECB maintained at its meeting of March 5 its key rate unchanged at 0.05 percent, while announcing the beginning of its expanded bond-buying program of 60 billion euros a month from March 9 to September 2016. The Fed also decided on March 18, to keep the target range of its key rate at its current level, while revising its forward-looking orientation of its monetary policy, indicating that an increase in this range remains unlikely at its next meeting of April. Similarly, the Central Bank of England maintained its key rate unchanged. In the major emerging economies, the central bank of China lowered its key rate by 25 basis points on February 28, and that of Russia brought its rate from 15 percent to 14 percent on March 13. However, the Brazilian Central Bank continued its monetary tightening policy by increasing its rate by 50 basis points to 12.75 percent on March 4.

In commodity markets, the Brent price continued to hover around $60 per barrel at end-February, down almost 47 percent, year on year, but up 31 percent from its minimum price reached on January 13, 2015. Excluding energy, agricultural and base metal price indexes registered in February year-on-year respective decreases of 16.2 percent and 6.4 percent. The average prices of phosphates and derivatives rose by 11.7 percent to $115 per tonne for crude phosphate, by 3.2 percent to $400 per tonne for TSP, and dropped by 1.1 percent to $ 485.3 per tonne for DAP.

Against this backdrop, the price decline eased in the euro area from -0.6 percent to -0.3 percent and prices in the United States edged down 0.1 percent in January, after a 0.7 percent increase in the previous month. All these developments indicate the absence of external inflationary pressures.

Nationally, growth would stand at 2.5 percent in 2014 as against 4.4 percent a year earlier. Based on a cereal production of around 90 million quintals, it should accelerate to 5 percent in 2015, reflecting increases of 10.7 percent in the agricultural value added and 4 percent in nonagricultural GDP. In the labor market, the unemployment rate rose in the fourth quarter by 0.2 point compared to the same period of 2013, to 9.7 percent. It moved up from 14.4 percent to 14.8 percent in urban areas and stagnated at 4 percent in rural areas. Moreover, according to data from BAM's monthly business survey in industry, the capacity utilization rate stood at 64 percent in January, below the medium-term level. Overall, nonagricultural output gap was negative, indicating the absence of inflationary pressures from the real economy in the medium term.

As to external accounts, after an easing of 6.4 percent in 2014, February 2015 data show a marked improvement in the trade balance. Indeed, the deficit eased by 37.2 percent, year on year, under the combined effect of a 15.2 percent decline in imports, after virtual stagnation at the end of 2014, and an 8.2 percent increase in exports, as against 7.2 percent at the end of 2014. The import trends reflect respective drops of 45.2 percent and 26.5 percent in energy and food bills. Meanwhile, higher exports primarily reflect increases of 20.4 percent in sales of phosphates and derivatives, 23.9 percent in the automotive sector and 21.2 percent in shipments of food industries. Regarding other sections of the current account, travel receipts contracted by 8.2 percent at end-February 2015, after stagnating in late 2014, at 57.2 billion dirhams, while transfers from Moroccan expatriates were up 6.9 percent, after having improved by 2.3 percent in 2014 to 59.2 billion dirhams. Based on all these factors and assuming an average oil price of around $60 per barrel, the current account deficit in 2015 should ease to nearly 4 percent of GDP as opposed to 5.9 percent in 2014. Taking into account the change in net FDI flows, which were down 15.2 percent after a 7.8 percent increase in 2014, the outstanding net international reserves stood at 182.4 billion dirhams at end-February, up 20.6 percent, year on year.

Concerning public finances, after a slight reduction of the budget deficit to 44.9 billion dirhams in 2014 or 4.9 percent of GDP, Treasury operations resulted in January 2015 in a budget surplus of 3.8 billion as against a deficit of 650 million a year earlier. This improvement is mainly due to the positive balance of Treasury special accounts, which moved up from 7.4 to 11.2 billion, of which 1.6 billion dirhams under the full discharge contribution on assets held abroad. Current receipts were down 9.6 percent, covering a reduction in tax receipts of 1.8 percent, mainly due to the decline in indirect taxes. Overall expenditure dropped by 9 percent, with declines of 64.6 percent in subsidy costs, 7.2 percent in payroll and 6.7 percent in investment spending.

On the monetary side, despite a faster growth of M3 from 5.8 percent on average in the fourth quarter to 7.4 percent in January, the monetary gap remained negative, suggesting the absence of monetary inflationary pressures. Bank credit growth moved up 4.3 percent, as against 3.7 percent on average, reflecting a faster growth of all of loan categories, with the exception of equipment loans, which decelerated from 5.4 percent to 3.9 percent. The growth of nonperforming loans slowed down from 22.7 percent in the fourth quarter to 16.7 percent in January and their ratio to bank credit stabilized at 6.9 percent. In terms of outlook, the bank credit growth should be around 5 percent at the end of 2015. Bank liquidity was negatively impacted by 400 million dirhams, due to Treasury operations that were partially offset by the decline of currency in circulation. Under these conditions, the outstanding amount of BAM's interventions stood at 43 billion dirhams as at February 26, as against 41.9 billion recorded at the end of the previous year. On the money market, the interbank rate showed a decrease of 21 basis points between the fourth quarter and the first two months of 2015 to 2.51 percent, following the decision taken by the Board of Bank Al-Maghrib on December 16 to lower the key rate from 2.75 percent to 2.50 percent. Lending rates remained stable at 6.03 percent in the fourth quarter of 2014, owing to lower rates on equipment and consumer loans and higher rates on cash advances and real estate loans. Deposit rates averaged 3.81 percent in the fourth quarter of 2014, virtually unchanged from the previous quarter, covering higher rates of 12-month deposits and lower rates of 6-month ones. The dirham's effective exchange rate appreciated in the fourth quarter of 2014 by 0.45 percent in nominal terms and 1.3 percent in real terms.

In the assets market, the real estate price index in the fourth quarter was down 1.4 percent, year on year, as opposed to 0.6 percent on average in the first three quarters of the year. This decrease reflects respective declines of 1.9 percent and 2.7 percent in residential property prices and commercial ones, while land prices remained stable. On the stock market, the MASI continued its uptrend that began in the second half of 2013, with an increase of 8.7 percent since the beginning of the year. The volume of transactions during the first two months of 2015 remained low at 6.7 billion as against 5.5 billion in 2014.

In this context, inflation, measured by the year-on-year change in the consumer price index, remained moderate, albeit with higher prices since the fourth quarter. Indeed, it stood at 1.5 percent on average over the first two months of 2015 from 1.1 percent in the fourth quarter. This change primarily reflects a trend reversal of inflation of volatile food prices, from -2.4 percent to 2.4 percent. Core inflation stood at 1.3 percent in January and February from 1.2 percent in the fourth quarter, with an acceleration in prices from 0.9 percent to 1.1 percent for nontradables and from 1.5 percent to 1.6 percent for tradables.

Based on all of these developments and taking into account the effect of the minimum wage increase in July 2014 and in July 2015, the new water and electricity pricing, as well as the expected changes in oil prices, inflation should remain moderate with balanced risks. It would average 1.4 percent in 2015 and at the end of the forecast horizon (second quarter of 2016).

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1. AGGREGATE SUPPLY AND DEMAND

In the fourth quarter 2014, national growth would have stood at 2.4 percent, covering a 2 percent decline in the agricultural value added and a 3.2 percent increase in nonagricultural GDP. Thus, throughout 2014, GDP growth would have decelerated from 4.4 percent to 2.5 percent, due to a drop of 2.1 percent in the agricultural value added. However, nonagricultural activities would have consolidated by 3.2 percent. In 2015, agricultural activities would improve significantly. Similarly, the renewed momentum of the nonagricultural sector, which began in the second quarter of the previous year, should continue. Regarding demand, the domestic component is expected to strengthen, thanks to the consolidation of economic activities. Particularly, household final consumption should benefit from higher agricultural income and moderate increase in consumer prices. However, the trend of investment would be largely dependent on the private operators' perception about economic conditions and the fiscal policy stance. Foreign demand would continue its positive contribution to national growth. In short, the latter would accelerate to 5 percent, a rate revised upward compared to the last forecast of the Bank, particularly due to a cereal production above the average. However, these projections remain surrounded by uncertainties about growth prospects in partner countries and global commodity prices.

1.1 Output

In the third quarter 2014, GDP growth stood at 2.9 percent, as against 4.1 percent a year earlier, covering a 1.6 percent decline in the agricultural value added and a 3.6 percent increase in nonagricultural GDP.

In the fourth quarter 2014, the national activity would have increased by 2.4 percent, reflecting a decrease of 2 percent in the agricultural value added and a 3.2 percent increase in the nonagricultural GDP. Over the full year 2014, growth would have slowed to 2.5 percent, due to a negative contribution of the agricultural sector while the growth of nonagricultural activities accelerated relatively to 3.2 percent from 2.3 percent in 2013.

In 2015, recent developments suggest a faster domestic growth in the first quarter. Indeed, GDP growth would be driven by a positive contribution of agricultural activities and a further consolidation of nonagricultural ones.

In the primary sector, available indicators of agricultural activity show broadly favorable weather conditions in the 2014-2015 crop year. Indeed, plant cover conditions

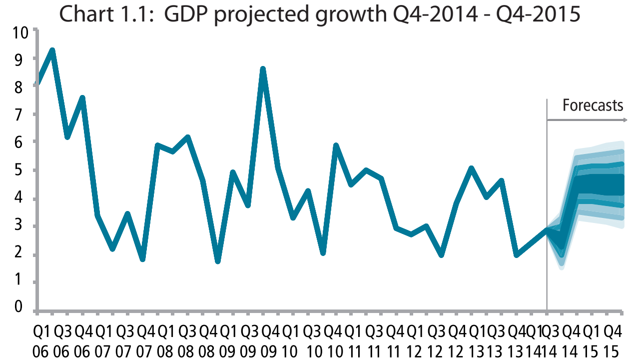
Table 1.1: YoY growth of quarterly GDP at chained prices per major sectors (%)

Activity sectors	2013				2014				2015
	QI	QII	QIII	QIV	QI	QII	QIII	QIV_F	QI_F
Agriculture	15.8	20.2	18.7	21.2	-1.8	-2.0	-1.6	-2.0	11.0
Nonagricultural VA	1.8	2.6	1.5	2.0	2.6	3.1	3.7	3.3	3.7
Extractive industry	-3.5	1.7	-2.9	-6.6	6.4	6.8	20.6	0.4	5.4
Processing industry	0.6	1.1	-0.7	2.3	0.9	1.3	3.0	2.0	2.4
Electricity and water	-4.8	-1.1	1.7	5.8	3.8	5.0	2.1	1.9	3.8
Construction	-2.7	-1.3	3.8	6.0	0.3	0.2	0.5	0.9	1.2
Trade	0.2	1.6	1.0	1.9	1.4	1.7	1.7	1.6	1.7
Hotels and restaurants	5.4	6.2	3.2	3.7	6.5	3.9	0.5	-1.1	0.8
Transportation	-0.3	3.0	3.3	2.9	5.0	5.6	3.2	3.3	3.3
Post and telecommunication	5.9	3.2	1.4	1.4	4.9	7.0	6.5	7.0	5.5
General government and social security	6.0	6.0	1.7	0.0	2.6	2.2	2.0	3.0	3.5
Other services*	3.1	3.3	2.6	2.7	4.0	4.2	4.4	4.5	4.6
Taxes on products net of subsidies	5.1	6.4	6.8	5.8	2.7	3.7	2.6	2.6	3.0
Nonagricultural GDP	2.1	2.9	2.0	2.3	2.6	3.1	3.6	3.2	3.6
Gross domestic product	3.8	5.0	4.1	4.6	2.0	2.4	2.9	2.4	4.7

(*) 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 Q4-2014 - Q4-2015



Sources: HCP, and BAM forecasts.

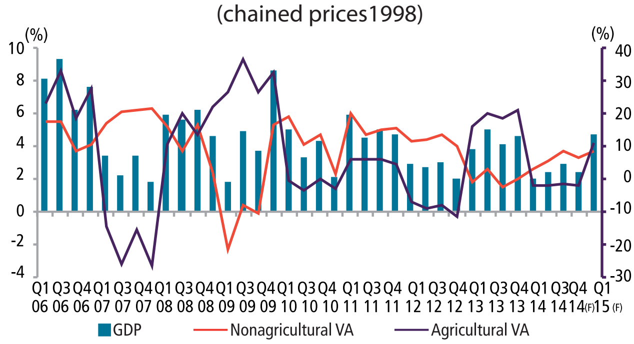
improved significantly in most agricultural regions compared to the previous crop year.

In addition, the cumulative rainfall as at February 20, 2015 rose by 78.6 percent compared to the same period of 2014, bringing the farm dam-filling rate from 70.2 to 74.7 percent. Against this backdrop, cereal production should be around 90 million quintals. Regarding the inshore and small-scale fishing, the volume marketed in January 2015 fell by almost 4 percent, reflecting a 7 percent decrease in landings of pelagic fish.

As to secondary activities, growth of the value added of the extractive industry would have dropped to 0.4 percent in the fourth quarter 2014, owing to a 3.6 percent decline in the marketable production of crude phosphate, after rising 6.9 percent a quarter earlier. Similarly, sales, both locally and abroad, were down 3.1 percent and 4 percent, respectively. In the first quarter 2015, the mining value added should increase by 5.4 percent. Indeed, foreign trade data of January 2015 indicate an increase of 22.3 percent in the value of phosphate exports, as against a decline of 30.5 percent over the same period a year earlier. In the same vein, international crude phosphate prices continued to rise since November 2014, with a rate of 12.1 percent on average over the first two months of 2015, along with a depreciation of the dirham against the dollar.

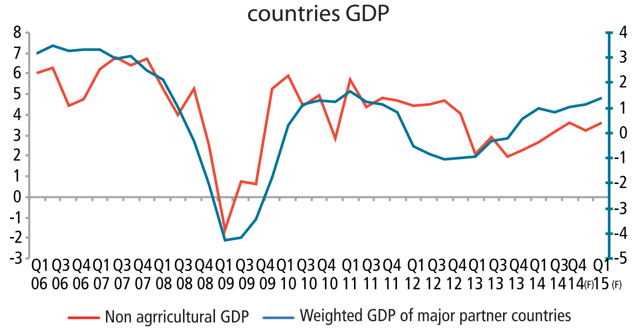
The growth of the manufacturing value added would have slowed to 2 percent in the fourth quarter of 2014 and should stand at 2.4 percent in the first quarter 2015. High and medium voltage electricity sales, intended primarily for industrial use, stagnated in the fourth quarter, after rising 4.7 percent in the third quarter 2014. In addition, end-February 2015 data show a further rise of 10.1 percent in exports of the automotive sector and respective improvements of 7 percent and

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



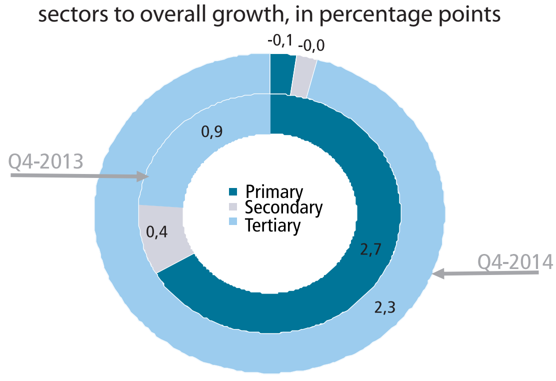
Sources: HCP, BAM calculations and forecasts.

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.

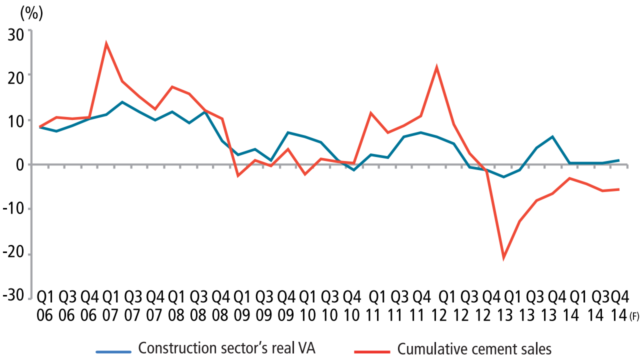
10.4 percent in the textile and agri-food sectors. Moreover, the capacity utilization rate in the industrial sector was almost stable at 64 percent between December 2014 and January 2015, as against an average rate of 69 percent over the full year 2014. With respect to short-term outlook, manufacturers expect an improvement in production and sales.

The value added of "electricity and water" would have increased by 1.9 percent in the fourth quarter 2014 and its growth should accelerate to 3.8 percent in the first quarter 2015. The deceleration in the fourth quarter was attributable to a decrease of 4.6 percent in local net production of the National Electricity and Water Office, after a slight increase of 0.5 percent in the third quarter, along with a slowdown in the growth of overall sales from 4.4 percent to 1.2 percent. In January 2015, electricity production and sales improved by 8.1 percent and 2.1 percent, respectively.

The construction sector would have ended the year 2014 with a growth rate close to 1 percent. Albeit under deceleration compared to the third quarter, cement sales continued to decline in the fourth quarter 2014 to 4.4 percent. In the first quarter 2015, the growth of the sector's value added should remain moderate at 1.2 percent. Despite an easing in their decline from one month to another, loans to property developers continued to drop in January 2015, by 3.8 percent, as against an increase of 3.1 percent a year earlier. In addition, cement sales improved by 2.4 percent at end-February 2015.

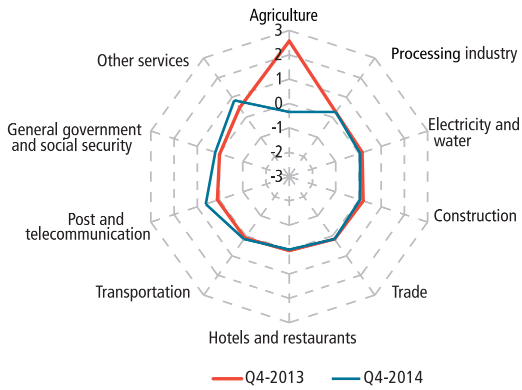
Regarding the tertiary sector, the value added of posts and telecommunications would have grown by 7 percent in the fourth quarter and its growth rate should decelerate to 5.5 percent in the first quarter 2015. Available data indicate respective increases 4 percent and 72.6 percent in the number of mobile phone subscribers and that of Internet subscribers in the fourth quarter 2014.

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



Sources: APC, HCP and BAM forecasts.

Chart 1.6: Sectoral contribution to overall growth



Sources: HCP, BAM forecasts and calculations.

The trade and transport value added, dependent on the performance of other sectors, would have maintained growth rates close to those observed in the third quarter of 2014.

The value added of "hotels and restaurants" would have fallen by 1.1 percent in the fourth quarter 2014, after a moderate increase of 0.5 percent a quarter earlier. Indeed, the occupancy rate dropped from 45 percent to 40 percent, quarter on quarter. Overnight stays and arrivals at border posts decreased by 4.4 percent and 4.6 percent, after respective increases of 1.3 percent and 2.4 percent a quarter earlier.

In the first quarter 2015, available data indicate a further sluggishness of the tourism sector. At the end of February 2015, travel receipts were down 8.2 percent after a slight decline of 0.5 percent in the previous year.

In total, national growth in 2014 would have slowed to 2.5 percent, due to a 2.1 percent decline in the agricultural value added. However, nonagricultural activities would have strengthened by nearly 3.2 percent.

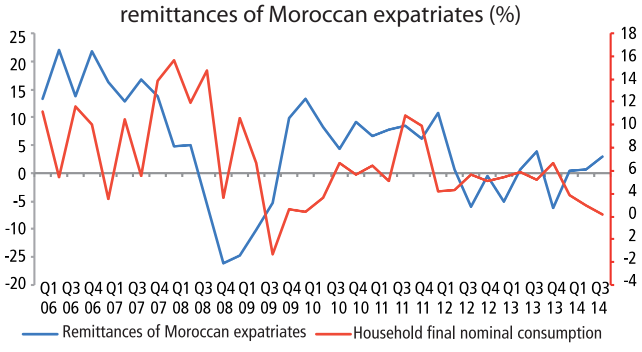
Taking account of a cereal production of 90 million quintals, well above the average (70 million quintals), growth forecasts in 2015 were revised upwards compared with those reported in the previous MPR. Indeed, GDP growth should accelerate to 5 percent, following a 10.7 percent improvement in the agricultural value added and an increase of 4 percent in the nonagricultural GDP. The degree to which nonagricultural activities are expected to consolidate remains, however, surrounded by uncertainties. The growth prospects in partner countries, strengthening of the dollar and change in world commodity prices constitute substantial risk sources for the forecasting exercise.

1.2 Consumption

The growth of domestic final consumption continued to slow down since early 2014. Indeed, household consumption rose by 2.1 percent in the third quarter, as against 3.2 percent a year earlier, and would have grown similarly in the fourth quarter. In 2015, it should regain momentum, benefiting in particular from the expected improvement in revenues and a moderate inflation rate.

The recent changes in available indicators corroborate the expected trend in the fourth quarter of 2014. Indeed, the unemployment rate rose by 0.2 point in one year from 9.5 percent to 9.7 percent. In the same vein, the household economic survey shows a further downward trend of the household confidence index, down 1.5 point from the third quarter of 2014 and 2.6 points from its level a year earlier.

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

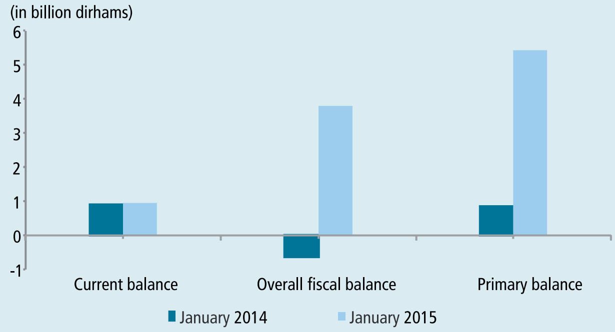


Sources: HCP, Foreign Exchange Office and BAM calculations.

Box 1.1: Budget execution of January 2015

Treasury operations in January 2015 resulted in a surplus of 3.8 billion as against a deficit of 650 million a year earlier. This improvement is mainly attributed to the positive balance of Treasury special accounts, which increased from 7.4 to 11.2 billion, mainly in connection with the collection of 1.6 billion as revenue from the full discharge contribution on assets and cash held abroad, recorded in the Social Cohesion Support Fund. Current revenues declined significantly, covering a weakening of tax receipts, mainly due to a drop in indirect taxes. Similarly, overall expenditure showed a reduction, following declines in subsidy costs, payroll and investment spending. The current balance was positive at 930 million, almost the same level as in January 2014.

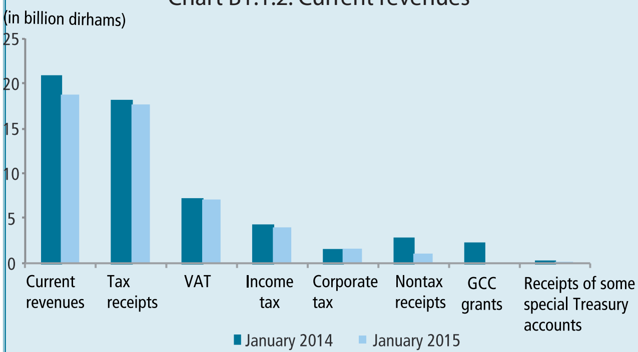
Chart B1.1.1: Budget balance



Source: Ministry of Economy and Finance

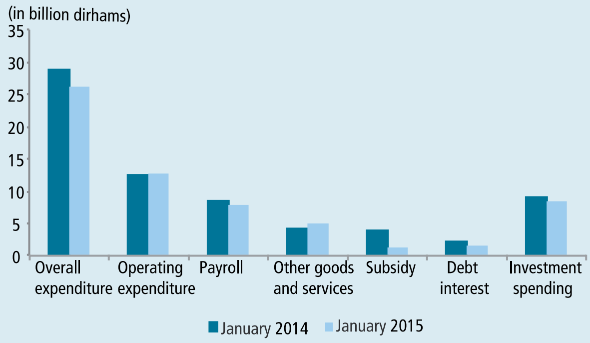
Current revenues, totaling 18.8 billion, fell by 9.6 percent compared to January 2014, due to respective decreases of 1.8 percent and 59.2 percent in tax revenue and nontax receipts to 17.6 billion and 1.1 billion. This decline is attributable to indirect taxes, income taxes and donations from the Gulf Cooperation Council. Indeed, indirect tax revenues declined by 5.3 percent to 8.8 billion dirhams, covering contrasting changes in VAT and DCT. The VAT revenue rose by 1.3 percent to 7.2 billion, covering a decrease of 9 percent to 3.3 billion in import VAT and an improvement of 12.3 percent to 3.8 billion in domestic one. DCT dropped by 26.8 percent, generating 1.6 billion, reflecting a decline of 40.6 percent in proceeds from energy DCT to 859 million. However, direct tax receipts were virtually unchanged at 5.7 billion, mainly covering a 12.3 percent increase in corporate tax revenues to 1.6 billion and a 4.6 percent decline in income tax receipts to nearly 4 billion. This drop is particularly attributable to decreases of 33.7 percent in income tax on real estate profits and 16.9 percent in income tax on civil servants' salaries paid by the General Treasury of Morocco. Customs duties generated 631 million, up 3.2 percent, while registration and stamp fees strengthened by 6.5 percent to 2.6 billion.

Chart B1.1.2: Current revenues



Source: Ministry of Economy and Finance

Chart B1.1.3: Overall expenditure



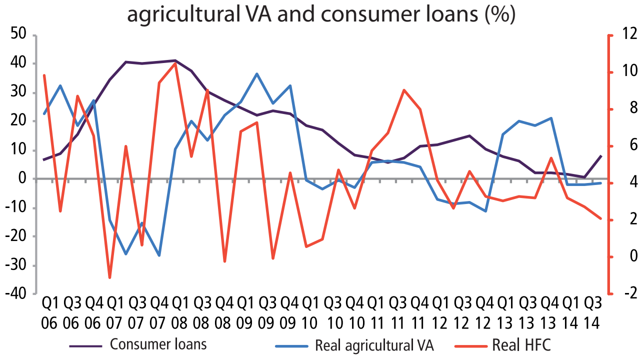
Overall expenditure, amounting to 26.2 billion dirhams, were down 9 percent, reflecting drops of 6.7 percent in investment spending to 8.3 billion and 10.1 percent in current expenditure to 17.9 billion, while subsidy costs fell by 64.6 percent to 1.4 billion. Moreover, operating expenses heightened by 2.3 percent to 12.7 billion, due to spending on other goods and services, which increased by 21.9 percent to 4.9 billion, while staff costs declined by 7.2 percent to 7.8 billion. Debt interest charges rose by 9.3 percent to 1.7 billion, covering a 12.2 percent increase to 1.5 billion in interests on domestic debt and a 13.4 percent decrease to 149 million in interests on external debt.

Given the payments of arrears, amounting to 650 million, bringing the stock at end-January 2015 to 12.8 billion, the Treasury had a surplus of 3.1 billion as against a borrowing requirement of 2 billion in January 2014. This surplus enabled the Treasury to reduce internal debt by 2.7 billion, as against 2.4 billion raised in January 2014. The external net flows were negative at 416 million.

In January 2015, bank credit data show an improvement of 10.3 percent in consumer loans, as against 0.7 percent a year earlier.

The growth of government consumption has stabilized at 2.9 percent since the fourth quarter of 2013. In the fourth quarter 2014, operating expenses were down 2.7 percent, as against a decline of 4.2 percent a year earlier. However, they moved up 2.3 percent in January 2015.

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



Sources: HCP, BAM and BAM calculations.

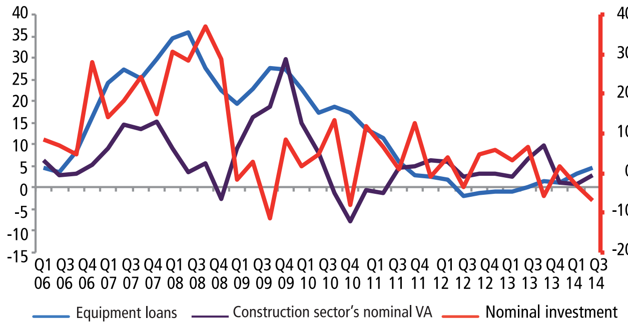
1.3 Investment

Investment rose 1.6 percent in the third quarter 2014, after falling 0.6 percent a quarter earlier, and would have kept a moderate growth in the fourth quarter. In the first quarter 2015, investment should resume its momentum, supported by the positive economic outlook. However, forecasts are surrounded by significant uncertainties, particularly due to the orientation of the overall public investment, the degree of consolidation of the construction sector and by the inventory revaluation.

Indeed, available data indicate divergent trends. Imports of capital goods virtually stagnated at end-February 2015, as against a decline of 1.4 percent a year earlier, while foreign direct investment inflows were down 13.9 percent, after falling 56.2 percent. Meanwhile, equipment loans grew by 3.9 percent, as against 0.9 percent over the same period of 2014.

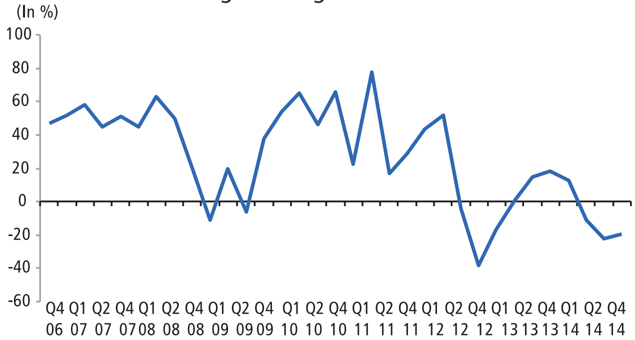
Investment in the construction sector still does not show tangible signs of recovery. Indeed, despite some easing from one month to another, loans to property developers continued to decline in January 2015, with a rate of 3.8 percent as against a 3.1 percent increase over the same period a year earlier. However, cement sales improved by 2.4 percent at end-February 2015, as against a decline of 9.1 percent over the same period of 2014.

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



Sources: HCP, BAM and BAM calculations.

Chart 1.10: Change in the general business climate*



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

Source: BAM monthly business survey.

Investment in the industrial sector should improve in line with the findings of the monthly business survey for January 2015 showing upward projections for production and sales. Treasury investment spending registered a decline of 6.7 percent, as against an increase of 9.6 percent a year earlier.

1.4 External accounts

In late February 2015, the trade deficit recorded a significant reduction of 37.2 percent compared to the same period in 2014. This trend was due to the combined effect of a 15.2 percent decline in imports to 53.6 billion dirhams and an 8.2 percent increase in exports to 33 billion dirhams. Under these conditions, the import coverage rate improved by 13.4 percentage points to 61.7 percent.

The decline in imports was due in large part to decreases of 45.2 percent in the energy bill, and to a lesser extent, 26.5 percent in food purchases, particularly wheat. Similarly, imports of consumer goods fell by 9.7 percent to 9.9 billion dirhams, particularly due to the downturn of 21.3 percent in passenger car imports to 1.4 billion dirhams. Capital equipment purchases almost stagnated at 13.1 billion dirhams, compared to February 2014. However, excluding the purchase of new aircrafts, they showed a decline of 8.3 percent. In contrast, purchases of semi-finished goods moved up 2.7 percent to 13.2 billion dirhams, in conjunction with a 14.4 percent increase in paper and cardboard purchases. Purchases of raw materials rose 3.6 percent to 2.9 billion, particularly with an increase of 29.7 percent in crude sulfur imports.

The improvement in exports was primarily attributed to the strong performance of

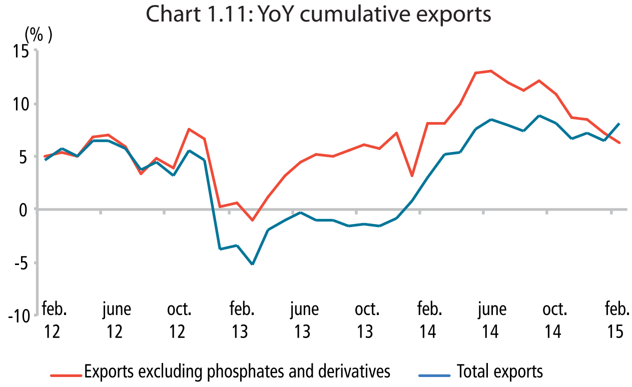
Table 1.2 : Change in the trade balance at end February 2015

(In millions of dirhams)	Feb. 2014	Feb 2015*	change Feb. 2014/2013		change Feb. 2015/2014	
			Amount	%	Amount	%
Exports	30 539	33 047	1 928	6.7	2 508	8.2
Phosphates and derivatives' exports	4 362	5 252	-1 010	-18.8	890	20.4
Exports excluding phosphates and derivatives*	26 177	27 795	2 938	12.6	1 618	6.2
Automotive	6 867	7 558	2 460	55.8	691	10.1
Electronics	1 138	1 097	96	9.2	-41	-3.6
Aeronautics	1 261	1 230	13	1.0	-31	-2.5
Textile and leather	5 429	5 809	-9	-0.2	380	7.0
Agriculture and food industry	6 369	7 032	62	1.0	663	10.4
Imports	63 181	53 561	4 402	7.5	-9 620	-15.2
Food products	8 303	6 104	3 139	60.8	-2 199	-26.5
Consumer goods	10 937	9 878	1 075	10.9	-1 059	-9.7
Unprocessed goods	2 857	2 960	2	0.1	103	3.6
Semi-finished goods	12 901	13 246	308	2.4	345	2.7
Capital goods	13 134	13 141	-187	-1.4	7	0.1
Energy imports	15 026	8 227	46	0.3	-6 799	-45.2
Imports excluding energy	48 155	45 334	4 356	9.9	-2 821	-5.9
Trade deficit	32 642	20 514	2 474	8.2	-12 128	-37.2

** Provisional data*

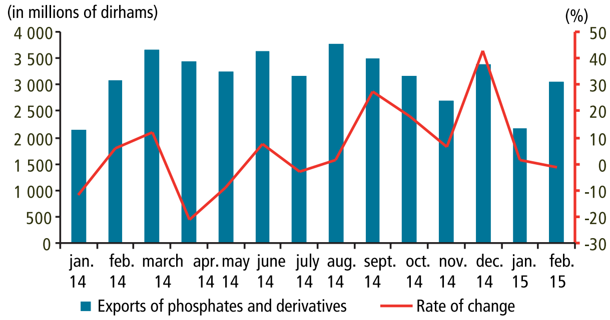
Source: Foreign Exchange Office.

Chart 1.11: YoY cumulative exports



Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

shipments of phosphates and derivatives, which registered an increase of 20.4 percent, and that of the automotive sector, whose sales increased by 23.9 percent. Similarly, exports of agricultural and agri-food sectors rose by 10.4 percent to 7 billion dirhams, due to a 21.2 percent increase in food sales and a 4.8 percent decline in exports of agricultural commodities. Shipments of the textile and leather sector also rose by 5.8 billion, up 7 percent, following improvements of 9.5 percent in shipments of ready-made garments and 4.7 percent in hosiery sales. In contrast, shipments of electronics and aeronautics industries were down 3.6 percent and 2.5 percent, respectively.

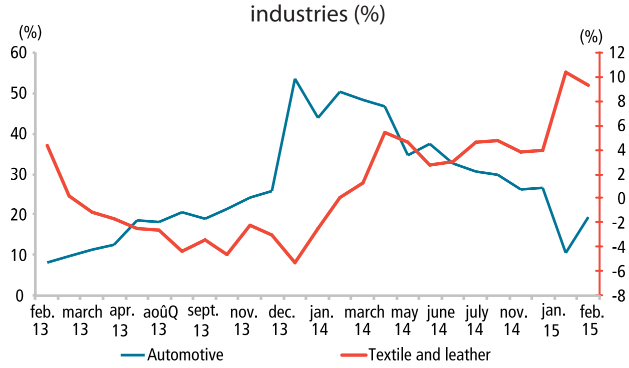
Concerning other current account sections, travel receipts fell 8.2 percent, after almost stagnating in 2014, while transfers from Moroccan expatriates were up 6.9 percent, after rising 2.3 percent at end 2014.

Taking account of these developments, the current account deficit at end 2015 should ease to around 4 percent of GDP, as against 4.8 percent projected in December 2014. This update is mainly due to the downward revision of oil price forecasts.

In the capital account, net flows of FDI stood at 3.4 billion, as against 4 billion in February 2014, following a decline of 712 million dirhams in FDI inflows, an amount greater than 97 million under FDI outflows.

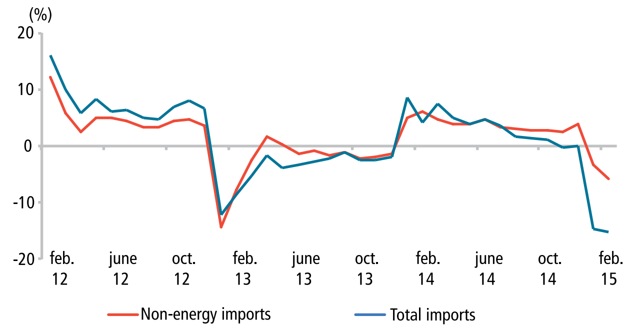
Given other elements of the capital account, the outstanding net international reserves improved by 20.6 percent, year on year, to 182.4 billion dirhams. Due to the easing of the current account deficit, they should improve further in 2015, equaling over 6 months of goods and services' imports.

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



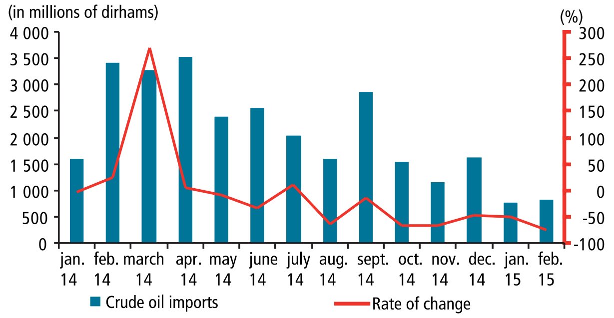
Source: Foreign Exchange Office.

Chart 1.14: YoY cumulative imports



Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

According to estimates by Bank Al-Maghrib, nonagricultural activities in the first quarter 2015 would continue to evolve overall below their potential. Between December 2014 and January 2015, the capacity utilization rate (CUR) in the industrial sector declined by one point to 64 percent. On the labor market, the unemployment rate was up 0.2 point to 9.7 percent with a limited creation of 42,000 jobs as against 100,000 over the same period of the previous year. With regard to labor costs, the latest data for the third quarter indicate that the private sector's average wage index show a year-on-year increase of 6.8 percent in nominal terms and 6.6 percent in real terms.

Overall, the persistence of spare capacity in the economy and the continued deterioration of labor market conditions suggest the absence of significant price pressures in the coming quarters.

2.1 Pressures on output capacity

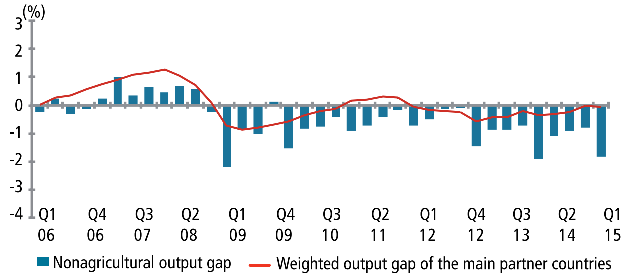
The latest estimates by Bank Al-Maghrib show that the nonagricultural output gap should be negative in the first quarter of 2015 (Chart 2.1), thus indicating a further moderation in inflationary pressures.

Furthermore, data from BAM's monthly survey in the industry indicate that the CUR fell from 65 percent in December 2014 to 64 percent in January 2015, hence below its historical average (Chart 2.2). This decline reflects a drop in chemical and related industries as well as electrical and electronic ones, while this rate improved in the mechanical and metallurgical industries and stagnated in other branches.

The unit production cost would have stagnated in the fourth quarter of 2014, according to 59 percent of manufacturers (Chart 2.3). By component, this trend would concern the level of wages and non-energy commodity prices.

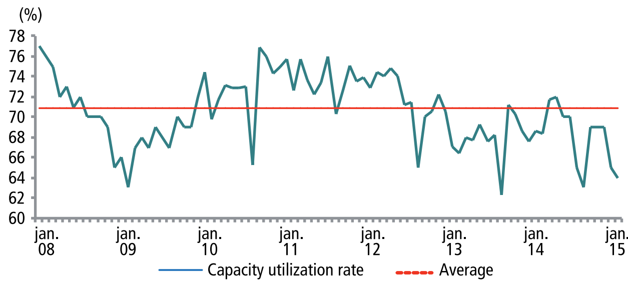
Apparent labor productivity in nonagricultural activities recorded a year-on-year increase of 3.3 percent in the fourth quarter 2014, as opposed to 2 percent a year earlier. This

Chart 2.1: Nonagricultural output gap and output gap of main partner countries



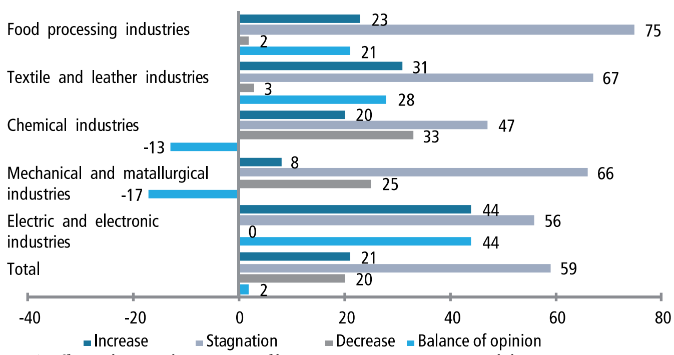
Sources: HCP, Eurostat and BAM estimates.

Chart 2.2: Industrial capacity utilization rate



Source: BAM monthly business survey.

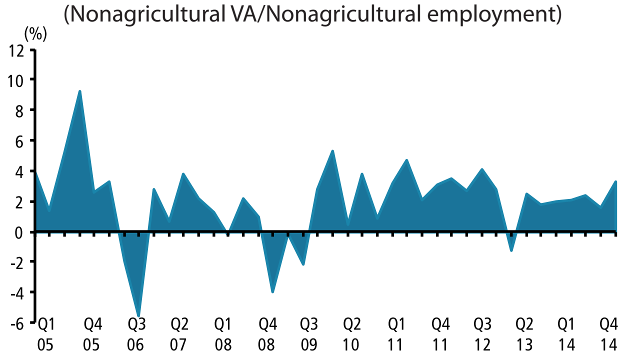
Chart 2.3: Change in sectoral production unit cost



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

change is attributed to a faster growth of the nonagricultural value added from 2.0 percent to 3.4 percent and stagnation of nonagricultural employment (Chart 2.4).

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



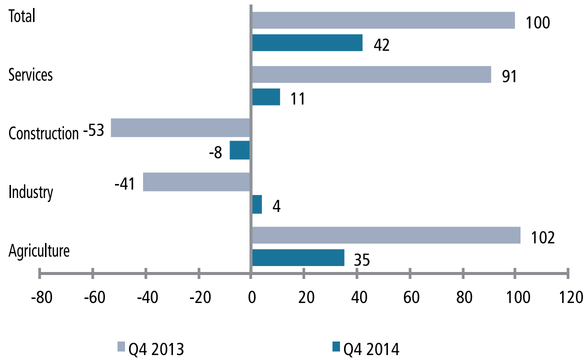
Sources : HCP, and BAM estimates.

2.2 Pressures on the labor market

During the fourth quarter, the labor force aged 15 and over increased by 0.6 percent to 11.8 million, up 0.8 percent in urban areas and 0.4 percent in rural ones. Taking into account demographic changes, the national participation rate fell by 0.4 percentage point to 47.8 percent.

Meanwhile, 42,000 jobs were created, as against 100,000 a year earlier, including 20,000 jobs in urban areas and 22,000 jobs in rural ones (Chart 2.5). At the sectoral level, the primary sector remains the main job-providing sector with 35,000 positions, followed by services, with 11,000 jobs and industry, including handicrafts, with 4,000 positions. In contrast, the construction sector showed a loss of 8,000 jobs.

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



Source: HCP.

Under these conditions, employed labor force increased slightly by 0.4 percent to 10.67 million people, as against 1 percent a year ago. The employment rate moved down from 43.6 percent to 43.1 percent, with declines of 0.5 point to 35.5 percent in urban areas and 0.2 point to 55.1 percent in rural ones (Table 2.1).

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

In thousands / in %	Q4- 2013			Q4- 2014		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (1)	6,222	5,519	11,741	6,273	5,543	11,816
Labor force participation rate (%) (2)	42.1	57.6	48.2	41.6	57.4	47.8
Employed labor force	5,325	5,300	10,625	5,345	5,322	10,667
Employment rate (%) (3)	36.0	55.3	43.6	35.5	55.1	43.1
Unemployment						
Unemployed labor force	897	219	1,116	928	221	1,149
Unemployment rate (in %) (4)	14.4	4.0	9.5	14.8	4.0	9.7
By age						
.15 - 24 years	34.6	9.8	19.6	36.7	9.9	19.7
.25 - 34 years	19.8	3.9	13.0	21.1	3.6	13.6
.35 - 44 years	8.6	1.7	5.8	8.9	2.2	6.3
By degree						
. Non-graduates	8.3	2.5	4.6	8.1	2.5	4.5
. Graduates	18.6	9.8	16.5	19.2	9.6	17.0

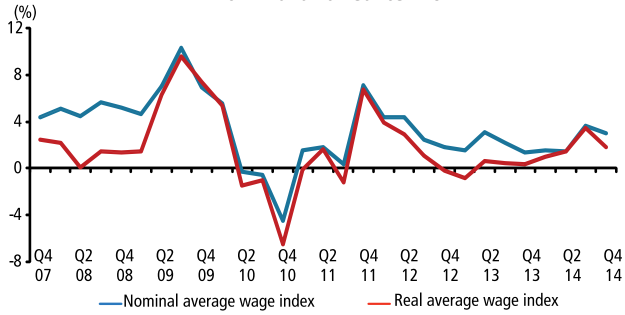
(1) Population aged 15 years and above.
(2) Labor force aged 15 years and above /total population aged 15 years and above.
(3) Employed labor force aged 15 years and above /total population aged 15 years and above.
(4) Unemployed labor force aged 15 years and above /labor force aged 15 years and above.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

Overall, the unemployment rate worsened from 9.5 percent to 9.7 percent, reflecting an increase of 0.4 point to 14.8 percent in urban areas and stagnation at 4 percent in rural ones. This deterioration was more pronounced among urban youth aged 25-34 years, as the rate rose from 34.6 percent to 36.7 percent (Table 2.1).

Regarding labor costs, the private sector's wage average index recorded a year-on-year increase of 3.1 percent in nominal terms and 1.9 percent in real terms (Chart 2.6).

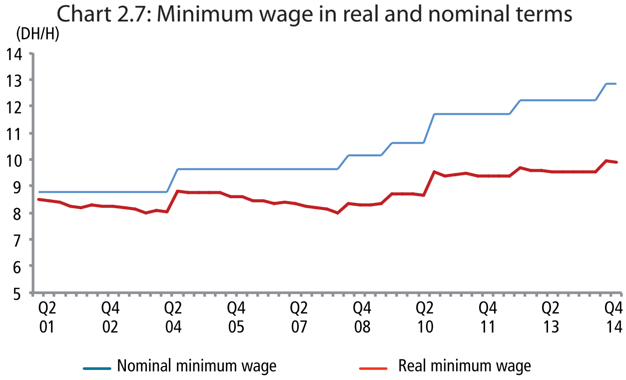
The hourly minimum wage was up, year on year, by 3.8 percent in real terms in the last quarter of 2014 (Chart 2.7).

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

In the fourth quarter of 2014, global economic activity was marked by divergent trends across countries. In the United States, growth dropped slightly from one quarter to the next, but continues to be strong. It moved up a little in the United Kingdom, while in Japan, GDP contraction eased. In the euro area, a slight improvement was recorded, covering contrasting trends across countries. In the major emerging economies, growth stabilized in China, while it slowed down in India. In the job market, unemployment rate fell 0.2 point to 5.5 percent in the United States in February, while in the euro area, the available data, those of January, indicate a decline to 11.2 percent from 11.3 percent a month earlier. Financial markets were characterized by an increase in major stock indexes and broadly lower sovereign yields in almost all the countries of the euro area. In commodity markets, prices recorded an overall drop, year on year, but a significant monthly increase of oil prices. Under these conditions, the inflation rate was negative in the United States in January, while its decline eased in the euro area in February. Overall, these developments indicate the absence of external inflationary pressures.

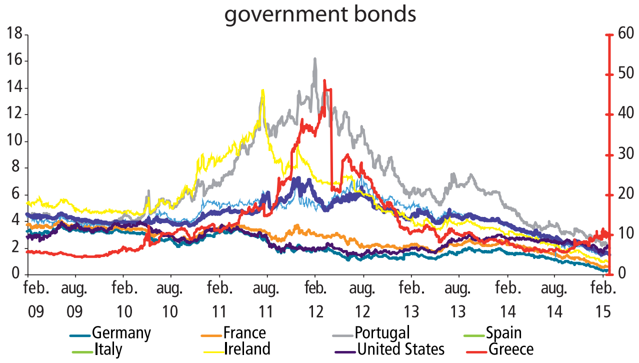
3.1 Global financial conditions and economic activity

3.1.1 Financial conditions

In stock markets, major indexes of advanced economies rose, with an easing in their volatility. Indeed, from January to February, the EUROSTOXX50, Dow Jones Industrials and NIKKEI225 showed respective increases of 7.1 percent, 2 percent and 3.6 percent. Similarly, the DAX30, CAC40 and FTSE100 rose by 7.8 percent, 8.3 percent and 3.8 percent, respectively. In terms of volatility, VSTOXX fell from 26.4 basis points to 23.4 points and VIX dropped from 19.2 points 16.2 points. In emerging economies, the MSCI EM was up 1.6 percent, covering respective increases of 3.4 percent and 0.8 percent in MSCI India and China as well as a contraction of 8.4 percent in MSCI Turkey.

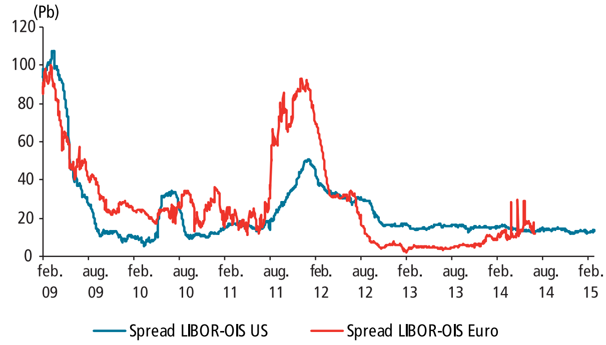
Bond markets of developed countries were marked by divergent trends across countries. Between January and February, 10-year yields fell from 2.5 percent to 2.3 percent in Portugal and from 1.7 percent to 1.6 percent in Italy, while it stagnated at 1.5 percent in Spain. Greek yields increased from 9.7 percent to 10 percent, despite the four-month extension of the country's funding program. In the core countries of the euro area, these yields fell from 0.4 percent to 0.3 percent in Germany and from 0.7 percent to 0.6 percent in France.

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



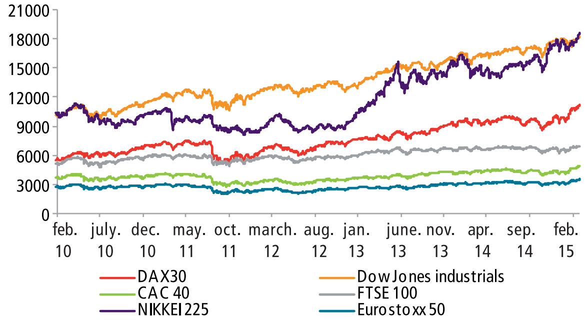
Source: Datastream .

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



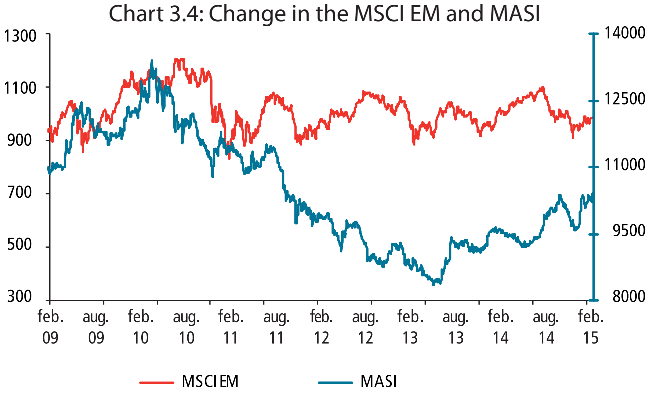
Source: Datastream.

Yields on U.S. Treasury bills rose from 1.9 percent in January to 2 percent in February. In major emerging economies, 10-year yields recorded contrasting trends between January and February. They rose from 12.3 percent to 12.7 percent in Brazil and from 7.2 percent to 7.6 percent in Turkey, while they were down from 3.6 percent to 3.4 percent in China and from 7.8 percent to 7.7 percent in India.

In money markets, the 3-month Euribor fell to 0.05 percent in February from 0.06 percent a month earlier, while the 3-month Libor stood at 0.26 percent from 0.25 percent. The dollar Libor-OIS spreads almost stagnated at 13 basis points. Bank credit growth fell slightly from 8.3 percent in January to 8 percent in February in the United States and its contraction in the euro area eased to 0.1 percent in January from 0.5 percent a month earlier.

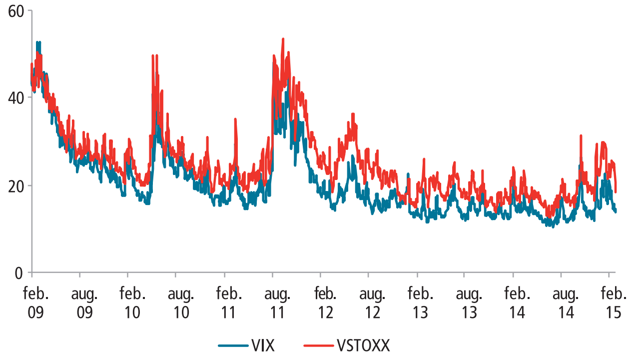
In foreign exchange markets, the euro depreciated by 2.2 percent against the dollar, trading at 1.14 dollar, by 3.2 percent vis-à-vis the pound sterling and 2 percent versus the Japanese yen. The Swiss franc appreciated by 3.5 percent against the euro, following the decision taken by the Swiss National Bank on January 15, to abandon its currency peg against the euro. Regarding the trends of currencies of major emerging countries against the dollar, the Brazilian real, Turkish lira and Chinese yuan depreciated by 6.6 percent, 5.3 percent, 0.5 percent, respectively, while the Indian rupee appreciated by 0.2 percent. Regarding monetary policy decisions, the ECB decided, at its meeting of March 5, to maintain its key rate unchanged at 0.05 percent, while announcing the beginning of its bond-buying program as of March 9. This program consists in adding the purchase of sovereign bonds to its existing private sector asset purchase programs, for a total of €60 billion a month, at least until September 2016. The Fed kept its key rate within a range of 0 to 0.25 percent,

Chart 3.4: Change in the MSCI EM and MASI



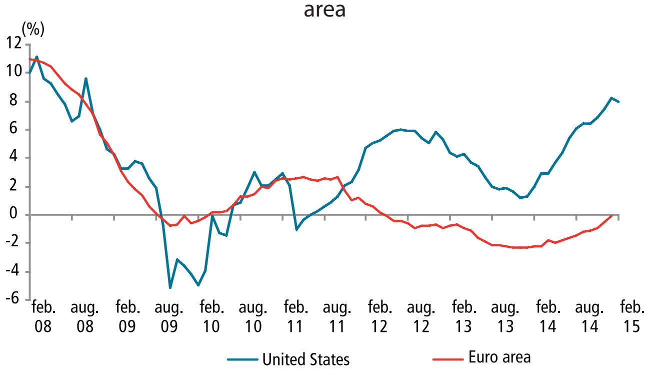
Source: Datastream.

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.

while noting that it would be unlikely to increase it at the April meeting. It also notes that "it will be appropriate to raise the target range when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term". The Bank of England maintained its key rate at 0.5 percent. In emerging countries, China's central bank decided, on February 28, to reduce its key rate by 25 basis points to 5.35 percent. Similarly, the Central Bank of Russia lowered, on March 13, its rate from 15 to 14 percent, considering that the current monetary policy sets the stage for a decline in inflation over the medium term. However, the Central Bank of Brazil raised, on March 4, its rate to 12.75 percent, continuing its monetary tightening to fight against rising inflation.

3.1.2 Global economic activity

The most recent economic data indicate contrasting trends across countries, covering a further strong economic activity in the United States and the United Kingdom, a slower recovery in the euro area and a weaker growth in key emerging countries.

Indeed, growth remains strong in the United States, although it slowed from 2.7 percent to 2.4 percent in the fourth quarter, due to a decline in exports and non-residential investment. In the United Kingdom, growth was up from 2.5 percent to 2.7 percent, driven by the agricultural and service sectors. Similarly, economic activity improved slightly in Japan, with an easing of GDP contraction from 1.4 percent to 0.7 percent.

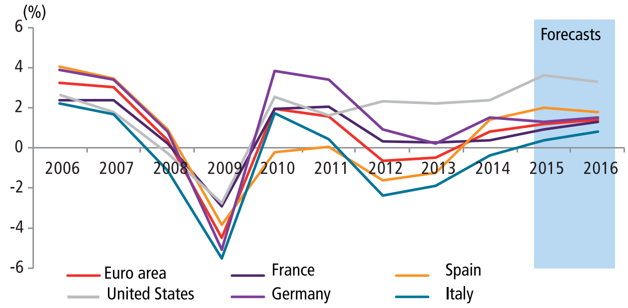
In the euro area, growth moved up from 0.8 percent to 0.9 percent, particularly reflecting improvements from 1.2 percent to 1.5 percent in Germany and from 1.6 percent to 2 percent in Spain. Moreover, GDP contraction stabilized at 0.5 percent in Italy, while in France growth decelerated from 0.4 percent to 0.2 percent.

Table 3.1: YoY change in quarterly growth

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	T4
United States	1.7	1.8	2.3	3.1	1.9	2.6	2.7	2.4
Euro area	-1.2	-0.6	-0.3	0.4	1.1	0.8	0.8	0.9
France	-0.3	0.7	0.3	0.8	0.8	0.0	0.4	0.2
Germany	-0.6	0.1	0.3	1.1	2.3	1.4	1.2	1.5
Italy	-2.6	-2.0	-1.4	-0.8	-0.1	-0.3	-0.5	-0.5
Spain	-1.9	-1.6	-1.1	-0.2	0.7	1.3	1.6	2.0
United Kingdom	0.9	1.7	1.6	2.4	2.5	2.6	2.5	2.7
Japan	0.3	1.5	2.4	2.3	2.1	-0.4	-1.4	-0.7
China	7.8	7.5	7.9	7.6	7.4	7.5	7.3	7.3
India	4.1	7.2	7.5	6.6	5.3	7.0	7.8	7.5
Brazil	1.9	3.5	2.4	2.2	1.9	-0.9	-0.2	-
Russia	0.8	1.0	1.3	2.0	0.9	0.8	0.7	-

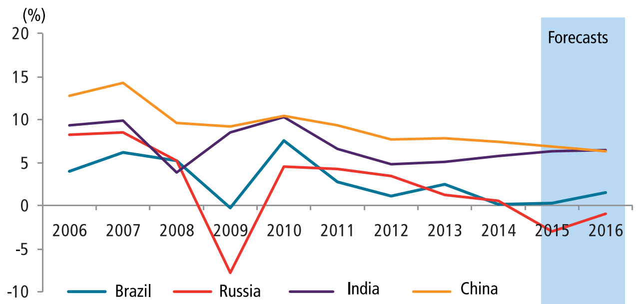
Source : Datastream.

Chart 3.7: GDP growth in advanced countries



Source: IMF(January 2015 forecasts).

Chart 3.8: GDP growth in emerging countries



Source: IMF(January 2015 forecasts).

In the major emerging economies, growth stabilized at 7.3 percent in China and fell from 7.8 percent to 7.5 percent in India, while data of the third quarter indicate an easing of GDP decline from 0.9 percent to 0.2 percent in Brazil, and a slower growth from 0.8 percent to 0.7 percent in Russia.

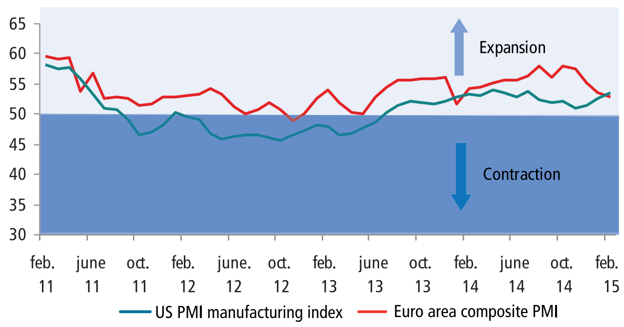
High-frequency indicators point to the continued improvement of private sector activities in the euro area. The composite PMI rose for the third consecutive month, to 53.3 points in February, whereas the ISM manufacturing index in the United States continued the slowdown that began in November 2014, standing at 52.9 points.

Against this backdrop, the IMF, in its WEO update of January, revised downwards the global growth forecasts to 3.5 percent in 2015 and 3.7 percent in 2016, mainly due to the economic slowdown in emerging and developing countries and in some major oil-exporting countries. In advanced economies, growth should stand at 2.4 percent in 2015 and 2016, reflecting in particular, an increase in GDP in the United States of 3.6 percent in 2015 and 3.3 percent in 2016. Moreover, it should stand at 1.2 percent and then 1.4 percent in the euro area, and 0.6 percent and 0.8 percent in Japan in 2015 and 2016, respectively. In emerging and developing economies, growth should stabilize at 4.3 percent in 2015, before increasing to 4.7 percent in 2016, thus reflecting a slower growth of 6.8 percent and 6.3 percent in China and a contraction in GDP of 3 percent and 1 percent in Russia in 2015 and 2016, respectively. Furthermore, GDP growth should reach 6.3 and 6.5 percent in India and 0.3 percent and 1.5 percent in Brazil, for the two years, respectively.

3.1.3 Labor market

In February 2015, the unemployment rate in the United States was down to 5.5 percent from 5.7 percent a month earlier. In the euro area, it declined for the second consecutive month to 11.2 percent in January from 11.3 percent in December, its lowest level since April 2012. In partner countries, the unemployment rate fell

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	3.6	4.0	3.5	3.7	3.7	3.9
United States	3.5	3.2	3.6	3.3	3.1	3.0
Euro area	1.3	1.9	1.2	1.4	1.1	1.7
Germany	1.5	2.0	1.3	1.5	1.1	1.8
France	1.0	1.8	0.9	1.3	0.8	1.5
Italy	0.6	1.3	0.4	0.8	0.2	1.0
Spain	2.3	2.5	2.0	1.8	1.7	1.9
United Kingdom	2.6	2.4	2.7	2.4	2.7	2.5
Japan	1.3	1.3	0.6	0.8	0.8	1.0
China	7.1	6.9	6.8	6.3	7.1	6.9
India	6.6	7.1	6.3	6.5	6.4	6.6
Brazil	0.7	1.8	0.3	1.5	1.5	2.0
Russia	-3.5	0.2	-3.0	-1.0	0.0	1.6

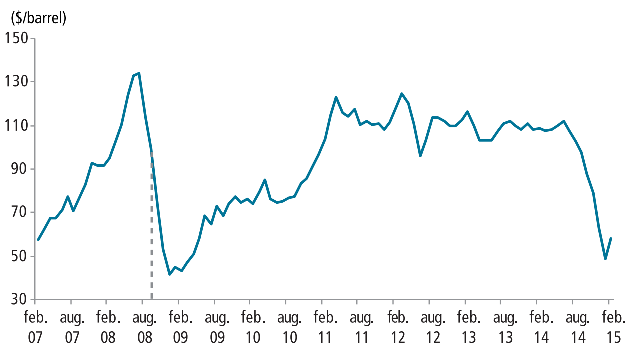
Sources : European Commission (February 2015) and IMF (January 2015) and OECD (November 2014).

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

	2013	2014	December 2014	January 2015	February 2015
United States	7.4	6.2	5.6	5.7	5.5
Euro area*	N.D	N.D	11.3	11.2	N.D
France	10.3	10.2	10.3	10.2	N.D
Italy	12.2	N.D	12.7	12.6	N.D
Germany	5.2	5.0	4.8	4.7	N.D
Spain	26.1	24.5	23.6	23.4	N.D
United Kingdom	7.6	N.D	N.D	N.D	N.D

** Euro area (19 countries)*
Source : Eurostat.

Chart 3.10: World price of brent oil in dollar

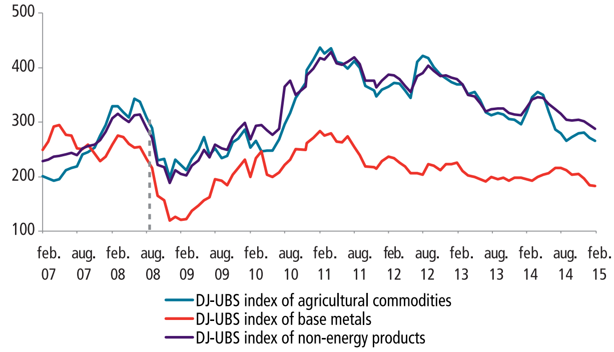


Source: Datastream.

in December and January from 10.3 percent to 10.2 percent in France, from 4.8 percent to 4.7 percent in Germany, from 12.7 percent to 12.6 percent in Italy and from 23.6 percent to 23.4 percent in Spain. In the United Kingdom, November 2014 data indicate a decline in the unemployment rate to 5.6 percent from 5.8 percent in October.

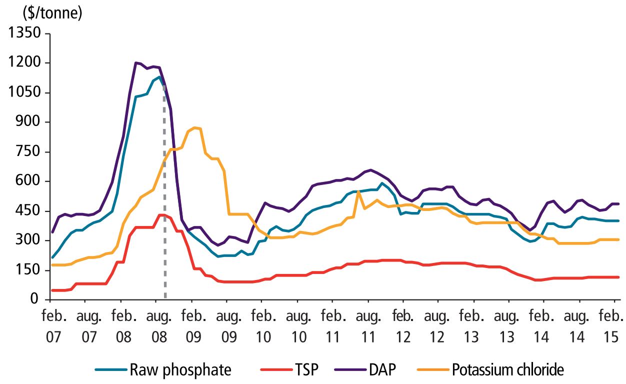
Regarding short-term labor market forecasts, the European Commission, in its February 2015 projections, broadly revised downward unemployment rates in most developed countries in 2014 and 2015 compared to last fall projections. Indeed, it expects an unemployment rate of 6.2 and 5.4 percent respectively in 2014 and 2015 in the United States, and 11.6 and 11.2 percent in the euro area over the same period.

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



Source: Datastream.

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



Source: World Bank.

3.2 Commodity prices and inflation

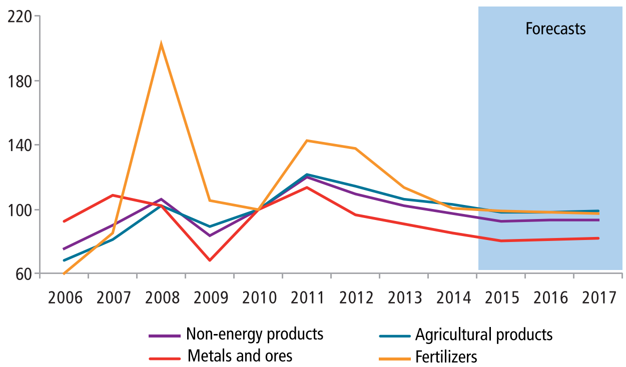
During the last three months, commodity prices were overall tilted to the downside, year on year. The inflation rate was negative in the United States in January, while its decline eased in the euro area in February.

3.2.1 Energy commodity prices

In February, the Brent price recorded a monthly increase of 18.4 percent, averaging $57.9 per barrel, from $48.9 a month earlier. This increase, the first one after seven consecutive monthly declines, is attributed to the slowdown announced in the US energy production. Year on year, the Brent price fell by 46.8 percent from $108.8 to $57.9 per barrel.

Regarding the oil price outlook[1], the World Bank revised down its estimates by 44.4 percent in 2015 and 41.1 percent in 2016, equaling $53.2 a barrel in 2015 and $56.9 in 2016, respectively. Similarly, the IMF forecasted, in its WEO update of January, a price of $56.7 per barrel in 2015, as against $99.36 expected in the October 2014 update. Regarding the Brent price, the

Chart 3.13: Outlook for commodity price indexes



Source: World Bank.

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

European Commission revised downwards its forecasts to $53 per barrel in its winter projection, as against $91 previously projected in 2015.

3.2.2 Non energy commodity prices

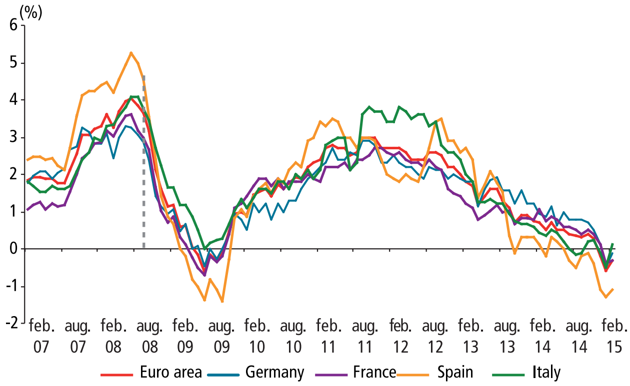
Non-energy prices showed a year-on-year decline in February. Indeed, the relevant Dow Jones-UBS fell by 11.6 percent, reflecting a 16.2 percent decrease in the agricultural commodity price index and a 6.4 percent decline in base metal prices.

In the world market of phosphate and derivatives, the price of crude phosphate stood at $115 per tonne in February, unchanged for the fifth month running. Similarly, TSP prices remained stable from one month to another after three months of consecutive declines, while DAP prices were up 0.2 percent, month on month. However, the urea price fell by 7 percent in February and Potassium Chloride prices continued their slight decline by 0.1 percent that began a month ago. Year on year, prices were down 1.1 percent for DAP, 1.5 percent for Potassium Chloride and 13.7 percent for urea, while they were up 3.2 percent for TSP and 11.7 percent for crude phosphate.

3.2.3 Inflation in the world

In Japan, inflation stabilized in January at 2.4 percent for the third consecutive month, while in the United States, consumer prices were down 0.1 percent, as against an increase of 0.7 percent a month earlier. Furthermore, according to Eurostat estimates for February, the price decline eased in the euro area from 0.6 percent to 0.3 percent. Indeed, inflation rates rose from -0.5 percent to 0.1 percent in Italy, from -0.4 percent to -0.3 percent in France, from -0.5 percent to -0.1 percent in Germany and from -1.3 percent to -1.1 percent in Spain. In the United Kingdom, available data remain those of January

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat.

Table 3.4 : World inflation outlook, YoY

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

Sources : IMF (October 2014), OECD (November 2014) and the European Commission (February 2015) and show a decline in inflation from 0.5 percent to 0.3 percent.

In key emerging and developing countries, inflation increased in January from 11.4 percent to 14.9 percent in Russia. In China and Brazil, recent data of February show acceleration from 0.8 percent to 1.4 percent and from 7.1 percent to 7.7 percent, respectively.

In its WEO update of January, the IMF expects inflation to stand at 1 percent in 2015 and 1.5 percent in 2016 in advanced economies, while in emerging and developing countries it forecasts inflation to reach 5.7 percent in 2015 before declining to 5.4 percent in 2016. The European Commission, in its winter update, predicts a price decline of 0.1 percent in 2015 in both the euro area and the United States, while inflation would stand at 1.3 percent and 2 percent in 2016, respectively.

Table 3.5: IPI change

	Quarterly change in %			Annual change in %		
	Q3 2014	Q4 2014	Jan. 15	Q3 2014	Q4 2014	Jan. 15
Energy IPI	-1.8	-12.0	-21.6	-3.2	-13.2	-32.4
Crude oil AUP*	-2.0	-14.4	-25.9	-3.4	-14.1	-35.8
Gasoline and fuel AUP	1.2	-10.0	-19.6	-3.1	-12.5	-30.5
Petroleum gas AUP	-0.1	-4.0	-11.0	-2.2	-14.5	-30.3
Non-energy IPI	-2.5	-1.5	-1.4	-1.7	0.5	-3.9
Food IPI	-7.6	-8.3	14.0	-13.2	-12.9	2.2
Wheat AUP	-10.0	-15.5	26.4	-17.0	-23.3	3.0
Corn AUP	-11.0	-3.7	6.0	-15.4	-4.0	-1.0
Mining IPI	1.3	-0.9	-3.5	14.8	32.5	20.7
Sulfur AUP	2.0	2.6	-3.8	23.0	66.3	47.5
Iron and steal AUP	0.3	-5.6	-3.0	6.0	3.4	-3.5
Semi-finished products IPI	-1.9	-1.3	-2.6	13.4	7.5	-3.2
Chemical and natural fertilizers AUP	-9.8	12.9	-6.5	-6.4	6.3	-14.3
Iron and steel rolled products AUP	0.3	-5.6	-3.0	28.9	13.4	-0.4

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

*Average Unit Price**

Source : OC and BAM calculations.

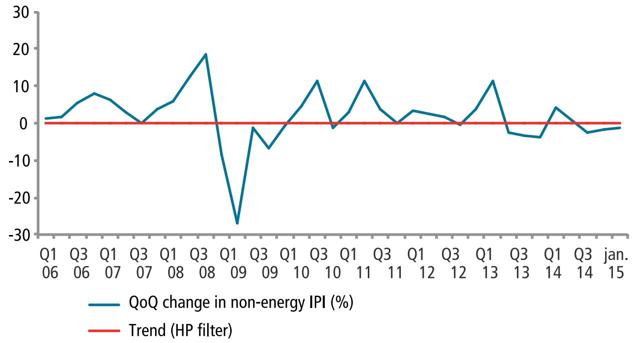
3.3 Morocco's import price index

Quarter on quarter, the non-energy import price index (IPI) fell 1.4 percent in January 2015, after a decline of 1.5 percent in the fourth quarter of 2014. This trend reflects further declines in the mining index from 0.9 percent to 3.5 percent and in the index of semi-finished goods from 1.3 percent to 2.6 percent, while food prices rose 14 percent, after successive declines of 8.3 percent and 7.6 percent in the last two quarters.

The change in the mining IPI is attributed to a 3.8 percent decline in the sulfur unit price, after its 2.6 percent rise, and a decrease of 3 percent in the average price of iron and steel, after that of 5.6 percent.

With regard to semi-finished goods, the unit price of rolled products of iron and steel showed a decrease of 3 percent, as against 5.6 percent in the previous quarter, while prices of natural and chemical fertilizers were down 6.5 percent after rising 12.9 percent.

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



Sources: Foreign Exchange Office, and BAM calculations.

The changing trend of food prices observed in January 2015 reflects increases of 26.4 percent in the average import price of wheat and 6 percent in that of corn, after declines in the third and fourth quarters.

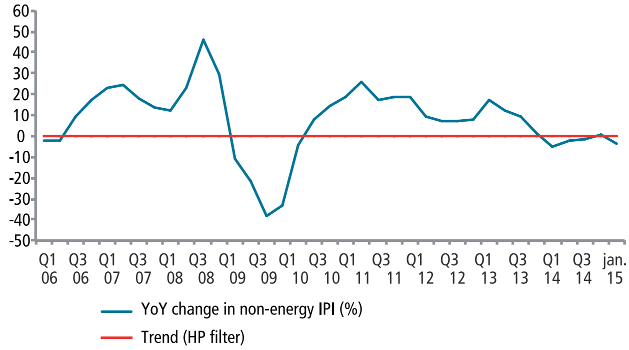
Regarding energy IPI, the 12 percent decline in the fourth quarter 2014 worsened to 21.6 percent in January 2015. This trend is due to the continued decrease of all its components, especially the unit price of crude oil, which decreased by 25.9 percent as against 14.4 percent, while the unit price of diesel and fuel dropped by 19.6 percent, as opposed to 10 percent.

Year on year, non-energy IPI recorded a decline of 3.9 percent in January 2015, after almost stagnating in the fourth quarter 2014, mainly in connection with the trend of import prices of semi-finished goods. The IPI of the latter fell 3.2 percent, after rising 7.5 percent, following a 14.3 percent drop in prices of natural and chemical fertilizers, after increasing 6.3 percent, and to a lesser extent, a decrease of 0.4 percent in prices of rolled products and steel, after recording an increase of 13.4 percent in the fourth quarter of 2014.

However, prices of other products were up in January 2015. The average unit price of sulfur rose by 47.5 percent and that of wheat increased by 3 percent, after a decline of 23.3 percent last quarter 2014.

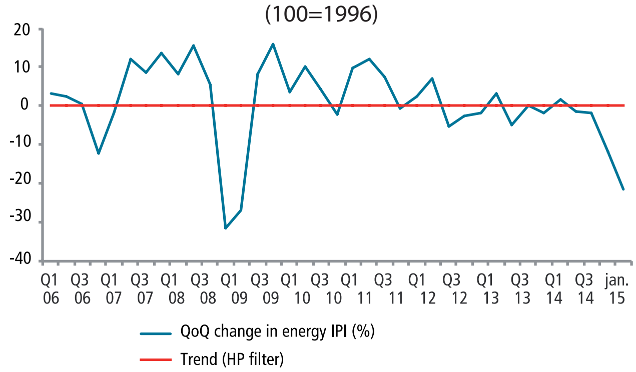
In terms of energy commodities, the downward trend continued in January 2015, with a decline of 32.4 percent in the IPI. This decrease affected all goods, with a particular decline of 35.8 percent in the average unit price of oil.

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



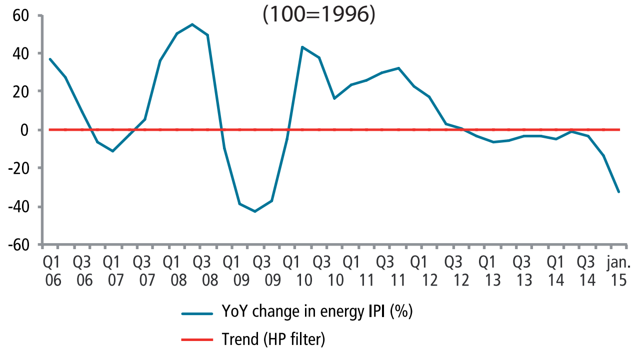
Sources: Foreign Exchange Office, and BAM calculations.

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

Recent money market developments indicate a decrease of 21 basis points in the interbank rate compared to the fourth quarter 2014. It stood at 2.51 percent on average in January and February 2015, following the last decision taken by the Bank Board on December 16, 2014, to lower the key rate from 2.75 percent to 2.50 percent. In the fourth quarter 2014, lending rates remained stable at 6.03 percent compared to the third quarter, covering lower rates on equipment and consumer loans and higher rates on cash advances and real estate loans. Deposit rates averaged 3.81 percent in the fourth quarter 2014, virtually unchanged from the previous quarter.

Meanwhile, the M3 growth accelerated from 5.8 percent on average in the fourth quarter 2014 to 7.4 percent in January 2015, while the money gap remained negative. In the same vein, the annual bank lending growth rate moved up from 3.7 percent to 4.3 percent, reflecting an acceleration of all loan categories except for equipment loans, which decelerated from 5.4 percent to 3.9 percent. Concerning the outlook, the bank credit growth should be around 4.8 percent at the end of 2015. The dirham's effective exchange rate appreciated in the fourth quarter 2014 by 0.45 percent in nominal terms and 1.3 percent in real terms compared to the previous quarter.

In the assets market, real estate prices were down 1.4 percent in the fourth quarter, year on year, reflecting declines of 1.9 percent in residential property prices and 2.7 percent in commercial ones. Overall, these developments suggest the absence of monetary and real- estate inflationary pressures in the medium term.

4.1 Monetary conditions

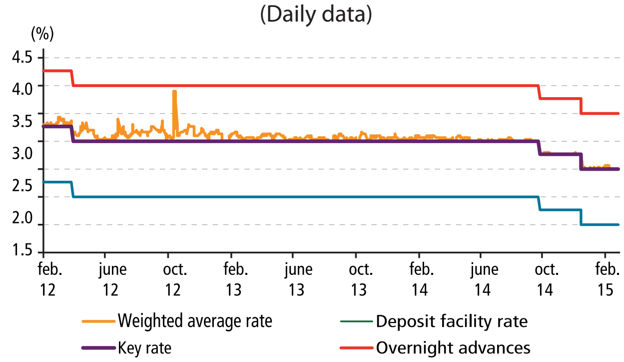
4.1.1 Interest rates

At its meeting of December 16, 2014, the Bank Board decided to lower the key rate from 2.75 percent to 2.50 percent. Following this decision, the interbank market weighted average rate reached 2.51 percent, on average, in January and February 2015, down 21 basis points from its level in the fourth quarter 2014.

Lending rates stabilized in the fourth quarter at 6.03 percent. By purpose, the analysis indicates decreases of 59 basis points in equipment loans and 20 points in consumer ones. In contrast, rates on cash advances and real estate loans moved up by 11 basis points each. By institutional sector, rates on companies remained almost unchanged, while those matching loans to households declined by 14 basis points for individuals and rose by 15 basis points for individual entrepreneurs.

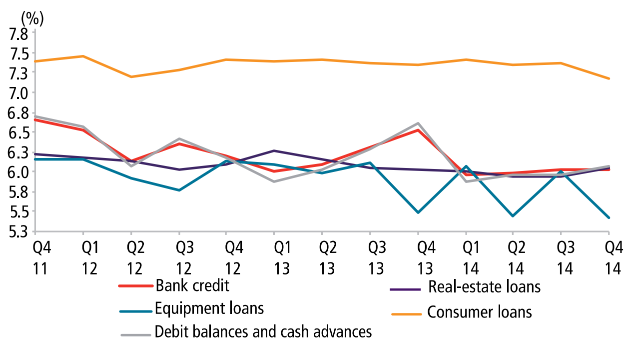
Regarding deposit rates, the weighted average rate of 6- and 12-month deposits stood at 3.81 percent in the fourth quarter, virtually unchanged from the previous quarter. This trend reflects an increase of 6 basis points in the one-year deposit rate

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



**Data at February 28, 2015.*
Source : BAM.

Chart 4.2 : Change in lending rates*



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

to 3.92 percent and a decline of 6 basis points in the 6-month deposit rate to 3.63 percent.

Concerning Treasury bond yields on the primary market, rates continued their downward trend. Between January 2015 and the fourth quarter of 2014, 13-week bonds dropped by 19 basis points to 2.49 percent, while 52-week ones fell by 28 basis points to 2.55 percent. In the secondary market, the same trend pattern was also registered.

4.1.2 Money. credit and liquid investments

M3 growth

January 2015 data show a faster annual growth rate of the money supply compared to its average observed in the fourth quarter 2014. While this rate remains close to its long-term trend, the money gap, which measures the difference between the observed and potential levels of money supply, was negative, indicating the absence of monetary inflationary pressures in the medium term.

The annual growth of M3 stood at 7.4 percent in January, from 5.8 percent in the fourth quarter, reflecting a faster growth of bank credit from 3.7 percent to 4.3 percent and a slower fall of 1.9 percent instead of 7.9 percent in net claims on central government. Net international reserves grew slightly from 21.0 percent to 21.4 percent in January.

The analysis of M3 components reveals faster growth of all components with the exception of currency in circulation. Indeed, time deposits accelerated from 5.1 percent in the fourth quarter 2014 to 8.7 percent in January and

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

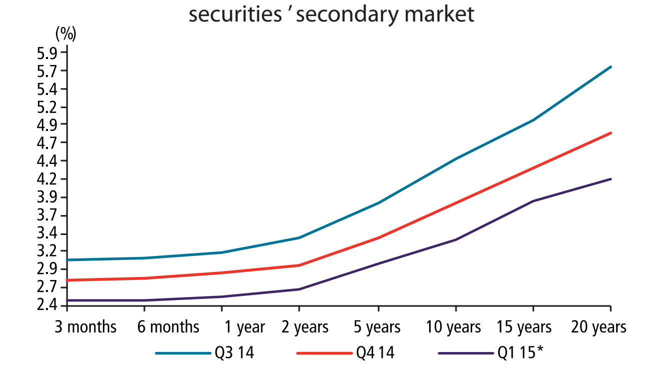
	2012	2013				2014			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	3.55	3.52	3.56	3.55	3.59	3.51	3.68	3.69	3.63
12 months	3.84	4.02	3.89	3.83	3.92	3.86	3.91	3.86	3.92
Weightedaverage	3.73	3.85	3.76	3.73	3.79	3.71	3.81	3.80	3.81

Source : BAM.

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

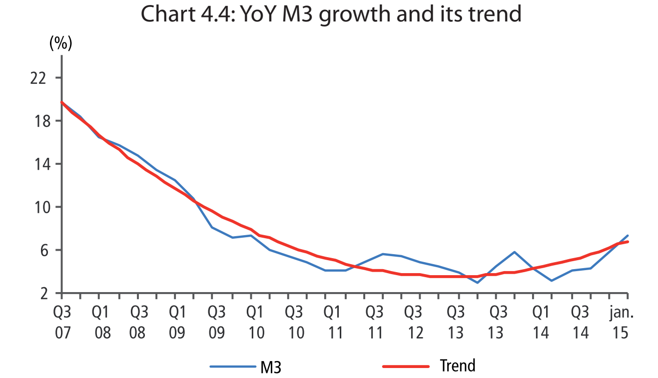
	2013				2014				2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	jan.
13 weeks	3.93	3.94	3.50	3.48	3.30	3.08	2.97	2.68	2.49
26 weeks	4.07	4.11	3.82	3.74	3.45	3.15	-	2.79	2.49
52 weeks	4.20	4.23	4.11	4.13	3.63	3.25	3.14	2.83	2.55
2 years	4.57	4.68	4.61	4.69	4.04	3.35	-	3.02	2.61
5 years	4.75	-	4.93	5.08	4.62	3.91	3.80	3.33	3.00
10 years	-	-	5.42	5.60	5.43	4.47	-	3.75	3.39
15 years	5.52	5.69	5.71	5.85	5.87	5.15	-	4.30	3.95
20 years	-	-		-	5.96	5.66	5.57	4.60	4.35
30 years	-	-	-	-	-	-	-	5.69	5.0

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 January 1st to February 28, 2015.*
Source : BAM.

Chart 4.4: YoY M3 growth and its trend



Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

During the fourth quarter of 2014, bank liquidity improved by 8.5 billion dirhams, due to all autonomous factors. Indeed, Treasury operations caused a liquidity injection of 4.4 billion dirhams resulting primarily from the difference between:

- On the one hand, the repayment of domestic debt to the banking system (17.3 billion dirhams), settlement of subsidy costs (16.4 billion dirhams) and payment of civil service salaries (16.8 billion dirhams) and retirement pensions (5.3 billion dirhams);

- On the other hand, bank subscriptions to T-bond auctions (22.2 billion) and a decrease in outstanding investments in the money market (13.1 billion), plus tax and customs revenues.

Similarly, foreign currency transactions resulted in a liquidity injection of 1.7 billion dirhams.

To a lesser extent, the decline in currency in circulation was limited to around 500 million dirhams in the quarter due to the offset between a decline succeeding Eid Al Adha and operations of withdrawals related to the settlement of salaries.

Finally, other factors contributed to improving bank liquidity by 1.9 billion dirhams.

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

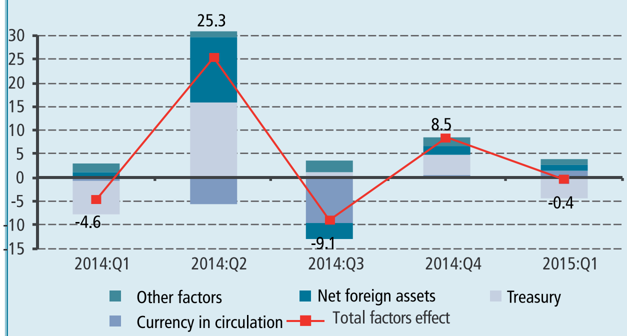


Chart B 4.1.2: Monthly change in the impact of autonomous liquidity factors (in billion dirhams)

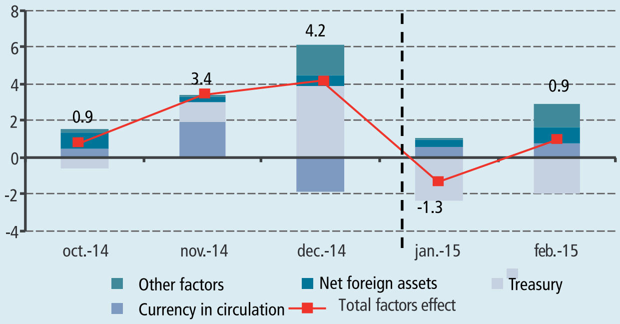


Chart B 4.1.3: Change in reserve requirements (in millions of DH)

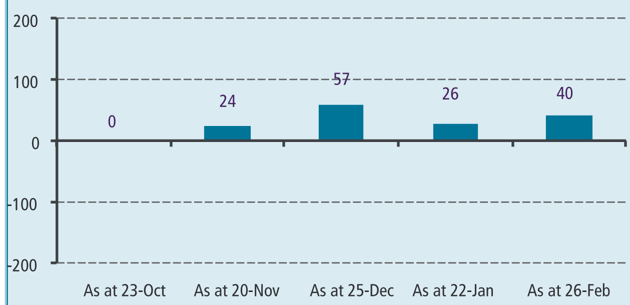
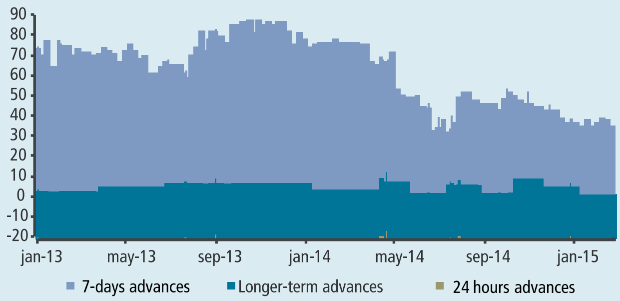


Chart B 4.1.4: BAM interventions on the money market (in billion dirhams)



During the first quarter of 2015*, autonomous factors had a negative impact of 400 million dirhams on bank liquidity due mainly to Treasury operations, which were partially offset by a decline in money in circulation.

* Period from January, 1 to February 26, 2015.

Treasury operations had a restrictive impact of 4.3 billion dirhams on liquidity, resulting mainly from the difference between:

- On the one hand, bank subscriptions to T-bond auctions (26.6 billion dirhams), plus tax and customs revenues;
- On the other hand, the repayment of domestic debt to the banking system (17.1 billion dirhams), payment of civil service salaries (11 billion dirhams) and retirement pensions (3.7 billion) and settlement of subsidy costs (3.7 billion dirhams) as well as a decline in outstanding investments in the money market (1.8 billion dirhams).

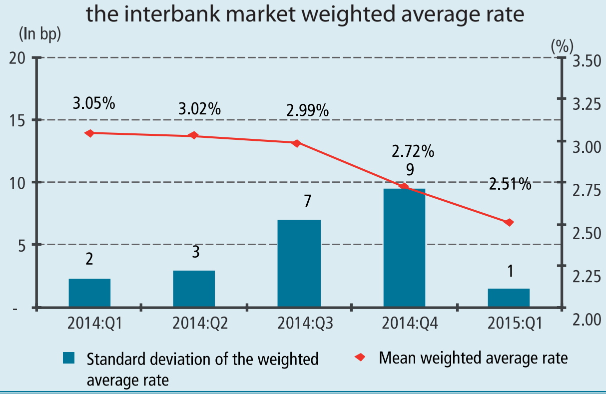
The restrictive impact of Treasury operations was partially offset by a decline in currency in circulation and foreign currency transactions, with respective amounts of 1.4 and 1.2 billion dirhams.

Given the impact of autonomous factors observed early this year, the outstanding amount of BAM's interventions stood at 43 billion dirhams as at February 26, as against 41.9 billion recorded at the end of the previous year.

The outstanding amount of 7-day advances increased by 4 billion to 27 billion dirhams, while the outstanding amount of one-year secured loan operations under the VSME funding program decreased by 2.9 billion to 16 billion dirhams as at February 26, 2015.

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

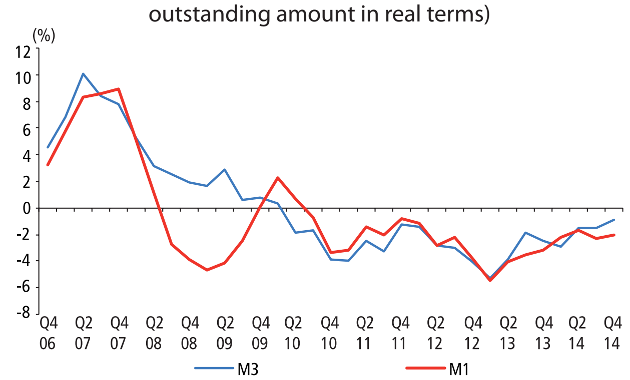
Chart B 4.1.5: Change in the mean and standard deviation of the interbank market weighted average rate



demand deposits rose from 3.8 percent to 5 percent. Foreign currency deposits continued their upward trend that started in October, due to the exchange amnesty operation. Their outstanding amount stood in January at 35.1 billion, up 61.5 percent. Despite a monthly decline of 8.4 percent, money market fund shares/units rose 11.1 percent, as against 6 percent in the fourth quarter. However, the growth rate of currency in circulation decelerated from 3.9 percent to 3.5 percent, while that of demand deposits stabilized at 7.7 percent, year on year.

By economic unit, households' demand deposits increased by 5.7 percent as against 4.3 and their time deposits rose 9.4 percent compared to 7.1 percent. The growth of their savings accounts stabilized at 7.7 percent. Time deposits of nonfinancial corporations showed an annual decrease of 3.7 percent for private nonfinancial companies, less pronounced than that of 16.3 percent in the previous quarter, while the growth

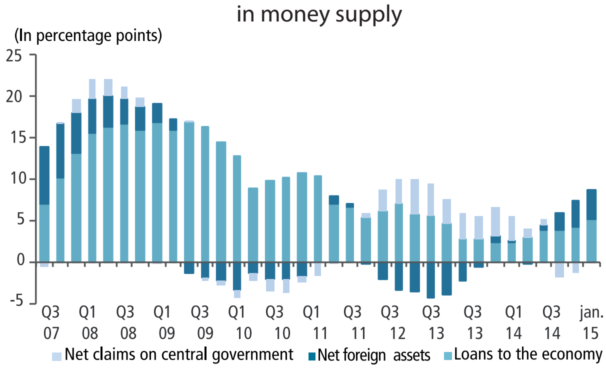
Chart 4.5: Money gap[1] (in percentage of M3 and M1 balance outstanding amount in real terms)



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

Source : BAM.

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



Source : BAM.

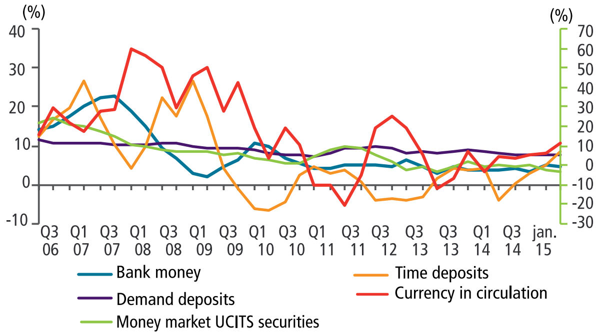
of time deposits of public nonfinancial companies dropped from 52.9 percent on average in the fourth quarter to 21.5 percent in January.

Credit

Bank credit recorded a year-on-year increase of 4.3 percent in January 2015, from 3.7 percent on average in the fourth quarter 2014. This trend reflects a faster growth from 2.6 percent to 3.3 percent in real estate loans, reflecting higher housing loans from 5.6 percent to 6.2 percent and a slower decline in loans to developers from 5.2 percent to 3.8 percent. Similarly, despite a monthly decrease of 2.3 percent, the annual growth of cash advances improved from 1.5 percent to 5.6 percent in January. With regard to other credit components, consumer loans grew by 10 percent in January, from 9 percent a quarter earlier, while equipment loans decelerated from 5.4 percent to 3.9 percent. As to nonperforming loans, although their growth fell from 22.7 percent in the fourth quarter to 16.7 percent, their ratio to bank credit stabilized at 6.9 percent.

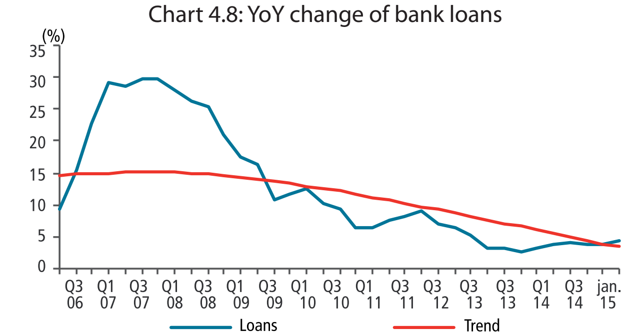
By institutional sector, the improvement in bank credit growth was due to the strengthening of loans to the nonfinancial sector, while the decline in loans to financial companies worsened from 2.1 percent to 2.3 percent in January. Indeed, credit to the public sector rose by 14.5 percent in January, from 7.7 percent in the previous quarter and loans to the private sector accelerated from 4.3 percent to 4.6 percent. Thus, loans to households grew by 6.4 percent from 6.2 percent and loans to private nonfinancial corporations registered a growth of 3.3 percent as against 3.0 percent in the fourth quarter 2014.

Chart 4.7: YoY change in the major M3 components



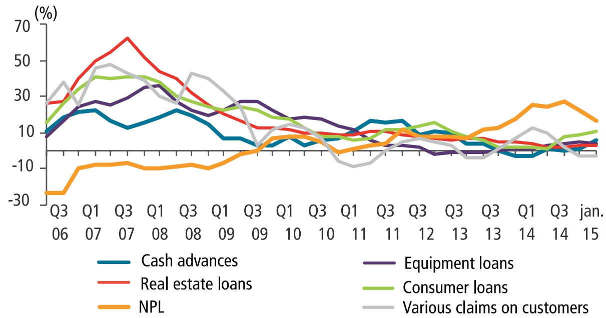
Source : BAM.

Chart 4.8: YoY change of bank loans



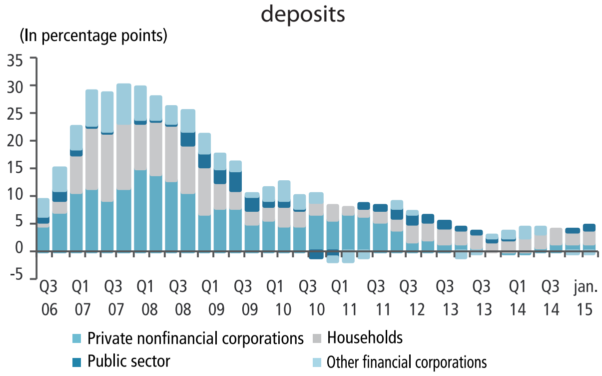
Source : BAM.

Chart 4.9: YoY change of major bank loan categories



Source : BAM.

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



Source : BAM.

By economic branch, recent data for the fourth quarter show an increase of 31.4 percent in loans granted to the "electricity, gas and water" branch, as opposed to 13.2 percent on average over the first three quarters. Loans to services decelerated from 4.4 percent to 1.7 percent and those allocated to manufacturing industries slowed from 20.6 percent to 3.6 percent. Meanwhile, loans to the "building and public works" branch showed a slower decline from 1.1 percent to 0.5 percent.

BAM's lending conditions survey indicates a relaxation of credit granting conditions in the fourth quarter 2014, compared to the third quarter. According to the survey, this change has affected equipment loans, cash advances and consumer loans. Regarding real-estate loans, banks have relaxed their criteria for housing loans and have rather tightened them for loans to real estate development compared to the previous quarter. Demand has increased, according to banks, for equipment loans and cash facilities compared to the previous quarter, while demand for real estate loans has remained unchanged for housing loans and has decreased for real estate development.

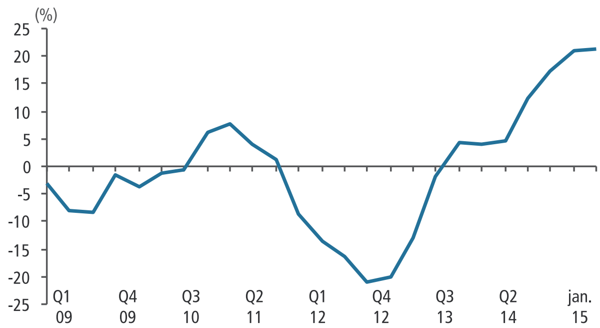
Loans granted to nonfinancial sectors by other financial companies, not included in the monetary position, fell slightly by 0.4 percent in the fourth quarter 2014, after a virtual stagnation in the third quarter. This change was particularly attributed to a 1 percent decrease in loans granted by finance companies. The analysis of credit granted by these companies according to purpose shows that consumer loans registered a drop of 13.7 percent, as against 12.9 percent a quarter earlier, and leasing improved by 1.3 percent from 0.7 percent. Loans distributed by off-shore banks were down 6.5 percent, less strong than the 14.2 percent registered in the third quarter, covering a deeper decline in equipment loans from 7.8 percent to 14.5 percent and an increase of 6.8 percent in cash advances after a decline of 8.2 percent.

Other sources of money creation

At the end of January, the outstanding net international reserves grew by 21.4 percent from 21 percent on average in the fourth quarter 2014, mainly reflecting an easing in the trade deficit due to lower energy imports.

Net claims on central government showed a year-on-year decrease of 1.9 percent in January, as against 7.9 percent on average in the previous quarter. This mitigation is attributed to both increases of 0.8 percent in Treasury bills held by banks, after a fall of 3.8 percent in the third quarter, and 12.9 percent in money market fund shares/units, as against a decrease of 37 percent. In contrast, BAM liabilities declined, due to an increase in the Treasury account balance with the Bank.

Chart 4.11: Annual growth of net internationales reserves



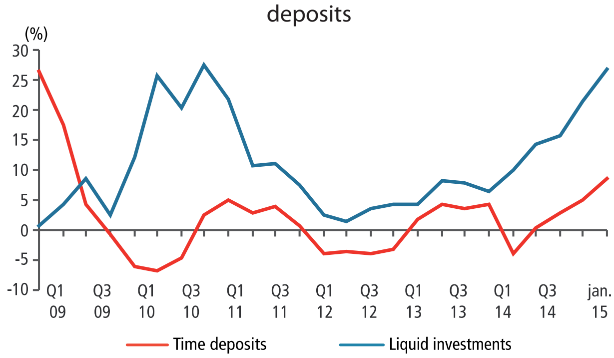
Source : BAM.

Liquid investments

The annual growth rate of liquid investment aggregates accelerated from 21.4 percent on average in the fourth quarter 2014 to 27.0 percent in January 2015, owing to improved growth in all of its categories.

Indeed, securities included in the LI1 aggregate moved up 21.9 percent in January, as against 17.5 percent a quarter earlier, mainly in connection with a faster growth from 16.8 percent to 20.9 percent in outstanding Treasury bills. Similarly, securities of bond funds included in the LI2 aggregate grew by 39.0 percent from 31.7 percent in the previous quarter. Equity and diversified fund shares/units, which constitute the LI3 aggregate, rose by 24.7 percent in January, from 14.7 percent in the fourth quarter 2014, primarily reflecting higher prices at Casablanca Stock Exchange.

Chart 4.12: YoY change in liquid investments and time deposits



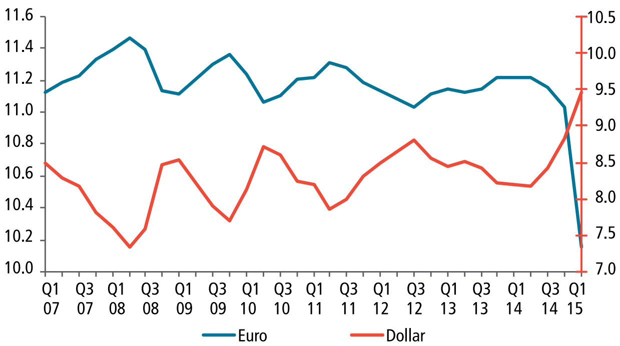
Source : BAM.

Exchange rate

In January and February 2015, the average rate of the national currency vis-à-vis the euro appreciated by 8.67 percent compared to the fourth quarter of 2014, while it depreciated by 6.54 percent against the US dollar.

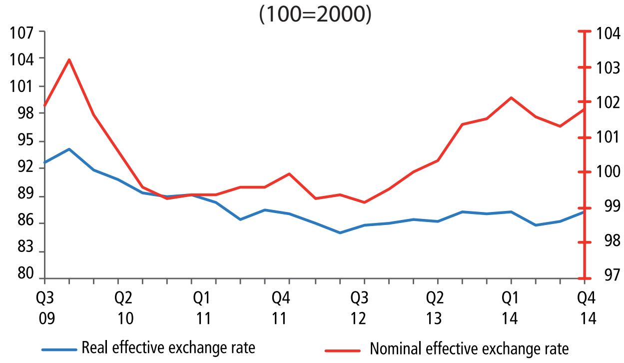
The dirham's effective exchange rate, calculated based on the bilateral exchange rates with Morocco's major trading partners and competitors, appreciated in the fourth quarter 2014 by 0.45 percent in nominal terms and 1.3 percent in real terms, due to the depreciation of the euro and the currencies of certain competitors.

Chart 4.13: Exchange rate of the dirham



** Observation of the first quarter of 2015 corresponds to the arithmetic average from January 1st to February 28, 2015.*
Source : BAM.

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



Sources: IMF and BAM calculations.

4.2. Asset prices

4.2.1 Real estate assets

In the fourth quarter, the trend of the Real Estate Price Index (REPI) continues to indicate the absence of inflationary pressures through a wealth effect. Indeed, the REPI fell 1.4 percent, quarter on quarter, due to a drop of 1.4 percent in residential property prices and respective declines of 0.8 percent and 4.1 percent in land prices and commercial property ones. Meanwhile, the number of transactions decreased by 0.2 percent, after rising by 3.6 percent on average in the first three quarters.

Year on year, the REPI was down 1.4 percent as against 0.6 percent on average over the previous three quarters, due to respective decreases of 1.9 percent and 2.7 percent in residential property prices and commercial ones. After a rise of 13.3 percent on average over the first three quarters of the year, the number of transactions moved up 8.9 percent, mainly owing to respective increases of 12.5 percent and 20.8 percent in the sales of residential property and commercial ones. In contrast, land sales were down 7.4 percent.

For the year 2014 as a whole, the change in real estate prices stood at -0.8 percent from 1.3 percent in 2013, reflecting respective declines of 0.6 percent and 1.4 percent in residential property prices and land ones. This trend was accompanied by an 11.9 percent increase in the number of transactions, after a 4.7 percent fall a year earlier.

Moreover, real estate credit data show that housing loans grew by 5.6 percent in the fourth quarter, year on year, after averaging 5.4 percent over the first three quarters of the year. However, the decline in loans to real estate development worsened from 3.9 percent in the first three quarters of the year to 5.2 percent in the fourth quarter.

Chart 4.15: QoQ change in real estate price index

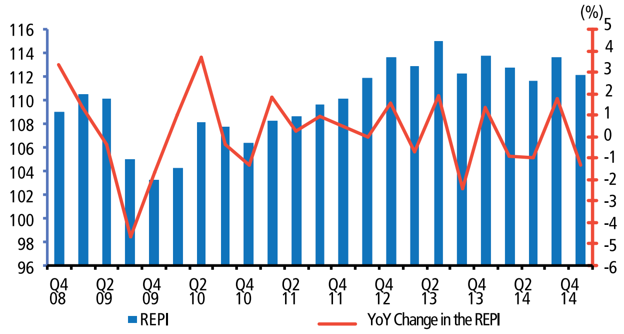


Chart 4.16: YoY change in real estate price index

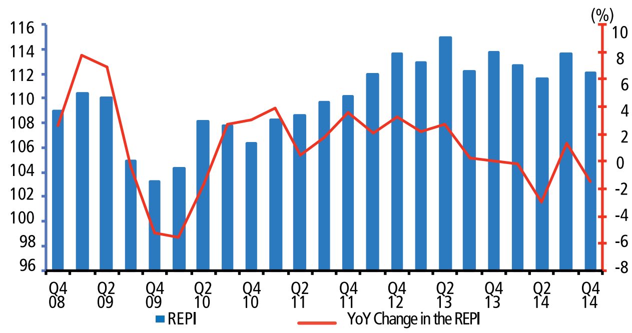
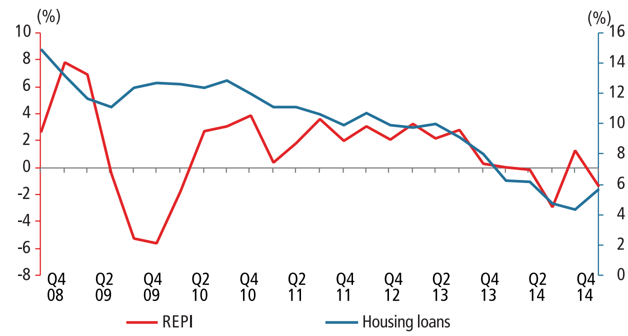
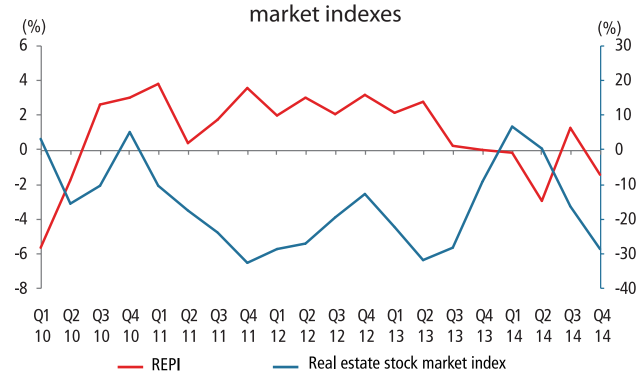


Chart 4.17: YoY change in the REPI and housing loans*



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

Chart 4.18: YoY change in the REPI and the real estate Stock market indexes



Source: Casablanca stock exchange.

4.2.2 Financial assets

4.2.2.1 Shares

The MASI recorded a performance of 8.7 percent in the first two months of 2015, confirming the continued recovery that started in the second half of 2013. This appreciation primarily reflects increases in sectoral indexes of "telecommunications", "construction and building materials" and "Banks". However, the "real estate" sector continues to show significant declines with a drop of 14.5 percent since the beginning of 2015, after a depreciation of 28.5 percent in 2014.

During the first two months of 2015, the majority of transactions was carried out on the central market with an average daily volume of 129.7 million dirhams. In the block market, the trading volume totaled 1.4 billion dirhams. Albeit on the increase compared to the same period of the previous year, the total amount of transactions since the beginning of the year remains low, with 6.7 billion as against 5.5 billion over the same period of 2014.

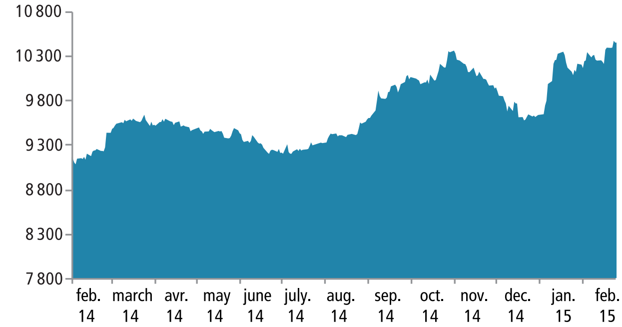
At the end of February 2015, the market capitalization stood at 527.1 billion dirhams, up 8.8 percent since the beginning of the year, driven mainly by the performance of the sectors of "telecommunications" and "banks".

Regarding the valuation of Casablanca Stock Exchange, the Price Earnings Ratio stood at end-February at 19.8, up 1.3 compared to the end of 2014. Over the same period, the Price to Book Ratio slightly appreciated by 0.2 to 2.6.

4.2.2.2 Treasury bonds

In the sovereign debt market, Treasury issues amounted to 13.9 billion in February, as against 11.9 billion in January and a monthly average of 8.2 billion in the fourth quarter of 2014. Subscriptions to short-term securities totaled 3.2 billion dirhams and matched rates ranging from 2.43 percent to 2.49 percent, as against 2.49 percent to 2.55 percent in January.

Chart 4.19: Daily change in MASI

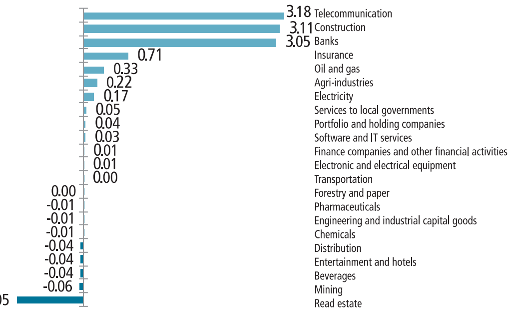


Source: Casablanca Stock Exchange.

Regarding medium-term issues, amounting to 4.5 billion dirhams, rates also registered a downward trend to 2.57 percent in February for 2-year maturities, as against 2.61 percent in January, and to 2.94 percent for 5-year bonds, as opposed to 3 percent. Meanwhile, long-term issues reached 6.2 billion in February from 3.8 billion dirhams in January and were performed with rates ranging from 3.21 percent to 4.05 percent, as against 3.39 percent to 5 percent a month earlier.

Taking into account repayments of 11.7 billion dirhams, outstanding Treasury bills stood at 436.5 billion at end-February 2015, up 2.5 percent compared to the end of December 2014.

Chart 4.20: Contribution of sectoral indexes to MASI growth, in%



Source: Casablanca stock exchange.

4.2.2.3 Other debt securities

Over the first two months of 2015, issues of negotiable debt securities stood at 5 billion dirhams on a monthly average, from 6.1 billion in the fourth quarter of 2014. These issues were performed to the tune of 70 percent as certificates of deposit with rates ranging from 2.52 percent to 3.48 percent, as against 2.95 percent to 4.2 percent in the previous quarter. Finance companies issued bills amounting to 276 million dirhams on monthly average, as against 821 million a quarter earlier. Their rates ranged between 3.09 percent and 3.7 percent as opposed to 3.28 percent and 3.93 percent. As to commercial paper, emissions averaged 1.2 billion dirhams, from 1 billion, with rates ranging from 3 percent to 5.75 percent as against 3.10 percent to 5.1 percent.

Taking into account repayments of 10.6 billion dirhams, outstanding negotiable debt securities stood at 72.9 billion dirhams at the end of February.

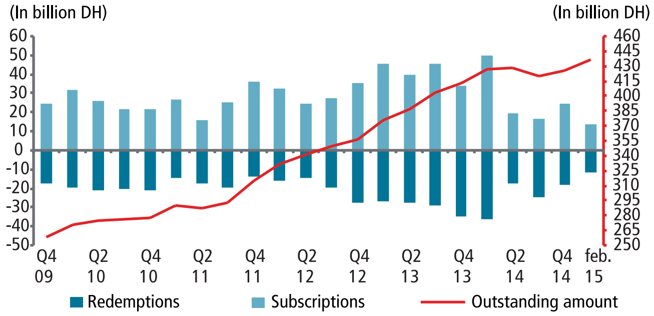
Over the first two months of the year, the bond market saw emissions of 1.2 billion dirhams, matching rates ranging from 3.70 percent to 4.75 percent. The outstanding amount stood at 96.5 billion dirhams in February, up 0.7 percent compared to the end of December.

4.2.2.4 Mutual funds

The latest available data show that subscriptions to mutual fund shares/units stood at 69.4 billion dirhams on monthly average since the beginning of the year, after averaging 37.4 billion in 2014. Redemptions reached 67.4 billion dirhams from 32.9 billion in 2014.

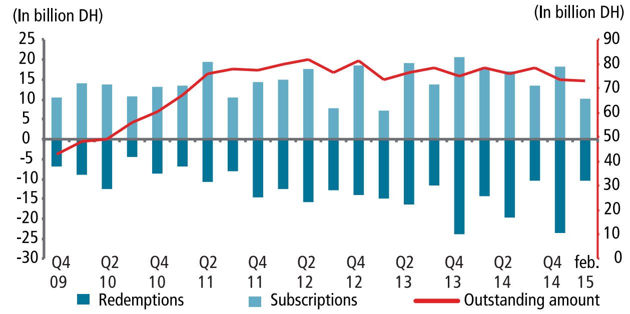
The performance index of mutual funds appreciated by 2.2 percent over the

Chart 4.21: Change in outstanding Treasury bonds



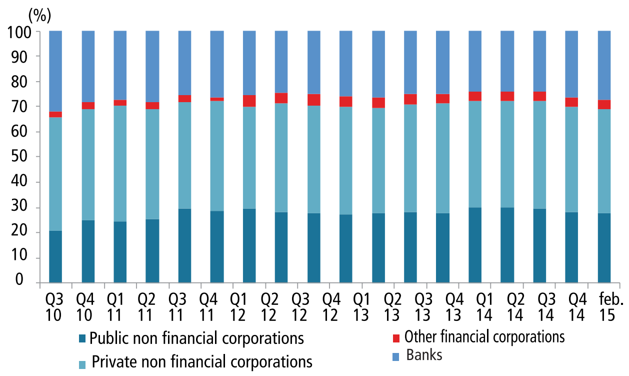
Source: Casablanca stock exchange.

Chart 4.22: Change in outstanding amount of negotiable debt securities



Source: Casablanca stock exchange.

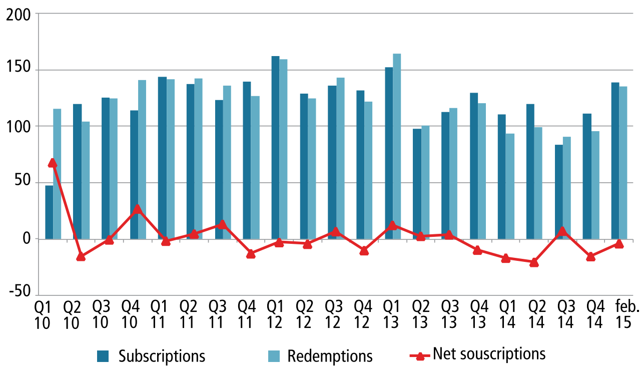
Chart 4.23: Change in the structure of outstanding bonds by issuer (in%)



first two months of 2015. Under these conditions, net assets valued at end-February1 stood at 309.5 billion dirhams, up 3 percent compared to the end of December 2014.

By category of mutual funds, net assets increased by 5 percent for bond funds and 12.7 percent for diversified ones, while money market fund shares/units were down 5.4 percent.

Chart 4.24: Change in subscriptions and redemptions of mutual fund shares/units (in billion dirhams)



1 UCITS data as at February 2015.

5. RECENT INFLATION TRENDS

In line with the analyses and forecasts published in the last Monetary Policy Report, inflation- measured by the change in the consumer price index (CPI)- remained moderate, despite the recovery recorded as of the fourth quarter 2014, driven by rising volatile food prices. Thus, it increased from 1.1 percent in the fourth quarter to 1.5 percent in the first two months of 2015. Meanwhile, core inflation, which reflects the underlying trend of prices, has stabilized at 1.3 percent since last November, from 0.8 percent in October. This change was attributable to a faster growth in prices of tradables (CPIXT) from 1 percent in October to an average of 1.7 percent over the last four months, while inflation of nontradables (CPIXNT) remained, during this period, at the same level observed in October. Moreover, prices of "fuels and lubricants" dropped further from 3.3 percent in December to 15.8 percent in January and 19.9 percent in February, due to lower international oil prices and the removal of the equalization tax. This decline in oil prices was also reflected in producer prices of the "coke and refining" industry, which fell 21.2 percent between December and January. Manufacturing producer price index decreased accordingly by 2.5 percent, month on month, which is the largest decline in the last four years, after that of 2.6 percent recorded in April 2013. Year on year, industrial producer prices dropped further from 4.6 percent in December to 6.4 percent in January.

5.1 Inflation trends

Inflation has recovered significantly in recent months. It rose from 0.2 percent on average over the first three quarters of 2014 to 1.1 percent in the fourth quarter of the same year and 1.5 percent in the first two months of 2015. This change reflects reversal in the inflation trend of volatile food prices, which moved up from -6.8 percent to -2.4 percent and to 2.4 percent during the same periods. More particularly, prices for fresh vegetables and citrus fruits increased on average in January and February by 8.8 percent and 0.7 percent, respectively, as against declines of 7 percent and 36.6 percent in 2014.

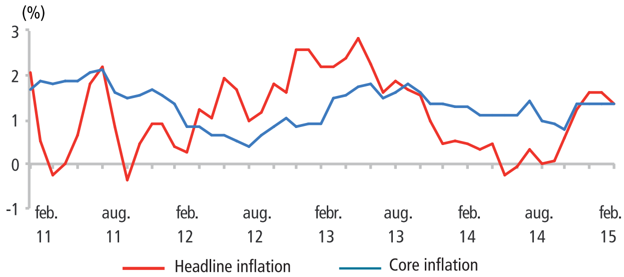
However, prices for "fuels and lubricants" dropped further from 3.3 percent in December to 15.8 percent in January and 19.9 percent in February in connection with the removal of the equalization tax on fuel and diesel following the total price indexation of these products on the one hand, and the decline in international energy prices on the other. Thus, their contribution to inflation fell from -0.1 to -0.4 and -0.5 percentage point. Inflation of other administered goods and services rose from 3.3 percent

Table 5.1: Change in inflation and its components

	Monthly change (%)			YoY change (%)		
	dec. 14	jan. 15	feb. 15	dec. 14	jan. 15	feb. 15
Headline inflation	0.3	0.3	-0.4	1.6	1.6	1.3
- Volatile food products excluded from core inflation	3.0	3.3	-3.4	1.5	3.0	1.9
- Fuels and lubricants	-8.3	-12.9	0.5	-3.3	-15.8	-19.9
- Administered goods excluding fuels and lubricants	0.0	0.7	0.0	3.3	3.7	3.8
Core inflation	0.1	0.1	0.0	1.3	1.3	1.3
- Food products	0.1	0.0	0.0	1.7	1.8	1.8
- Clothing and footwear	0.4	-0.3	-0.1	1.3	0.8	0.7
- Housing. water. gas. electricity and other fuels*	0.3	0.0	0.1	1.3	1.1	1.2
- Furniture. household appliances and common house maintenance	-0.1	0.1	0.0	0.6	0.7	0.6
- Health*	-0.1	0.4	-0.2	1.6	1.9	1.1
- Transportation*	-0.1	0.0	0.2	0.5	0.4	0.6
- Communication	0.0	0.0	0.0	0.0	0.0	0.0
- Entertainment and culture	0.1	0.0	0.0	-0.4	-0.4	0.0
- Education	0.0	0.0	0.0	3.2	3.2	3.2
- Restaurants and hotels	0.0	0.4	0.1	1.7	1.9	2.0
- Miscellaneous goods and services	0.0	0.0	0.2	0.4	0.4	0.6

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

Chart 5.1: Headline inflation and core inflation, YoY

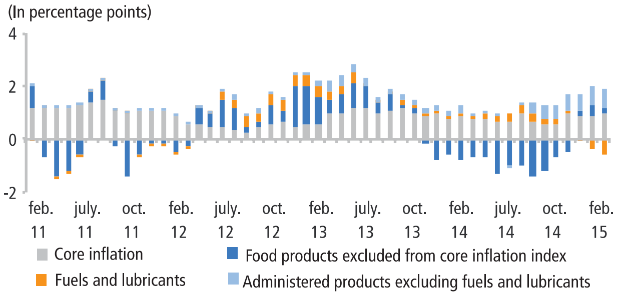


Sources: HCP, and BAM calculations.

to 3.7 percent and 3.8 percent, reflecting new revisions of electricity and tobacco prices in January.

Excluding volatile food and administered products, core inflation has stabilized at 1.3 percent since November, as against 0.8 percent in October. This acceleration in core inflation was mainly due to higher prices of cereal-based products due to the surge in prices for durum wheat in international markets.

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

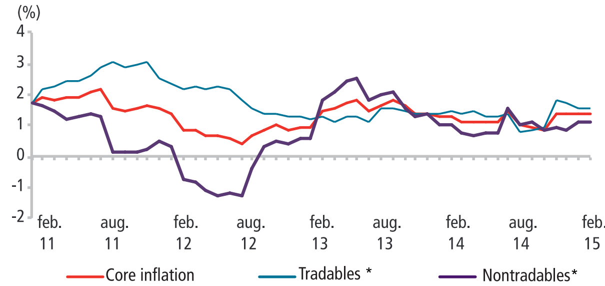
	As from					
Products	1jan. 15	16 jan. 15	1 feb. 15	16 feb. 15	1 march 15	16march 15
Premium gasoline	9.29	8.98	8.91	9.54	9.96	10.31
Diesel 50	8.43	8.03	7.88	8.45	8.96	8.96
Industrial fuel	3487	3144	3051	3551	3916.2	3898.2

Source : Ministry of Energy and Mining.

5.2 Tradable and nontradable goods

Analysis of price trend by tradable (CPIXT) and nontradable (CPIXNT) components of the CPI reference basket shows that after a net increase from 1 percent in October to 1.8 percent in November, inflation of tradables decelerated slightly to 1.7 percent in December and 1.6 percent in the first two months of 2015. These declines were mainly attributed to lower prices for oils and dried legumes. Thus, the contribution of tradables to inflation dropped from 0.7 point in November to 0.6 percentage point in January and February. The price of nontradable goods grew year on year from 0.9 percent in November and December to 1.1 percent in January and February, mainly due to slower decline in prices for fresh meat from -1 percent to -0.3 percent. Their contribution to inflation rose from 0.3 to 0.4 percentage point over the same periods.

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



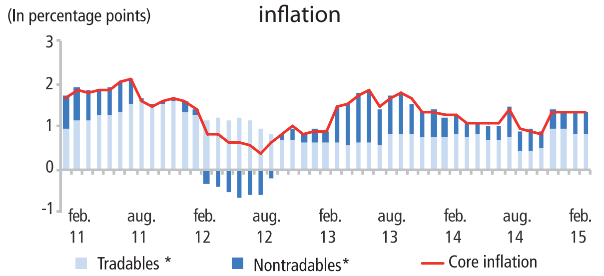
** Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

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

	Monthly change (%)			YoY change (%)		
	dec. 14	jan. 15	feb. 15	dec. 14	jan. 15	feb. 15
Tradables (CPIXT)	0.1	0.0	0.1	1.7	1.6	1.6
Nontradables (CPIXNT)	0.0	0.1	0.0	0.8	1.1	1.1

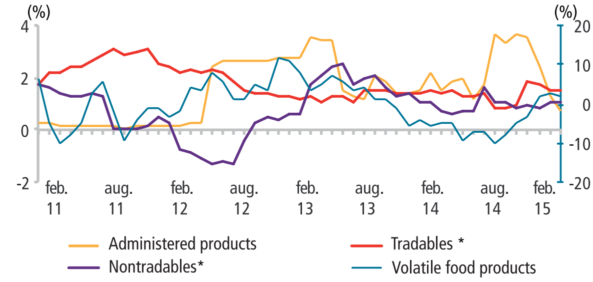
Sources: HCP, and BAM calculations.

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



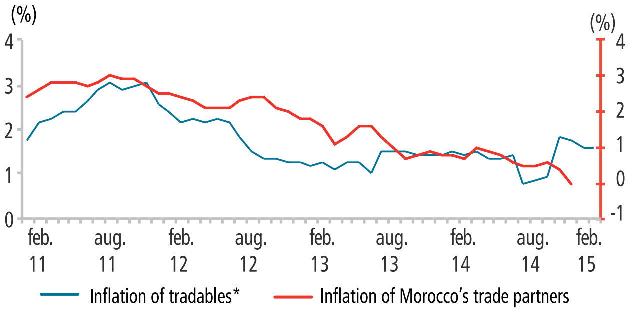
* *Excluding volatile food products and administered goods.*
Sources: HCP, and BAM calculations.

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

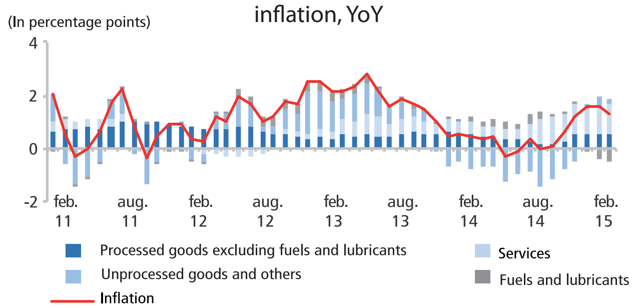
	Monthly contribution to inflation		Yoy contribution to inflation	
	jan. 15	feb. 15	jan. 15	feb. 15
Products excluded from core inflation index	0,3	-0,5	0,7	0,4
Volatile food products	0,4	-0,5	0,4	0,3
Administered products	-0,2	0,0	0,3	0,1
Tradables*	0,0	0,0	0,6	0,6
Nontradables*	0,0	0,0	0,4	0,4

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

5.3 Goods and services

Breakdown of the CPI basket into goods and services shows that inflation acceleration, which started in October 2014, was mainly driven by a slower decline in prices of unprocessed goods. The latter, which consist primarily of fresh food, recorded a less rapid drop, from -4.1 percent over the first nine months of 2014 to -2.9 percent on average between October and November and to 1.1 percent between December 2014 and February 2015. The increase in inflation was also attributed to that of processed goods from 0.5 percent in October to 1.2 percent in February 2015. However, prices of fuels and lubricants fell by 19.9 percent in February in 2015, after their 5.6 percent increase in October 2014. Prices of services almost stagnated during this period at around 3.2 percent.

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



Sources: HCP, and BAM calculations.

Table 5.5: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	dec. 14	jan. 15	feb. 15	dec. 14	jan. 15	feb. 15
Processed goods*	0.1	0.1	0.1	1.2	1.1	1.2
Services	0.0	0.3	0.1	3.0	3.2	3.3
Unprocessed goods and others	1.7	1.9	-2.1	0.6	1.7	0.9
Fuels and lubricants	-8.3	-12.9	0.5	-3.3	-15.8	-19.9

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

5.4 Industrial producer price index

Manufacturing producer price index showed a monthly decline of 2.5 percent in January, the largest drop in the last four years after that of 2.6 percent recorded in April 2013. This change mainly reflected the decrease of 21.2 percent in "coke and refining" prices compared to 11.6 percent and 12.8 percent in November and December of the previous year, due to lower international crude oil prices.

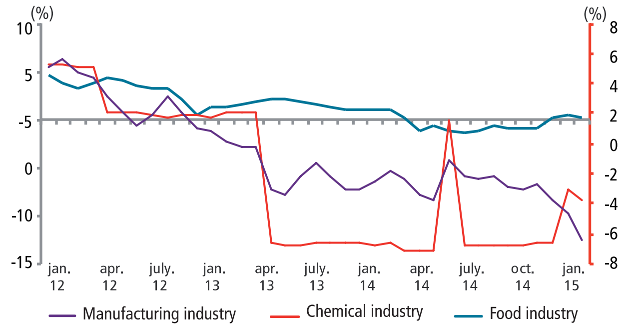
Year on year, the almost continued decrease in industrial producer prices since January 2013 accentuated during the last two months, from 4.6 percent in December to 6.4 percent in January, mainly owing to a 42.6 percent decline in "coke and refining" prices after that of 28.3 percent a month earlier. Producer prices of the chemical industry also dropped further from 7.3 percent in December to 8.3 percent in January. However, agri-food prices increased slightly for the third month running.

5.5 Inflation expectations

According to BAM's business survey for January 2015, industrial producer prices are expected to rise over the next three months. Indeed, 19 percent of corporate managers anticipate an increase in prices, while only 2 percent of them project a decline, with an balance of opinion of 16 percent, as against 13 percent a month earlier (Chart 5.9). The remaining 57 percent of respondents expect that the prices of these products would not change significantly.

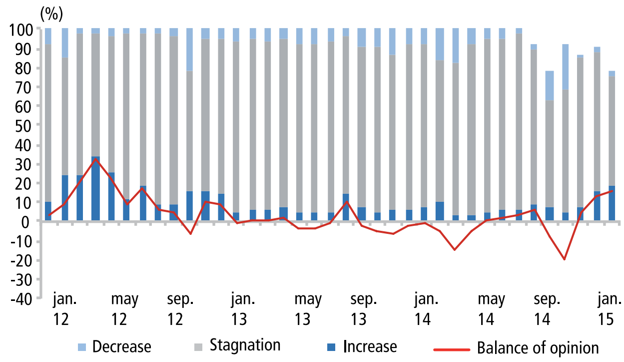
With regard to inflation forecasts over the next three months, the survey points to an upward trend in the general price growth. Indeed, the percentage of corporate managers expecting faster inflation stood at 19 percent in January, while 8 percent of them expect a slowdown during the same period, with a stable balance of opinion of 12 percent, compared to the previous month (Chart 5.10).

Chart 5.8: YoY change in industrial producer price indexes



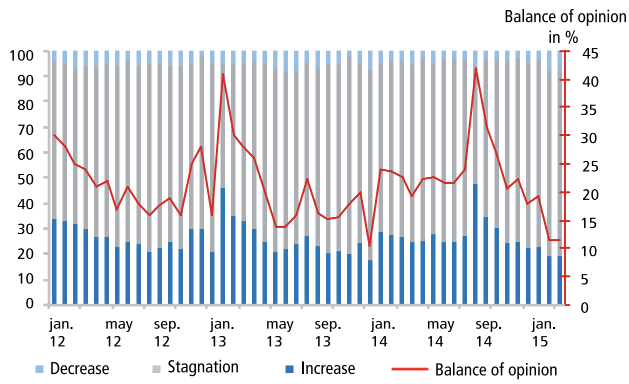
Sources: HCP, and BAM calculations.

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 baseline forecast scenario, therefore, depends on the assumptions and developments considered for a series of variables affecting economic activity and inflation. This scenario takes into account the diesel subsidy withdrawal, which took effect as of January 2015, and the new billing terms and pricing provisions for electricity, drinking water and sanitation provided for at the Official Gazette No. 6275A. Assuming the non-realization of the major risk factors identified, inflation over the next six quarters would average around 1.4 percent, slightly higher than the average rate indicated in the previous MPR (1.2 percent). In 2015, the CPI would grow at a rate estimated at 1.4 percent as well. In the first half of 2016, an average rate of 1.4 percent is expected. For this forecasting exercise, the balance of risks is broadly neutral due to uncertainties about the economic recovery in key partner countries and commodity prices, particularly energy ones.

6.1 Baseline scenario assumptions

6.1.1 International environment

In light of the latest economic indicators and recent surveys' data, the main trends observed at the end of 2014 appear to be continuing at the beginning of this year. On the one hand, oil prices significantly declined and stabilized at a moderate level, which would mostly stimulate energy demand from energy importing countries. On the other hand, geopolitical instabilities that have intensified in some areas have, up to now, had relatively limited negative repercussions. However, despite lower energy prices, the growth of global economic activity remains disparate as evidenced by the momentum of the US and UK economies, which contrasts with the economic sluggishness in the euro area and the slower growth in some major emerging countries, including mainly Russia and Brazil. Furthermore, deflationary pressures increased in economies with already low inflation. Yet, monetary policy measures and recovery in demand should offset the decline in energy costs.

Detailed analysis shows that economic growth in the euro area recorded a rate of 0.9 percent in the fourth quarter of 2014, slightly higher than 0.8 percent, registered in the third quarter. This reflects the good performance of the German economy (1.5 percent in Q4 as against 1.2 percent in Q3) and the continued recovery of the Spanish economy (2 percent in Q4 as against 1.6 percent in Q3), which offset the decline of economic activity in France (0.2 percent in Q4 as against 0.4 percent in Q3) and the continued recession in Italy (-0.5 percent over the last two quarters of 2014).

Albeit timid, this higher growth in the euro area was attributed to the recovery of industrial production, including in the construction sector, and to the good performance of consumption. Indeed, the retail trade and car registrations broadly increased in the fourth quarter of 2014. However, recent trends in the production of capital goods still point to a moderate rise in investment. Similarly, the composite purchasing managers' index for production in the euro area fell over the same period, mainly due to lower confidence in the services sector. Finally, the Economic Sentiment Indicator (ESI) also declined during the fourth quarter of 2014.

Regarding the labor market, despite a decrease in the unemployment rate to 11.2 percent in January 2015, from 11.4 percent in the fourth quarter of 2014, this indicator shows a high rate overall and disparities between countries persist. Indeed, unemployment fell slightly in Germany (from 4.9 percent in Q4 of 2014 to 4.7 percent in January) and France (from 10.3 percent in Q4 of 2014 to 10.2 percent in January), while the decrease was more pronounced in Spain (23.7 percent in Q4 of 2014 to 23.4 percent in January) and Italy (13 percent in Q4 of 2014 to 12.6 percent in January).

Furthermore, in line with moderate oil prices, the downward inflation trend in the euro area continued at the beginning of the year, as evidenced by the rates of -0.6 percent and -0.3 percent in January and February, respectively. In addition to energy prices, industrial goods also fell, while services, food, beverages and tobacco increased.

After a growth of 2.7 percent in the third quarter of 2014, the US economy remained strong in the fourth quarter and should register a growth of 2.4 percent. This momentum is driven by a strong private consumption and inventory rebuilding which more than offset the negative effects of higher imports, lower government spending and slower non-residential investment.

The good performance of the US economy continues to benefit the labor market, as unemployment stabilized at 5.5 percent in February 2015, which is a slightly lower rate than in the fourth quarter of 2014. However, these performances, which are very positive overall, should not obscure the mixed trend of the participation rate in the labor market that stagnated, due to demographic changes and the perception of lower-quality jobs offered on the market. Furthermore, the proportion of part-time employees who are looking for a full-time job remains high and decreases only gradually.

Inflation, which follows the global trend, dropped significantly in the United States from an average of 1.2 percent in the fourth quarter of 2014 to -0.1 percent in January 2015. This decrease results from the significant decline in energy prices, which moderated the increase in food and services prices.

Taking into account all these developments, the International Monetary Fund (IMF), in its January forecasts, projects a growth of 1.2 percent in 2015 and 1.4 percent in 2016 in the euro area. For the United States, the IMF expects a growth of 3.6 percent and 3.3 percent in 2015 and 2016, respectively. Compared with the December MPR, forecasts for growth in the euro area did not change significantly, while those for the US economy improved.

Risks to the economic outlook remain high. On the one hand, a faster reversal of oil prices fuel fears especially if markets overreact to a possible decline in supply from producing countries. On the other hand, a stronger-than-expected rise in US long-term interest rates, following the monetary policy normalization process, could cause a reversal of the moderation in risk premiums and increase financial markets' volatility in emerging countries. Finally, a further decline in prices, especially in the euro area, exacerbates fears about a sustained low inflation in the event of adverse economic shocks.

Under these conditions, the weighted average growth rates of Morocco's major trading partners (Germany, Spain, France, Italy and the United Kingdom) assumed in this forecasting exercise stand at 1.4 percent in 2015 and 1.5 percent in 2016. Compared with December MPR projections, these forecasts were revised upward to take into account the favorable growth prospects in Spain. For the record, these rates are calculated on the basis of an average weighted by these countries' respective shares in Moroccan trade.

Regarding inflation forecasts, the Fed, in its latest monetary policy report, anticipates rates to range between 1 percent and 1.6 percent in 2015 and between1.7 percent and 2 percent in 2016, which is a significant downward revision. The ECB, in its economic bulletin of February, expects an inflation rate of 0.3 percent in 2015 and 1.1 percent in 2016, also down from the previously reported levels. The medium-term risks to inflation trends in the euro area remain broadly on the downside, due to uncertainties surrounding economic activity, commodity prices and a possible unanchoring of inflation expectations.

Against this backdrop, projections for non-energy import prices, included in the forecasting models developed by Bank Al-Maghrib, expect a slight decrease over the forecast horizon owing to moderate outlook for global growth.

6.1.2 National environment

In accordance with the assumptions provided in the previous monetary policy report, economic activity should show a favorable trend in 2015. Domestically, this positive profile is mainly due to the prospects of a good crop year and the easing of monetary conditions in line with consecutive declines in the key rate. Externally, the economic recovery, albeit moderate, in the euro area and the drop in oil prices should benefit the Moroccan economy.

Indeed, the significant volume (+55.9 percent at end-January, year on year) and the good distribution of rainfall in the first months of 2015 helped increase the dam water reserves, which now show a filling rate of 78.2 percent (at end-February) from 71.9 percent a year earlier. Under these conditions, BAM forecasts a cereal production of 90 million quintals for the 2014-2015 crop year. In 2016, an average crop year is assumed.

In light of recent developments, the nonagricultural value added would continue the recovery that began since the last year, driven by the consolidation of tertiary branches and the positive contribution of industry, excluding construction. The industrial sector would be driven by the recovery, although fragile, in the euro area, the good performance of exports of Morocco's new global businesses, particularly the automotive industry (10.5 percent at end-January, year on year), and moderation in energy prices.

In terms of demand components, household consumption would show an upward profile thanks to the anticipated improvement in agricultural incomes, rising consumer loans (+10 percent at end-January 2015, year on year) and continued moderation in inflation rates.

In addition, private investment should go stronger in 2015, as evidenced by the increase in imports of capital goods (+7.1 percent at-end January, year on year) and consolidation of equipment loans (+3.9 percent at end-January 2015, year on year). Meanwhile, public investment would positively participate in the recovery of demand. Indeed, the budget allocated to investment under the 2015 Finance Act increased to 5.2 percent of GDP, in the context of a drop in oil prices, which should alleviate the pressure on the state budget.

In light of these developments, a nonagricultural value added of 4 percent is expected in 2015. In total, overall growth should stand at 5 percent, driven mainly by the contribution of the agricultural component.

In the labor market, data for the fourth quarter of 2014 point to an increase in the national unemployment rate from 9.5 percent to 9.7 percent a year earlier, covering a rise from14.4 percent to 14.8 percent in urban areas and stagnation in rural ones at 4 percent. Jobs were created mainly in the primary sector with 35,000 positions, services with 11,000 jobs and industry including handicrafts with 4,000 posts. In contrast, construction showed a loss of 8,000 jobs.

Moreover, tensions on the labor market remain broadly weak, as suggested by BAM's latest quarterly business survey about the current quarter. Indeed, manufacturers overall expect a virtual stagnation in the employed workforce in all industrial sectors with the exception of the automotive industry, where an increase in the employed workforce is anticipated, and the chemical and related industry, where a drop of the workforce is projected. 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 indicates a 5 percent increase in the minimum wage in July 2015 after 5 percent in July 2014.

Furthermore, in connection with the continued high level of production, the easing of geopolitical risks and the appreciation of the US dollar, the World Bank, in its January update, revised down significantly its forecasts for oil prices from $95.7 per barrel to $50.3 in 2015 and to $52.9 in 2016. The IMF, in its update of January, also anticipated a decline in oil prices in 2015 to $56.73 per barrel from $99.4 in the previous update. In 2016, it projected an oil price of about $63.88.

Therefore, and given the recent developments in energy markets, the diesel price at the pump should remain moderate over the rest of the forecast horizon.

6.2 Inflation outlook and balance of risks

After a year marked by weak inflationary pressures, mainly due to sharply lower prices for volatile goods, the recovery in inflation recorded at the end of 2014 should continue over the forecast horizon. This trend would be favored by the dissipation of lower prices for volatile goods and the anticipated consolidation of aggregate demand in the context of an accommodative monetary policy and more conducive macroeconomic conditions.

Therefore, taking into account the latest performances, inflation outlook over the horizon of six quarters was revised slightly upward compared with the December MPR. In the short term, inflation should stand at 1.4 percent in the first quarter of 2015 from 1.1 percent expected in the last MPR. For the full year 2015, the forecast inflation would average 1.4 percent, slightly up from the level reported in the December MPR (1.2 percent). Assuming the non-materialization of the major risks described below, the central forecast for the next six quarters should stand at 1.4 percent, up 0.2 percentage point compared with the rate projected in December.

These projections are based on assumptions considered most probable. However, there are several sources of uncertainty stemming from both the future development of exogenous variables and forecasting models, which may affect the anticipated 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 (see Chart 6.1).

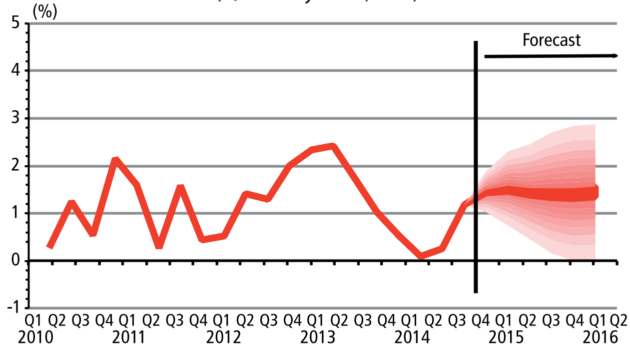
Table 6.1: Inflation outlook for 2015 Q1 –2016 Q2

	2015				2016		Average		
	Q1	Q2	Q3	Q4	Q1	Q2	2015	1st half-year 2016	FH*
Central forecast (%)	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4

(Quarterly data, YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2015 Q1 –2016 Q2
(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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