بنك المغرب
BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 32/ 2014

Document prepared for
the Bank Board
September 23, 2014

Monetary Policy Report

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LIST OF ABBREVIATIONS

ANCFCC	:	National Land Registry Office
APC	:	Association professionnelle des cimentiers (Cement manufacturers professional association)
BAM	:	Bank Al-Maghrib
CFG	:	Casablanca Finance Group
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	:	Consumer Price Index
CPIX	:	Core inflation indicator
CPIXNT	:	Consumer price index of nontradables
CPIXT	:	Consumer price index of tradables
CUR	:	Capacity utilization rate
DH	:	Dirham
ECB	:	European Central Bank
FDI	:	Foreign direct investments
FISIM	:	Financial intermediation services indirectly measured
GDP	:	Gross domestic product
HCP	:	High Commission for Planning
IMF	:	International Monetary Fund
IPI	:	Import price index
MASI	:	Moroccan All Shares Index
MPR	:	Monetary Policy Report
OCP	:	Office chérifien des phosphates (Moroccan Phosphates Office)
OECD	:	Organization for Economic Cooperation and Development
ONE	:	Office national d'électricité (National Electricity Office)
PER	:	Price Earning Ratio
REPI	:	Real estate price index
YoY	:	Year-on-year
VA	:	Value added

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 23, 2014

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, September 23, 2014.

2. During this meeting, the Board examined recent economic, monetary and financial developments and inflation forecasts up to the fourth quarter of 2015.

3. The Board noted that global economic conditions in the second quarter 2014 were marked by stronger growth in the United States from 1.9 to 2.5 percent as well as in the United Kingdom from 3 to 3.2 percent, and a slowdown in the euro area from 1.0 to 0.7 percent. In emerging economies, growth accelerated in China and India while Brazil's GDP posted its second consecutive quarterly contraction. In terms of outlook, the IMF in July lowered its global growth forecast for 2014 from 3.7 to 3.4 percent and maintained it at 4 percent for 2015. In the labor market, the unemployment rate fell slightly in the United States, from 6.2 percent in July to 6.1 percent in August, and stabilized at 11.5 percent in the euro area. Commodity prices broadly trended downward; particularly, the price of Brent fell at a monthly rate of 4.4 percent in August to $102.7 a barrel on average. In this context, inflation declined in most advanced economies, mainly in the euro area which faces a serious risk of deflation. Against this background, the European Central Bank in September decreased the interest rate on the main refinancing operations by 10 basis points to 0.05 percent and that on the deposit facility from -0.10 to -0.20 percent. It also announced that it would conduct a series of targeted longer-term refinancing operations to support credit market and growth. The U.S. Federal Reserve further reduced in September its asset purchase program by $10 billion and reiterated its commitment to keep its policy rate near zero for a considerable period of time after the end of the program. In total, all these developments suggest muted external inflationary pressures in the medium term.

4. Domestically, economic growth decelerated to 1.7 percent in the first quarter 2014, with an increase of 2.2 percent in nonagricultural GDP and a decrease of 1.6 percent in the agricultural value added. Considering recent change in available sub-annual indicators, economic activity would expand by about 2.5 percent for the full year 2014, reflecting an increase of almost 3 percent in nonagricultural GDP and a decrease of nearly 2.5 percent in the agricultural value added. Labor market data for the second quarter indicate that unemployment reached 9.3 percent, up 0.5 point from the same period of 2013. Nonagricultural output gap would be negative and is expected to remain so in the coming quarters, suggesting the absence of demand-led inflationary pressures.

5. Concerning external accounts, the trade deficit in goods narrowed by 3.1 percent to end of August, as exports jumped by 7.1 percent owing mostly to strong growth in automotive sector shipments and less rapid decline in sales of phosphates and derivatives. Despite the 32.2 percent increase in wheat purchases, imports edged up by a mere 1.8 percent because of respective declines by 1.4 percent and 5.6 percent in energy and capital goods purchases. With regard to other current account items, travel receipts improved by 3.0 percent to 40 billion dirhams, and transfers of Moroccan expatriates stabilized at 39.5 billion. Taking account of these developments and revenues from grants, the current account deficit would shrink from 7.6 percent of GDP in 2013 to 6.7 percent in 2014. On the capital account side, net foreign direct investment inflows fell by 9.4 percent. Altogether, the stock of net

international reserves stood at 175.6 billion dirhams to end of August, equivalent to 4 months and 29 days of goods and services' imports. It would remain at this level by the end of 2014.

6. As regards public finance, fiscal deficit -excluding privatization proceeds- reached 42.5 billion dirhams to end of August 2014, as against 42.2 billion in the same period of last year. Current receipts showed an increase of 3.8 percent, driven mainly by a rise of 3.4 percent in tax revenues and 6.4 billion in grants. Investment expenditure grew by 17.3 percent while ordinary expenses rose slightly by 0.6 percent to 159.9 billion dirhams. The change in the latter conceals a decrease of 19.7 percent in subsidy costs and a hike of 17.8 percent in expenses of other goods and services and of 0.9 percent in the wage bill. Given these developments, the objective of a budget deficit at 4.9 percent of GDP in 2014 would be achieved.

7. Latest available monetary data show a slowdown in bank lending, from 4.2 percent on average in the second quarter to 3.9 percent in July, and an increase in the M3 aggregate of no more than 3.5 percent, as against 4.2 percent. The money gap is thus negative, indicating the absence of money-driven inflationary pressures. On the interbank market, the weighted average rate stabilized at 3.01 percent on average in July and August, whereas the average lending rate remained almost unchanged at 5.98 percent during the second quarter. The effective exchange rate of the dirham in the second quarter depreciated at a quarterly rate of 0.37 percent in nominal terms and 1.57 percent in real terms.

8. On the property market, the real estate price index further declined at a quarterly rate of 1.3 percent in the second quarter, after losing 0.2 percent a quarter earlier. By category, land and commercial property prices fell respectively by 3 percent and 3.3 percent, while residential property prices were down 0.1 percent compared to 0.4 percent in the previous quarter.

9. Under these conditions, after rising 0.4 percent year on year in July, the consumer price index held steady in August, reflecting a deeper decline in volatile food prices from 7.1 to 9.9 percent, which more than offset price increases by 12.8 percent in "water supply and sanitation" and by 6.5 percent in electricity. Over the first eight months of the year, inflation reached 0.3 percent and its underlying component was at 1.2 percent on average. The latter fell from 1.4 percent in July to 1 percent in August, owing to the slower price rise in tradables from 1.4 to 0.8 percent and in nontradables from 1.6 to 1 percent. Industrial producer prices continued to trend downward, with a further annual decline of 2.1 percent in July after that of 1.9 percent on average in the second quarter.

10. In light of these developments and taking into account the review of the water and electricity pricing system starting from August, inflation is expected at 0.7 percent in 2014, 1.6 percent on average over the next six quarters, and 1.9 percent at the end of the forecast horizon, with an even balance of risks.

11. In this context, where nonagricultural growth continues to be weak, international reserves are improving and the central inflation forecast is consistent with the price stability objective, the Board decided to lower the key rate from 3 to 2.75 percent, while continuing to closely monitor all these developments.

OVERVIEW

During the second quarter of 2014, the international economic environment was marked by divergent economic trends across countries. Growth improved in the United States from 1.9 percent in the first quarter to 2.5 percent, and in the United Kingdom from 3 to 3.2 percent, while in the euro area it slowed down from 1 to 0.7 percent. After increasing by 2.7 percent, Japan's GDP stagnated, reflecting lower household consumer spending after the VAT increase in April. In major emerging countries, growth improved from 7.4 to 7.5 percent in China and from 4.6 to 5.7 percent in India. In contrast, Brazil's GDP posted its second quarterly contraction and its year-on-year change was negative at 0.9 percent, after rising 1.9 percent. In terms of outlook, the IMF lowered in July its global growth forecast for 2014 to 3.4 percent and kept it unchanged at 4 percent for 2015. The downward revision affected developed countries as well as emerging and developing economies.

In the labor market, the unemployment rate in August slightly decreased in the United States from 6.2 to 6.1 percent, while it remained unchanged at 11.5 percent in July in the euro area. In the United Kingdom, this rate stabilized at 6.4 percent in May.

Regarding the financial sector, sovereign yields continued to decline in most advanced economies, while those of major emerging economies broadly increased between July and August. Meanwhile, stock indexes were down, with an increase in their volatility in most advanced economies, while the MSCI EM virtually stagnated, with declines in the indexes of Turkey and India and an increase in that of China. Bank lending improved in the United States to an annual rate of 6 percent in August from 5.4 percent a month earlier, while its contraction in the euro area slightly eased from 1.8 percent to 1.6 percent. With regard to monetary policy, the ECB decided at its meeting of September 4 to lower its key rate by10 basis points to 0.05 percent and announced the launch of a new private sector asset purchase program. The Fed announced in September a further reduction of $10 billion in its monthly asset purchase program, and reiterated its commitment to maintain its policy rate close to zero for a longer period after the end of the program.

Commodity prices were broadly down, particularly with a 7.5 percent year-on-year decline in the Brent oil price in August to an average of 102.4 dollars a barrel. The agricultural commodity price index fell 10.3 percent and base metal prices were up 8 percent.

Under these conditions, inflation declined in most advanced economies. The euro area continues to face serious risks of deflation, with a stagnant inflation rate at 0.4 percent between July and August, while inflation in the United States stood at 2 percent in July from 2.1 percent.

Overall, the slow pace of recovery and low inflation rates in partner countries indicate the absence of external inflationary pressures in the coming quarters.

Domestically, national accounts data show a slowdown in growth to 1.7 percent in the first quarter of 2014, driven by a 1.6 percent contraction in agricultural value added, while nonagricultural GDP growth almost stabilized at 2.2 percent. Change in available infra-annual indicators in the first eight months of the year was mixed, with particularly a 5 percent contraction in cement sales at end-August and a 3.9 percent increase in electricity sales at end-July. Given these developments, growth should be around 2.5 percent in 2014, as nonagricultural GDP would grow 3 percent and agricultural value added is expected to contract by 2.5 percent. In the labor market, despite a 0.3 percent decline in the participation rate, the unemployment rate stood at 9.3 percent, up 0.5 point compared to the same quarter of the previous year. It moved up from 13.8 to 14.2 percent in urban areas and from 3.2 to 3.6 percent in rural ones. In sum, the level of nonagricultural activities would be below its potential and should remain unchanged in the coming quarters, thus suggesting the absence of inflationary pressures from the real economy.

External accounts data as at end August 2014 indicate a 3.1 percent reduction in the trade deficit compared to the same period of 2013, due to greater increase in exports than imports. Apart from shipments of phosphates and derivatives, which fell 7.1 percent to 25.1 billion dirhams, other exports grew by 11.1 percent, primarily due to the performance of the automotive sector, whose sales were up 32.6 percent to 25.8 billion dirhams. Similarly, sales of the electronics sector and textile and leather sector rose by 26.3 percent and 3.0 percent, respectively, continuing the recovery that began in March. Imports of goods moved up 1.8 percent, mainly reflecting a 32.2 percent increase in wheat purchases. Meanwhile, travel receipts were up 3.0 percent to 40 billion dirhams, remittances from Moroccans living abroad stabilized at 39.5 billion dirhams and grant revenues exceeded 7 billion dirhams. Given these developments, the current account deficit should ease to 6.7 percent of GDP in 2014 from 7.6 percent in 2013. The change in capital account was marked in particular by a 9.4 percent drop in net foreign direct investment. Under these conditions, the stock of net international reserves stood at 175 billion dirhams at end-August, equaling 4 months and 29 days of imports of goods and services and should remain close to this level until the end of 2014.

Regarding public finance, budget execution in the first seven months of 2014 resulted in a deficit of 33.7 billion dirhams, excluding privatization proceeds, down from 37 billion during the same period of last year. This reduction reflects a 7.6 percent increase in current revenues, owing to a 3.6 percent rise in tax receipts and grant revenue. Meanwhile, overall expenditure was up 3.3 percent, mainly covering respective increases of 24.2 percent and 1.3 percent in investment spending and payroll as well as a 16.7 percent decrease in subsidy costs. For the full year 2014, budget deficit should stand at 4.9 percent from 5.5 percent in 2013.

On the monetary side, after having averaged 4.2 percent in the second quarter, the growth of money supply slowed down to 3.5 percent at end-July. The money gap was therefore negative and should remain so in the coming quarters, suggesting the absence of monetary inflationary pressures in the medium term. Bank credit recorded an increase limited to 3.9 percent, year on year, as against 4.2 percent on average in the second quarter, with a stagnation in cash advances, as against an increase of 0.7 percent, and a 5.2 percent rise in equipment loans, from 3.1 percent. Regardless of the merger of a finance company in a local bank, consumer loans were down 1.3 percent in July after an increase limited to 0.9 percent in the previous quarter. For the full year 2014, bank credit growth projection was revised from 4.5 to 4 percent. Regarding monetary conditions, the interbank rate fell slightly to 3.01 percent on average in July and August, and the average lending rate remained almost unchanged at 5.98 percent on average during the second quarter. Similarly, the weighted average rate of 6- and 12-month deposits remained virtually unchanged in July compared to its average level during the second quarter of 2014. The dirham' effective exchange rate depreciated in the second quarter compared to the first quarter by 0.37 percent in nominal terms and 1.57 percent in real terms.

In the real estate market, prices in the second quarter of 2014 dropped by 2.6 percent, year on year, after an increase of 0.4 percent a quarter earlier. This trend reflects respective decreases of 0.3 percent and 7.6 percent in residential and land property prices, after increases of 0.3 percent and 0.8 percent. At the same time, growth of commercial property prices decelerated from 4.7 to 2.8 percent. These developments suggest the absence of inflationary pressures from the assets market in the medium term.

Against this backdrop, inflation, measured by the year-on-year change in the consumer price index, continues to show relatively low levels, standing at 0.4 percent in July from 0.3 percent on average in the first half-year. This trend mainly reflects a decline in the most volatile food prices and, to a lesser extent, a decrease in the prices of some medicinal products last June, which more than offset the impact of rising fuel prices. Core inflation, which traces the underlying trend of prices, fell from 1.5 percent in 2013 to 1.2 percent in the first seven months of 2014, covering a virtual stagnation in inflation of tradables and a decline in that of nontradables. Industrial producer prices continued the downtrend that began early 2013, with an annual decline of 2.1 percent in July after that of 2.3 percent a month earlier.

Based on all of these developments and considering the effect of higher minimum wage and water and electricity prices as well as the expected change in oil prices, inflation should remain moderate, with a neutral balance of risks. It would stand at 0.7 percent in 2014, 1.6 percent on average over the next six quarters and 1.9 percent at the end of the forecast horizon (the fourth quarter of 2015).

بنك المغرب

1. AGGREGATE SUPPLY AND DEMAND

National growth slowed down to 1.7 percent in the first quarter of 2014, from 3.8 percent over the same period a year earlier, reflecting a 1.6 percent decline in the agricultural value added, while the nonagricultural GDP growth stood at 2.2 percent. In the second and third quarters, GDP growth should average 2.4 percent, covering a 2.5 percent decrease in the agricultural value added. Despite an improvement in certain activities, the nonagricultural GDP growth is expected to stand at 2.8 percent. Regarding domestic demand, investment almost stagnated in the first quarter of 2014, a trend expected to persist in the short term. Furthermore, household consumption spending grew by 3.2 percent, as against 3 percent a year earlier and should remain resilient over the coming quarters. Taking into account the developments since the first quarter of the current year, growth should be 2.5 percent throughout the year 2014, the agricultural value added should contract by 2.5 percent and nonagricultural growth would be around 3 percent.

1.1 Output

In the first quarter 2014, national growth slowed down to 1.7 percent, from 3.8 percent over the same period a year earlier, mainly due to a 1.6 percent contraction in the agricultural value added. Nonagricultural GDP growth almost stabilized at 2.2 percent, a rate that remains low compared to its long-term trend.

Based on the latest available data, Bank Al-Maghrib forecasts an average growth of 2.4 percent during the second and third quarters of 2014, with a 2.5 percent decline in the agricultural value added and a 2.8 percent increase in nonagricultural GDP.

In the primary sector, according to the Ministry of Agriculture and Fisheries, cereal production in the 2013-2014 crop year is estimated at 68 million quintals, of which 37 million quintals of soft wheat. With regard to other crops, citrus and olive productions registered record highs of 2.2 and 1.6 million tonnes, representing respective increases of 50 percent and 33 percent compared to the previous crop year. Despite a difficult start, the production of early fruits and vegetables achieved a satisfactory performance and conditions for access to the European market were favorable. As to inshore and small-scale fishing, the volume of products marketed at

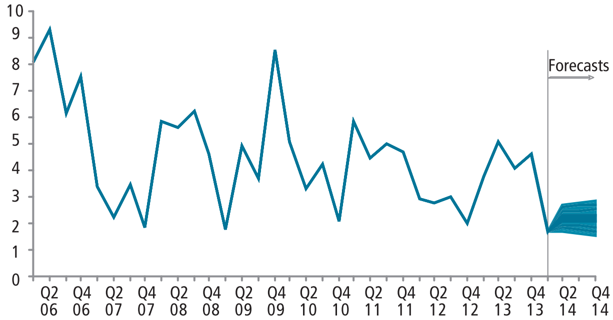
Table 1.1: YoY growth of quarterly GDP at chained prices per major sectors (%)

Activity sectors	2012		2013				2014		
	QIII	QIV	QI	QII	QIII	QIV	QI	QII_F	$QIII_F$
Agriculture	-8.0	-11.4	15.8	20.2	18.7	21.2	-1.6	-2.6	-2.4
Nonagricultural VA	**4.7**	**4.0**	**1.8**	**2.6**	**1.5**	**2.0**	**2.1**	**2.3**	**2.7**
Extractive industry	4.7	-3.6	-3.5	1.7	-2.9	-6.6	6.4	3.7	3.9
Industrie de transformation	1.7	0.1	0.6	1.1	-0.7	2.3	0.9	1.1	1.2
Electricity and water	8.9	-1.3	-4.8	-1.1	1.7	5.8	3.8	6.0	6.8
Building and public works	-0.6	-1.3	-2.7	-1.3	3.8	6.0	0.3	0.4	0.0
Trade	2.0	1.4	0.2	1.6	1.0	1.9	1.4	2.1	2.3
Hotels and restaurants	3.8	7.9	5.4	6.2	3.2	3.7	6.5	5.2	5.9
Transportation	1.5	4.3	-0.3	3.0	3.3	2.9	5.0	4.2	3.6
Post and telecommunication	27.1	28.6	5.9	3.2	1.4	1.4	4.9	4.6	4.2
General government and social security	6.3	6.1	6.0	6.0	1.7	0.0	2.6	2.5	4.0
Other services*	5.4	5.5	3.1	3.3	2.6	2.7	4.0	3.9	4.3
Taxes on products net of subsidies	4.7	5.0	5.1	6.4	6.8	5.8	2.7	2.8	2.7
Nonagricultural GDP	**4.7**	**4.1**	**2.1**	**2.9**	**2.0**	**2.3**	**2.2**	**2.7**	**2.9**
Gross Domestic Product	**3.0**	**2.0**	**3.8**	**5.0**	**4.1**	**4.6**	**1.7**	**2.3**	**2.5**

(*) 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 Q2-2014 - Q4-2014*



(*) Fans depending on the standard deviation.

Sources: HCP, and BAM forecasts.

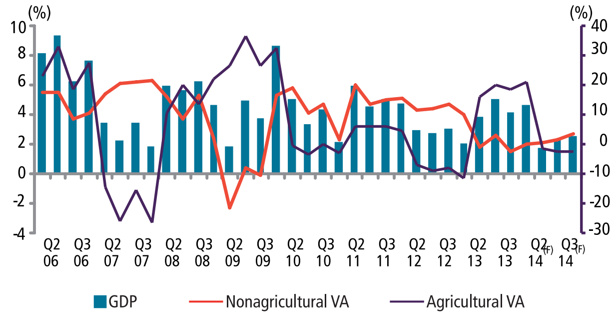
the end of July almost stabilized, reflecting a 3.1 percent increase in catches of pelagic fish, while those of white fish and cephalopods fell 1 percent and 35.2 percent, respectively.

Secondary activities should improve for the second and third quarters of the current year.

In the second quarter of 2014, the value added of the extractive industry would have stood at 3.7 percent from 1.7 percent in the same quarter of the previous year. This change would be attributed to a 7 percent increase in the phosphate production volume, after a virtual stagnation. At the end of July 2014, the production volume moved up 8.1 percent, as against a 2.2 percent drop over the same period a year earlier. Assuming that this trend would continue to be positive, the value added of the extractive industry should grow by 3.9 percent in the third quarter of 2014. The value added of the processing industry would have remained at the same growth rate as the second quarter of last year, representing a change of 1.1 percent. The index of manufacturing industry production rose 1 percent, after a 0.1 percent decline a year earlier. Moreover, the latest foreign trade data show at end-August 2014 an increase in exports of 32.6 percent for cars, 26.3 percent for electronics and 3.7 percent for aeronautics. Furthermore, the findings of BAM's business survey of June show that economic activities and sales increased for almost all branches and the capacity utilization rate stabilized at 70 percent, a trend that was reversed in July, particularly due to the calendar effect attributed to the month of Ramadan. For the next three months, manufacturers expect an increase in activity with the exception of "electrical and electronics" branches.

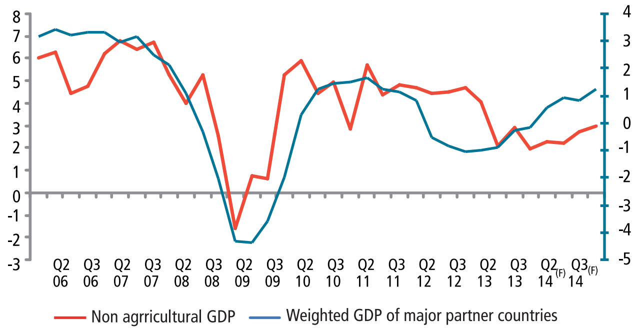
The value added of "electricity and water" should grow 6 percent in the second quarter of 2014, as against a 1.1 percent decline a year earlier. Indeed, the local net production of the National Electricity and Water Office

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



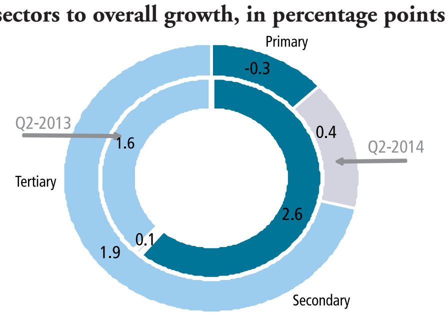
Sources: HCP, and BAM calculations and forecasts.

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



Sources: HCP, IMF and BAM 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.

and its overall sales were up 7.7 percent and 6.6 percent, respectively, as against declines of 1.2 percent and 0.7 percent. At end-July 2014, they rose 4.1 percent and 3.9 percent, as against decreases of 1.6 percent and 0.7 percent a year earlier. Assuming that current trends would continue, the value added of this branch should record an increase of around 6.8 percent in the third quarter.

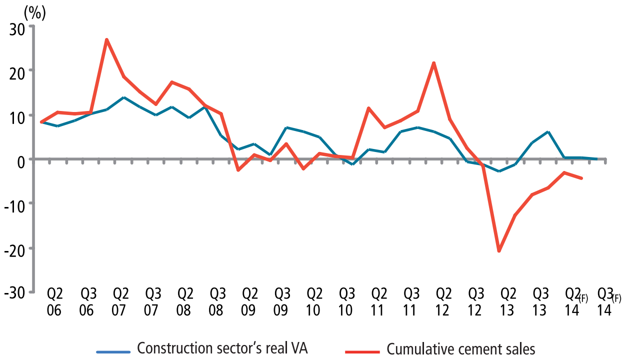
Moreover, the construction activity would have almost stabilized in the second and third quarters of 2014, as against a 1.3 percent decline in the second quarter and a 3.8 percent increase in the third quarter of last year. The data available at end-August indicate a 5 percent decrease in cement sales, as against 10.2 percent over the same period last year, as well as a 4.7 percent decline at-end July in loans to real estate developers, after a drop of 2 percent a year ago.

Regarding the services sector, the value added of posts and telecommunications should grow 4.6 percent in the second quarter of 2014. Data from the National Telecommunications Regulatory Agency (ANRT) reveal respective increases of 8.3 percent and 59.2 percent in the number of mobile phone and Internet subscribers. Moreover, the consumer price index of the communication branch dropped by 9 percent in the second quarter 2014.

The growth of the trade value added should stand at 2.1 percent in the second quarter and remain unchanged in the third quarter. The transport value added should show an increase of around 4.2 percent in the second quarter.

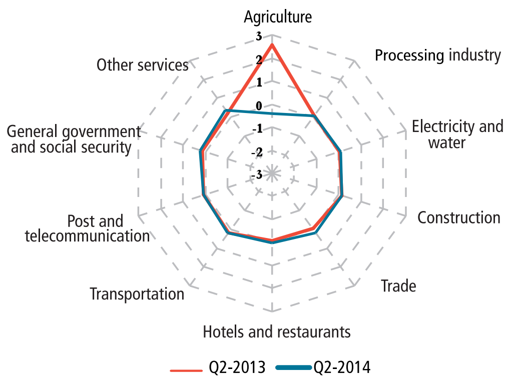
The value added of hotels and restaurants should grow 5.2 percent in the second quarter of 2014, as against 6.2 percent over the same period last year. Foreign trade data at end-August 2014 indicate a 3 percent increase in travel receipts, as against 2.1 percent a year

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



Sources: APC, HCP and BAM forecasts.

Chart 1.6: Sectoral contribution to overall growth

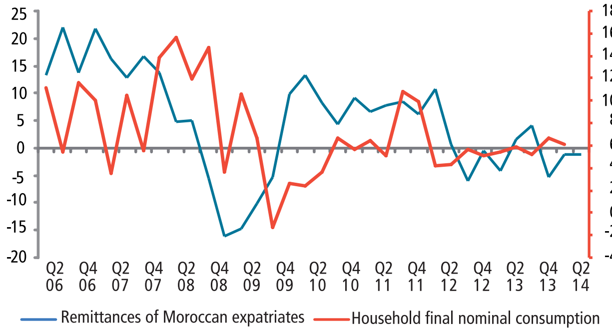


Sources: HCP, and BAM forecasts and calculations.

earlier. In addition, data from the Ministry of Tourism at end-July 2014 show respective increases of 8 percent and 5.2 percent in arrivals at border posts and overnight stays in classified hotels, as opposed to 0.9 percent and 5.6 percent at end-July 2013. Thus, the occupancy rate stood at 43 percent, up one percentage point over the same period a year earlier.

Taking into account these elements, growth should be around 2.5 percent for the full year of 2014. Per component, the agricultural value added should contract by 2.5 percent and nonagricultural GDP growth should stand at around 3 percent.

Chart 1.7: YoY change in household final consumption and remittances of Moroccans living abroad (%)



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

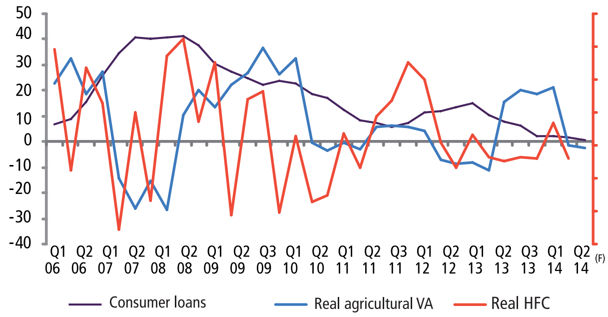
1.2 Consumption

The growth of household final consumption stood at 3.2 percent in the first quarter of 2014, as against 5.4 percent a quarter earlier and 3 percent in the same quarter of the previous year. It should maintain its pace of growth in the coming quarters, mainly thanks to the expected slight improvement in nonagricultural activities.

In the second quarter of 2014, the HCP economic survey shows that the household confidence index virtually stagnated compared to the first quarter of 2014 and fell slightly by 0.3 percentage point from its level in the second quarter of 2013. In addition, the unemployment rate rose in the second quarter from 8.8 percent to 9.3 percent, year on year.

Monetary data at the end of the first seven months of 2014 show a faster growth of consumer loans, which stood at 7.1 percent, as against 2.9 percent a year earlier. However, this change was attributed to the merger between BMCI and its consumer loan subsidiary. Remittances from Moroccans living abroad remained virtually stable at end-August 2014.

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

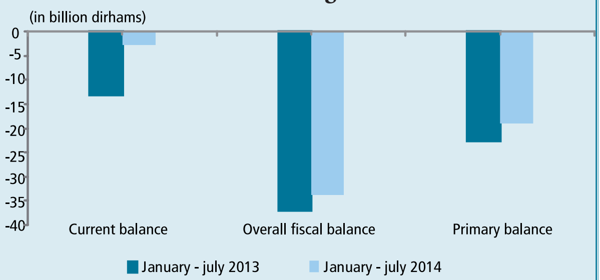


Sources: HCP, BAM, and BAM calculations and forecasts.

Box 1.1: Budget execution at end-July 2014

The budget execution in the first seven months of 2014 resulted in a deficit (excluding privatization) of 33.7 billion, as against 37 billion a year earlier. This reduction is attributable to a 7.6 percent increase in current revenue, thanks to both tax and nontax receipts, as opposed to a more moderate increase in overall expenditure, attributed overall to a decrease in subsidy costs. The current balance was negative at 2.8 billion, showing a net decrease of 10.3 billion.

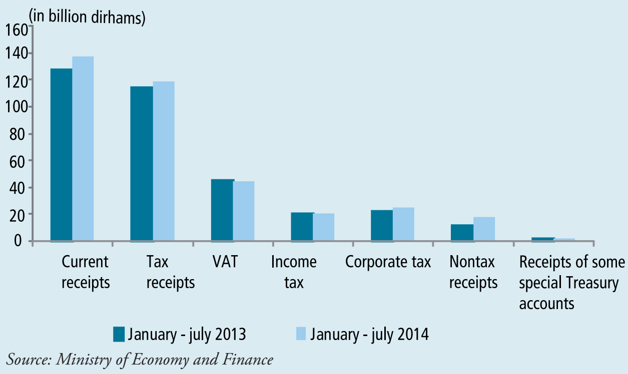
Chart B1.1.1: Budget balances



Source: Ministry of Economy and Finance

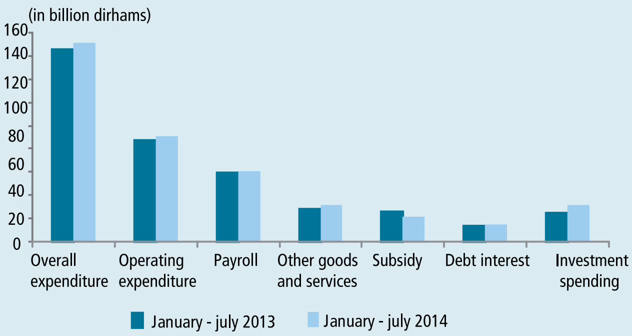
Compared to end-July 2013, the Treasury's current revenues rose 7.6 percent to 137.4 billion, reflecting respective increases of 3.6 percent and 47.7 percent in tax revenue and nontax receipts, excluding privatization, to 118.6 billion and 17.4 billion. The improvement in tax revenue is mainly due to higher direct taxes and registration and stamp fees. Indeed, direct tax receipts moved up 3.8 percent to 45.9 billion, following increases of 1.4 percent in income tax revenue to 20.5 billion and 8.8 percent in corporate tax receipts to 24.5 billion, partly in conjunction with the corporate tax withheld at source following the sale of a share of the capital of Maroc Telecom. Indirect tax revenues rose slightly by 1.2 percent to 58.6 billion dirhams, covering divergent trends of VAT and domestic consumption tax (DCT). Thus, the VAT revenue decreased by 1.8 percent to 44.5 billion, reflecting a 7.8 percent decrease in domestic VAT to 16.8 billion and a 2.3 percent improvement in import VAT to 27.7 billion. DCT was up 12 percent to 14.1 billion, mainly thanks to energy DCT whose receipts moved up 17.6 percent to 8.7 billion. Registration and stamp fees generated a revenue of 9.7 billion, up 22.8 percent, due to an income of 1.4 billion from the sale of a share of the capital of Maroc Telecom. Proceeds from customs duties were down 1.6 percent to 4.4 billion.

Chart B1.1.2: Current revenues



Source: Ministry of Economy and Finance

Chart B1.1.3: Overall expenditure



Meanwhile, overall expenditure amounted to 171.4 billion dirhams, up 3.3 percent compared to end-July 2013, covering a 24.2 percent increase in investment spending to 31.1 billion and a decline of 0.4 percent in current expenditure to 140.2 billion, following a 16.7 percent decrease in subsidy costs to 21.4 billion. Indeed, operating expenses heightened by 4.1 percent to 90.8 billion, mainly owing to an increase of 10.1 percent to 31 billion in spending on other goods and services, while staff costs moved up 1.3 percent to 59.9 billion. Debt interest charges rose by 2.4 percent to 14.7 billion.

Given a backlog of outstanding payments, amounting to 2.9 billion, bringing the stock to 20.2 billion, the Treasury borrowing requirement stood at 30.8 billion, easing by 18.8 billion compared to end-July 2013. In addition to privatization receipts of nearly 2 billion from the sale of State shares in the capital of Banque Centrale Populaire, and due to a positive external net flow of 7.2 billion, the Treasury used the domestic market for an amount of 21.5 billion, down 19.6 billion compared to the first seven months of 2013.

In terms of government consumption, date on Treasury expenses and revenues at end-July reveal a slowdown from 10.7 percent to 4.1 percent in operating expenses. This change reflects a slower growth in personnel costs and spending on other goods and services, moving down in one year from 5.2 percent to 1.3 percent and from 24.2 percent to 10.1 percent, respectively.

1.3 Investment

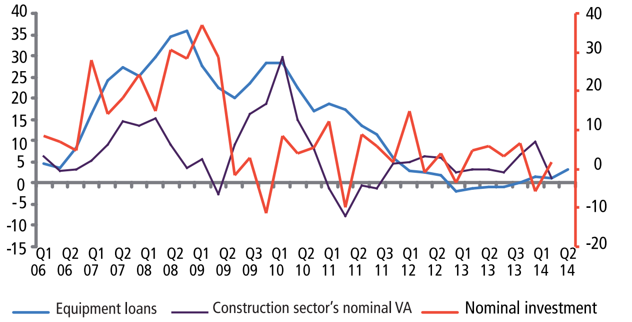
Investment virtually stagnated in the first quarter 2014, after falling 0.8 percent over the same period last year. The latest available data show that this trend should persist in the coming quarters.

Indeed, at end-August 2014, imports of capital goods and FDI flows indicate declines of 5.6 percent and 9.4 percent, respectively, while the monetary data show a 5.2 percent increase in equipment loans at end-July, as against 0.7 percent a year earlier.

With respect to investment in construction, real estate loans decelerated, year on year, from 5.2 percent to 2.4 percent at the end of July 2014, covering a slowdown in both loans to private nonfinancial corporations and credit to households. In addition, loans to real estate developers dropped by 4.7 percent, as against 2 percent a year earlier. While cement sales declined further by 5 percent at end-August, as against 10.2 percent a year earlier, real estate prices fell by 2.6 percent in the second quarter of 2014, covering respective contractions of 0.3 percent and 7.6 percent in residential property prices and land ones, and a 2.8 percent increase in commercial property prices.

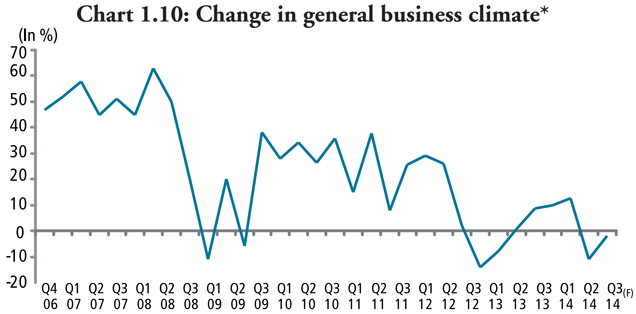
Data as at end-July on Treasury expenses and revenues show a 24.2 percent increase in Treasury investment, as against 7.4 percent in the previous year. Compared to budget planning, the implementation rate amounted to 71.2 percent.

Chart 1.9: YoY change in total investment, construction sector's value added and equipment loans



Sources: HCP, BAM, and BAM calculation and forecasts.

Chart 1.10: Change in general business climate*



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

Source: BAM monthly business survey.

1.4 External accounts

At end-August 2014, the trade deficit eased by 3.1 percent to 131.1 billion dirhams, compared to the same period of 2013. This improvement reflects an increase of 7.1 percent in exports to 131.7 billion dirhams, greater than that of 1.8 percent in imports, which stood at 262.8 billion dirhams. Under these conditions, the import coverage rate increased from 47.6 percent to 50.1 percent.

Export trends cover an 11.1 percent increase in sales excluding phosphates and derivatives to 106.7 billion dirhams, and a 7.1 percent decrease in OCP sales to 25.1 billion. Indeed, shipments of the automotive sector increased by 32.6 percent to 25.8 billion dirhams, in conjunction with exports of cars, which rose by 78 percent to 12.6 billion dirhams. The latter brought their contribution to export growth to 5.2 percentage points from 2.4 between January and July 2013. Similarly, shipments of electronics and aeronautics industries moved up 26.3 percent and 3.7 percent, respectively. Textile and leather sales continued to improve since March 2014, with a 3 percent increase, mainly due to a 4.6 percent rise in exports of ready-made garments. Shipments of the agricultural and agri-food sector increased by 1.9 percent to 23.9 billion dirhams, mainly due to a 5.6 percent increase in sales of agricultural and forestry products.

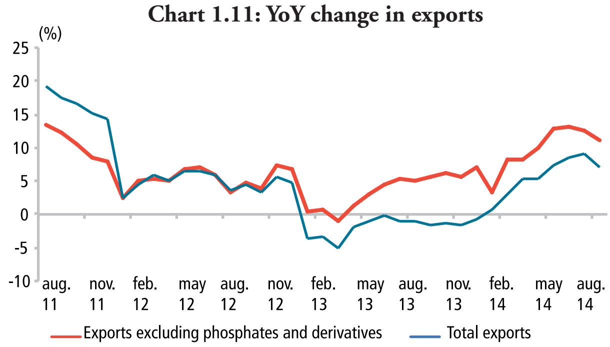
Import growth at end-August reflects an increase of 15.8 percent in the food bill to 29.3 billion dirhams and an easing of 1.4 percent in the energy one to 66.1 billion dirhams. Indeed, supplies of wheat were up 32.2 percent to 9.2 billion, while those of gas-oil and crude oil declined by 4.1 percent and 3.6 percent to 23.8 billion and 20.9 billion dirhams, respectively. Purchases

Table 1.2 : Change in the trade balance at end-August 2014

(In millions of dirhams)	jan.-aug. 2013	jan.-aug. 2014*	Change	
			Amount	%
Exports	**122 972**	**131 725**	**8 753**	**7.1**
Phosphates and derivatives	26 963	25 058	-1 905	-7.1
Exports excluding phosphates and derivatives'	**96 009**	**106 667**	**10 658**	**11.1**
Automotive	19 475	25 832	6 357	32.6
Electronics	4 519	5 708	1 189	26.3
Aeronautics	4 800	4 976	176	3.7
Textile and leather	21 740	22 399	659	3.0
Agriculture and food industry	23 511	23 949	438	1.9
Imports	**258 263**	**262 788**	**4 525**	**1.8**
Energy imports	66 960	66 055	-905	-1.4
Imports excluding energy	**191 303**	**196 733**	**5 430**	**2.8**
Consumer goods	43 385	46 658	3 273	7.5
Food products	25 323	29 332	4 009	15.8
Semi-finished goods	54 461	54 441	-20	-
Capital goods	55 726	52 597	-3 129	-5.6
Raw products	12 384	13 544	1 160	9.4
Trade deficit	**135 291**	**131 063**	**-4 228**	**-3.1**

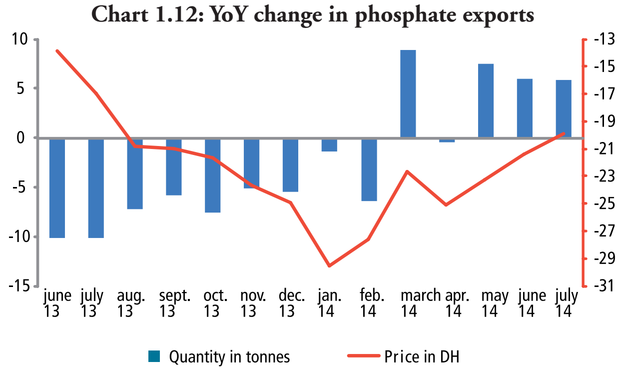
** Provisional data.*
Source: Foreign Exchange Office.

Chart 1.11: YoY change in exports



Source: Foreign Exchange Office.

Chart 1.12: YoY change in phosphate exports



Source: Foreign Exchange Office.

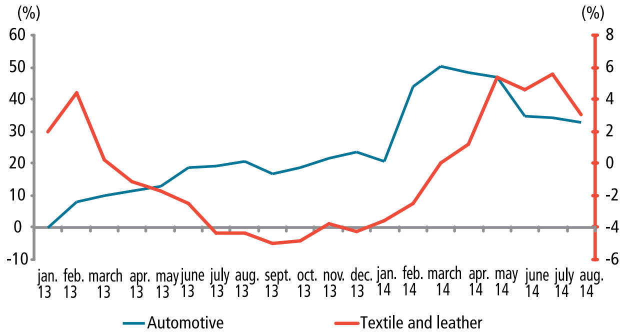
of consumer goods rose 7.5 percent to 46.7 billion, particularly those of passenger cars, which moved up 12.6 percent to 7 billion dirhams. Supplies of raw materials increased by 9.4 percent to 13.5 billion, mainly owing to respective increases of 18.8 percent and 10.9 percent in purchases of crude sulfur and of soybean oil. In contrast, imports of capital goods were down 5.6 percent to 52.6 billion dirhams, essentially in conjunction with a drop of 59.3 percent in purchases of sorting machines and a decline of 19 percent in imports of industrial vehicles. Semi-finished purchases remained unchanged from 2013 at 54.4 billion dirhams.

For other components of the current account, travel receipts rose by 3 percent to 40 billion and similar expenses increased by 9.1 percent to 8 billion. Transfers from Moroccans living abroad remained almost stable at 39.5 billion.

Given these developments, the forecast current account deficit at the end of 2014 was adjusted downward to 6.7 percent as a percentage of GDP, as against 7.1 percent initially anticipated.

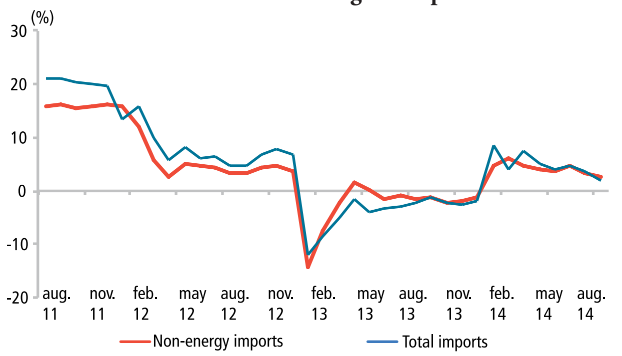
Regarding capital account, available data indicate a decline of 29.2 billion in foreign direct investment inflows to 19.8 billion dirhams. The outflows contracted by 66.4 billion to 3.3 billion, which is a net inflow of FDI of 16.5 billion, from 20.9 billion in August 2013. Given the other elements of the capital account, the outstanding net international reserves stood at 175.6 billion dirhams at end-August 2014, equaling four months and 29 days of imports of goods and services, as against 4 months and 9 days over the same period in 2013.

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



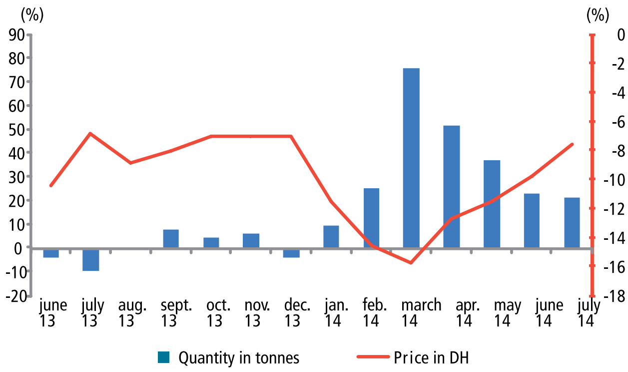
Source: Foreign Exchange Office.

Chart 1.14: YoY change in 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

BAM's monthly business survey in industry shows that the capacity utilization rate (CUR) in the industrial sector declined between June and July by five points to 65 percent. Meanwhile, the labor market conditions were characterized in the second quarter by a year-on-year increase of 0.5 percentage point in the unemployment rate to 9.3 percent and a creation of only 39,000 jobs. With regard to labor costs, the private sector's average wage index rose, year on year, by 3.7 percent in nominal and real terms in the second quarter. Nonagricultural output gap would remain below zero in the third quarter of 2014, according to estimates by Bank Al-Maghrib.

Overall, despite some tensions in production costs, the continued deterioration of the labor market conditions and the persistence of spare capacity in the economy do not suggest price pressures in the coming quarters.

2.1 Pressures on output capacity

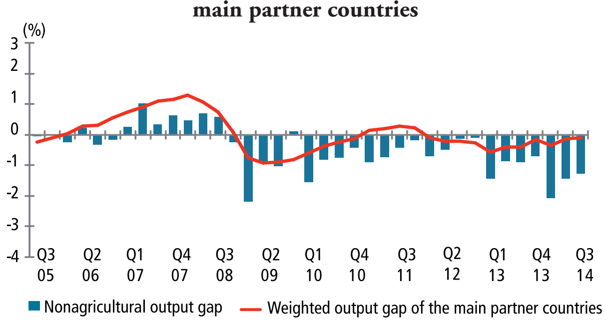
The latest estimates by Bank Al-Maghrib indicate that nonagricultural activities would remain below their potential in the third quarter of 2014. Nonagricultural output gap would have continued to trend below zero (Chart 2.1).

Meanwhile, BAM's monthly business survey in industry shows that the CUR fell from 70 percent in June to 65 percent in July, a rate lower than its historical average (Chart 2.2). This decrease affected all sectors, with the exception of textile and leather industries, in which the CUR rose three points to 65 percent.

The same survey shows that the unit production cost would have increased overall, year on year, in the second quarter of 2014 (Chart 2.3). According to manufacturers, this increase reflects in particular higher energy and commodity costs.

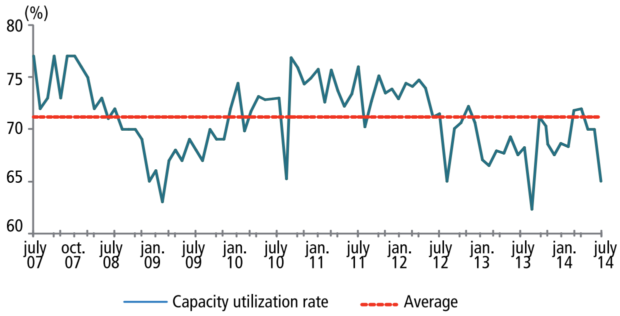
Apparent labor productivity in nonagricultural activities showed a year-on-year increase of 1.7 percent in the second quarter, as against 1.2 percent a year earlier (Chart 2.4). This growth is due to higher nonagricultural value added, estimated by BAM at 2.3 percent, representing a pace faster than that of nonagricultural employment (0.5 percent).

Chart 2.1: Output gap of nonoagricultural sectors and in the main partner countries



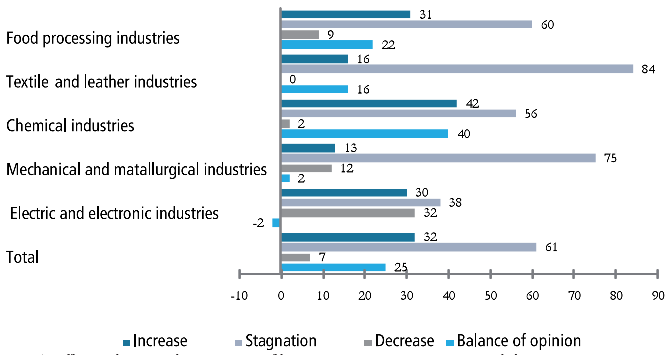
Sources: HCP, Eurostat and BAM estimates.

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.

2.2 Pressures on the labor market

At the end of the second quarter, the labor force aged 15 and over showed an increase of 0.9 percent to 12 million people, with a rise of 1.1 percent in urban areas and 0.7 percent in rural ones. Taking into account demographic changes, the participation rate fell from 49.2 percent to 48.9 percent nationally.

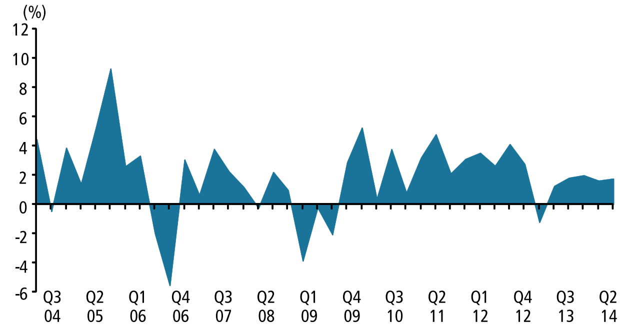
Meanwhile, only 39,000 jobs were created, including 28,000 jobs in urban areas and 11,000 jobs in rural ones (Chart 2.5). At the sectoral level, services remain the main job-providing sector with 43,000 jobs, followed by the construction sector, which registered the first increase in the volume of employment since the second quarter of 2012, with a creation of 14,000 jobs. However, industry, including handicrafts, and agriculture showed respective losses of 11,000 and 7,000 jobs.

Against this backdrop, employed labor force showed an increase of 0.4 percent to 10.9 million people and the employment rate dropped from 44.9 percent to 44.4 percent overall, reflecting a decline of 0.5 point to 36.8 in urban areas and 0.3 point to 56.1 in rural areas (Table 2.1).

Overall, the unemployment rate rose by 0.5 point to 9.3 percent, up from 13.8 percent to 14.2 percent in urban areas and from 3.2 percent to 3.6 percent in rural ones. This change particularly affected urban young people aged 15-24 years, as the rate rose from 35.2 percent to 36.4 percent (Table 2.1).

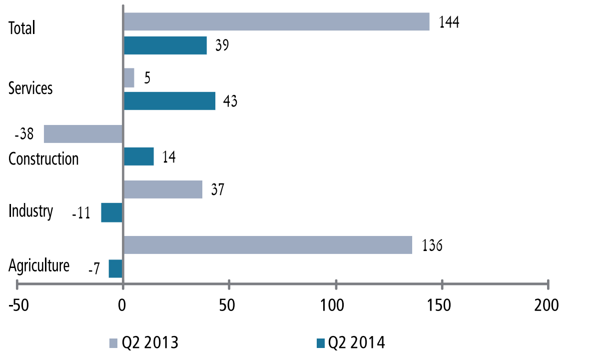
Regarding labor costs, the private sector's wage average index, based on CNSS provisional data, posted in the second quarter a year-on-year increase of 3.7 percent in nominal and real terms (Chart 2.6).

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



Sources : HCP, and BAM estimates.

Chart 2.5: Change in job creations per sector (in thousands)



Source: HCP.

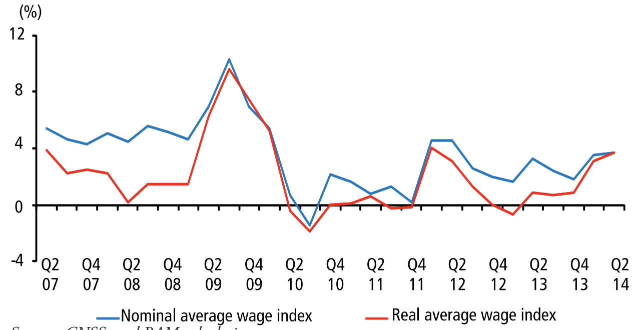
Table 2.1: Quarterly indicators of activity, employment, and unemployment

In thousands / in %	Q2 - 2013 Urban	Q2 - 2013 Rural	Q2 - 2013 Total	Q2- 2014 Urban	Q2- 2014 Rural	Q2- 2014 Total
Labor force and employment						
Labor force [1]	6.339	5.561	11.900	6.407	5.598	12.005
Labor force participation rate (%) [2]	43.3	58.3	49.2	42.9	58.2	48.9
Employed labor force	5.466	5.385	10.852	5.495	5.396	10.891
Employment rate (%) [3]	37.3	56.4	44.9	36.8	56.1	44.4
Unemployed labor force						
Unemployment rate (in %) [4]	873	176	1.049	912	202	1.114
By age	13.8	3.2	8.8	14.2	3.6	9.3
.15 - 24 years						
.25 - 34 years	35.2	7.4	18.4	36.4	8.3	19.2
.35 - 44 years	20.2	3.7	13.2	20.2	4.0	13.4
By degree	7.4	1.5	5.0	8.2	1.7	5.6
. Non-graduates	8.2	1.9	4.3	7.7	2.0	4.1
. Graduates	17.9	8.6	15.8	19.0	9.9	16.9

(1) Population aged 15 years and above (in thousand of persons).
(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.

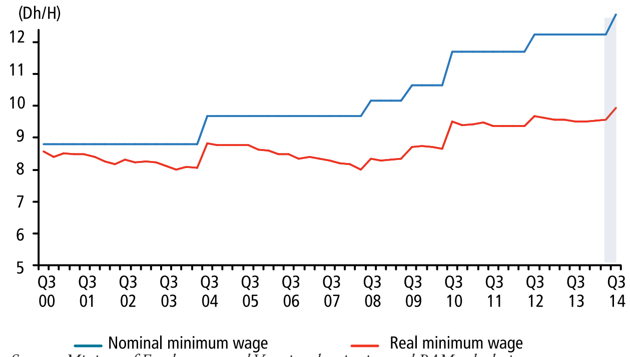
The hourly minimum wage stagnated in the second quarter in nominal and real terms. However, it was raised by 5 percent in nominal terms in early July 2014, to 12.85 dirhams/hour (Chart 2.7). This should result in a year-on-year increase of 4.4 percent in the minimum wage in real terms in the third quarter of 2014, as against a decline of 1.7 percent a year earlier.

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 trainning and BAM calculations.

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

National accounts data for the second quarter of 2014 show divergent trends across countries. Thus, in advanced countries, growth slowed down in the euro area and improved in the United States. In key emerging countries, it grew in China and India and fell in Brazil and Russia. In addition, with the exception of Germany, the unemployment rate remains high overall in the euro area, while in the United States, it declined slightly to 6.1 percent in August 2014, its lowest level since August 2008. Financial markets of advanced economies were marked by lower bond yields and a fall in major market indexes, both European and American. Commodity prices were overall tilted to the downside, year on year. Against this backdrop, inflation declined in most advanced economies, especially in euro area countries. These developments suggest a moderation of external inflationary pressures over the coming quarters.

3.1 Global financial conditions and economic activity

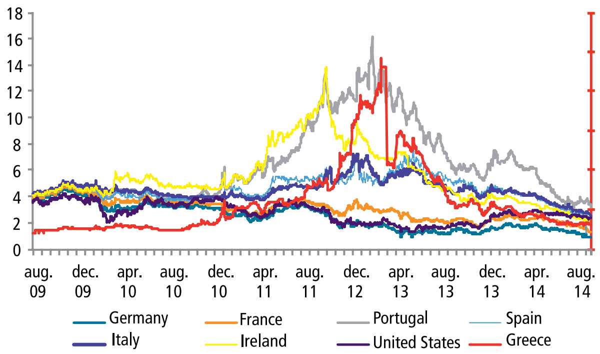
3.1.1 Financial conditions

In bond markets, 10-year yields were overall tilted to the downside. Between July and August, they fell from 2.7 percent to 2.4 percent in Spain, from 3.7 percent to 3.6 percent in Portugal and from 2.8 percent to 2.7 percent in Italy. In contrast, Greek yields increased slightly from 6.1 percent to 6.2 percent. In core eurozone countries, these yields moved down from 1.6 percent to 1.5 percent in France and stood at 1.1 percent from 1.2 percent in Germany. Meanwhile, yields on U.S. Treasury bills dropped to 2.4 percent in August from 2.5 percent a month earlier.

In key emerging economies, 10-year yields increased overall between July and August. They rose from 11.6 percent to 11.8 percent in Brazil, from 4.2 percent to 4.3 percent in China and from 8.7 percent to 9.2 percent in Turkey, while they stagnated in India at 8.7 percent.

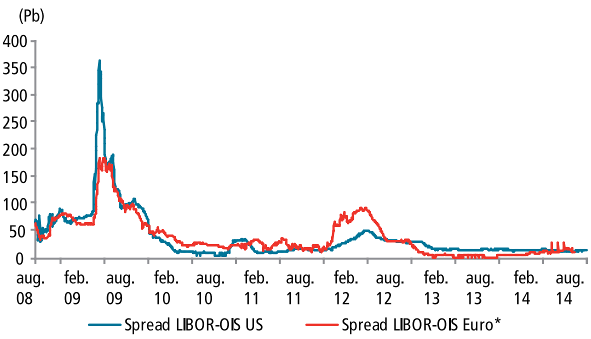
In money markets, the 3-month Euribor fell to 0.20 percent in August from 0.21 percent a month earlier, while the 3-month Libor stabilized at 0.23 percent. The dollar Libor-OIS spreads were up to 14.1 basis points from 13.6 points, month on month. The annual bank credit growth improved in the United States to 6 percent in August from 5.4 percent a month earlier, while in the euro area, its contraction eased

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



Source: Datastream .

Chart 3.2: Change in the OIS-LIBOR spread*



** The Libor-OIS spread reflects an interest rate risk and corresponds to the difference between the 3-month interbank rate (Libor Eurodollar) and the 3-month overnight indexed swap rate (OIS).*
Source: Datastream .

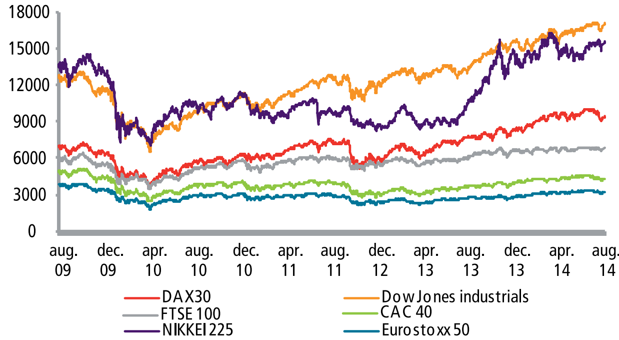
slightly to 1.6 percent from 1.8 percent.

In stock markets, major indexes of advanced economies trended downward, with an increase of their volatility. Indeed, from July to August, the EUROSTOXX50, Dow Jones Industrials and Nikkei 225 showed respective declines of 4.2 percent, 2 percent and 0.5 percent. Similarly, the DAX 30, CAC40 and FTSE100 fell 5.8 percent, 3.5 percent and 1.4 percent, respectively. In terms of volatility, VSTOXX rose between July and August from 15.8 basis points to 18.6 points and VIX was up from 12.2 basis points to 14.2 points. In emerging markets, the MSCI EM almost stagnated, covering respective decreases of 4.5 percent and 0.1 percent in MSCI Turkey and India, and an increase of 4.5 percent in MSCI China.

In foreign exchange markets, the euro depreciated by 1.3 percent against the dollar between July and August, trading at 1.34 dollar, and by 0.5 percent versus the Japanese yen. However, it appreciated by 0.6 percent vis-à-vis the pound sterling. Currencies of key emerging countries depreciated against the dollar. Between July and August, a dollar traded at 2.3 Brazilian real, 2.2 Turkish lira and 61 Indian rupee, representing respective depreciations of 2.1 percent, 1.9 percent and 1.5 percent. In addition, a dollar continued to trade at 6.2 Chinese yuan.

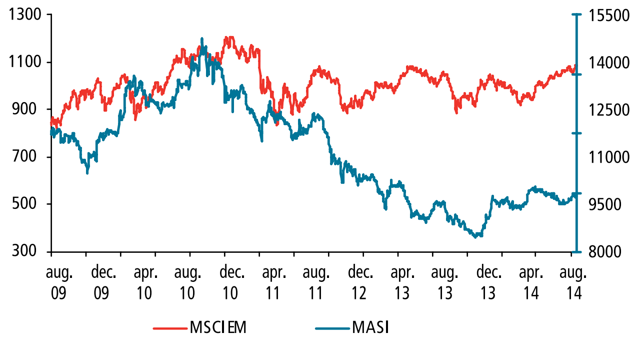
With regard to monetary policy decisions, the ECB lowered, at its meeting of September 4, its key rate from 0.15 percent to 0.05 percent, its lowest historical level, in order to fight against deflation and revive the economic activity. However, the Bank of England kept its key rate unchanged at 0.5 percent. The Fed announced on September 17 a further $10 billion reduction in its bond buyback program, bringing it to $15 billion a month. It also reiterated its commitment to maintain its key rate close to zero for a longer period after the end of its bond buyback program.

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



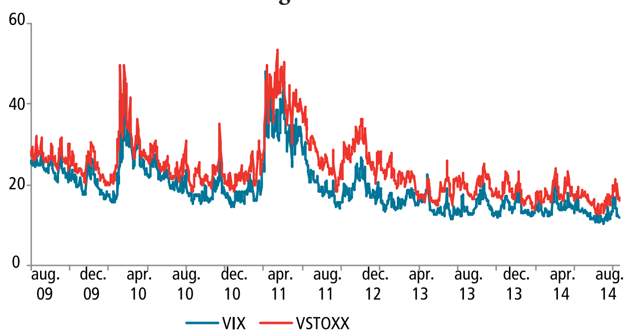
Source: Datastream.

Chart 3.4: Change in the MSCI EM and MASI



Source: Datastream.

Chart 3.5: Change in VIX and VSTOXX



Source: Datastream.

3.1.2 Global economic activity

In the second quarter of 2014, the economic activity showed divergent trends across countries.Indeed, growth in the United States moved up from 1.9 percent to 2.5 percent in the second quarter 2014, driven by a recovery of investment and rising exports. Similarly, it rose from 3 percent to 3.2 percent in the United Kingdom, in conjunction with an increase registered in services. However, after four quarters of consecutive increases, Japan's GDP stagnated, affected by the sharp drop in household consumer spending, following an increase in VAT as of April.

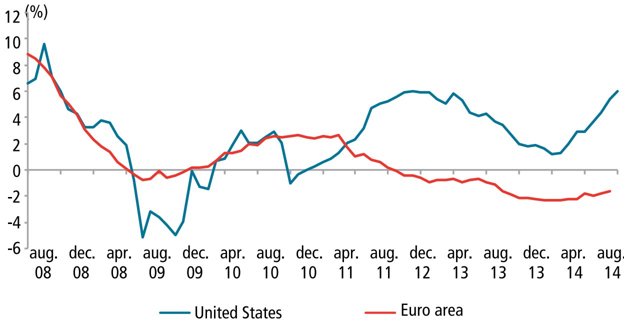
In the euro area, GDP growth decelerated from 1 percent to 0.7 percent in the second quarter, mainly reflecting a slower growth from 2.2 percent to 1.3 percent in Germany and from 0.8 percent to 0.1 percent in France. However, growth accelerated in Spain from 0.5 percent to 1.2 percent and in Italy, GDP contraction eased from 0.4 percent to 0.2 percent.

In major emerging markets, growth improved in China to 7.5 percent in the second quarter from 7.4 percent and in India to 5.7 percent from 4.6 percent. However, it decreased from 1.9 percent to -0.9 percent in Brazil and from 0.9 percent to 0.8 percent in Russia.

Moreover, high-frequency indicators for August show a slight economic slowdown in the euro area. The composite PMI fell by 1.3 point to 52.5, but remained above the expansion threshold of 5 percent. In the United States, the ISM manufacturing index was up 1.9 point to 59 points, exceeding the expansion threshold by 18 percent.

In terms of outlook, the IMF, in its July update, revised down its global growth prospects for 2014 to 3.4 percent and kept them unchanged at 4 percent for 2015, given the weaker activity in the first quarter, particularly in the United States

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



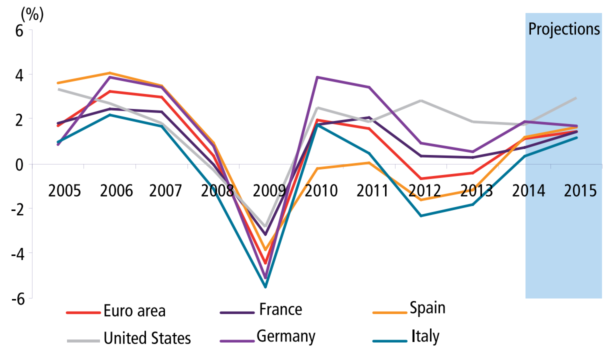
Source: Datastream.

Table 3.1: YoY change in quarterly growth

	2012	2013				2014	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
United States	1.6	1.7	1.8	2.3	3.1	1.9	2.5
Euro area	-1	-1.1	-0.6	-0.3	0.5	1	0.7
France	0	-0.2	0.7	0.3	0.8	0.8	0.1
Germany	0.1	-0.6	0.1	0.3	1.1	2.2	1.3
Italy	-2.9	-2.4	-2.2	-1.9	-0.9	-0.4	-0.2
Spain	-2.1	-1.9	-1.6	-1.1	-0.2	0.5	1.2
United Kingdom	0.2	0.7	1.8	1.8	2.7	3	3.2
Japan	-0.3	-0.1	1.3	2.4	2.4	2.7	0
China	7.9	7.7	7.5	7.8	7.7	7.4	7.5
India	4.4	4.4	4.7	5.2	4.6	4.6	5.7
Brazil	1.8	1.9	3.5	2.4	2.2	1.9	-0.9

Source : Datastream.

Chart 3.7: GDP growth in advanced countries



Source: IMF projections, July 2014.

and less optimistic outlook for many emerging countries. Growth in advanced economies should stand at 1.8 percent in 2014 and 2.4 percent in 2015, as against 2.2 percent and 2.3 percent in the WEO of April. In emerging and developing countries, GDP should grow 4.6 percent in 2014 and 5.2 percent in 2015, compared to 4.8 percent and 5.3 percent. By country, GDP growth in 2014 and 2015 would stand respectively at 1.7 percent and 3 percent in the United States, 1.1 percent and 1.5 percent in the euro area, while in Japan it is expected to be 1.6 percent before decelerating to 1.1 percent. Moreover, growth would stand at 7.4 percent and 7.1 percent in China, 5.4 percent and 6.4 percent in India, 1.3 percent and 2 percent in Brazil and 0.2 percent and 1 percent in Russia, in 2014 and 2015, respectively. Like the IMF outlook, recent forecasts of September 2014 from the OECD show a downward revision of growth in major advanced economies in 2014 and 2015. Indeed, growth in the United States would reach 2.1 percent in 2014 and 3.1 percent in 2015, while in the euro area, it should stand at 0.8 percent and 1.1 percent, respectively.

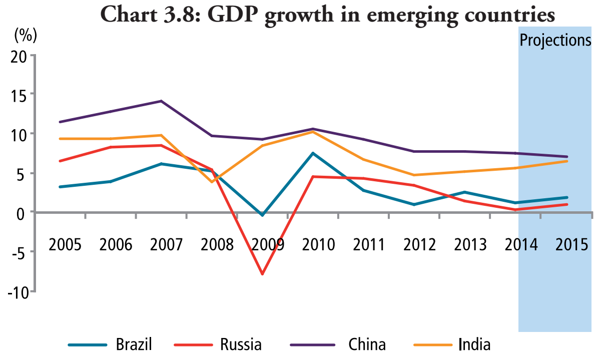
3.1.3 Labor market

In the United States, the unemployment rate in August 2014 fell slightly from 6.2 percent in the previous month to 6.1 percent. In the euro area, data as at end-July show that it remained broadly unchanged at 11.5 percent from one month to the next. In partner countries, this rate increased from 10.2 percent to 10.3 percent in France and from 12.3 percent to 12.6 percent in Italy.

In contrast, in Germany and Spain, the unemployment rate dropped in July from 5 percent to 4.9 percent and from 24.6 percent to 24.5 percent, respectively.

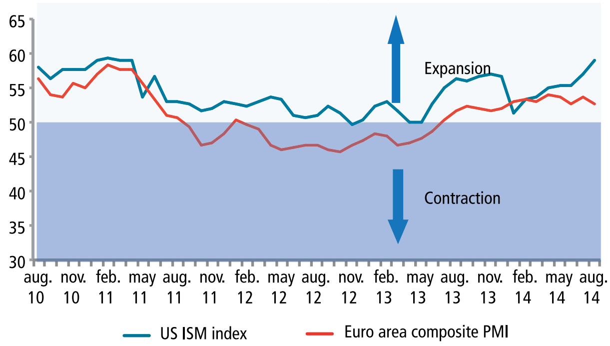
In the United Kingdom, the available employment data are those of May 2014, and show a stable unemployment rate at 6.4 percent.

Chart 3.8: GDP growth in emerging countries



Source: IMF projections, July 2014.

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



Source: Datastream .

Table 3.2: Global growth outlook

	Forecasts (in %)					
	European commission		IMF		OECD	
	2014	2015	2014	2015	2014	2015
Global GDP	3.5	3.8	3.4	4.0	-	-
United States	2.8	3.2	1.7	3.0	2.1	3.1
Euro area	1.2	1.7	1.1	1.5	0.8	1.1
Germany	1.8	2.0	1.9	1.7	1.5	1.5
France	1.0	1.5	0.7	1.4	0.4	1.0
Italy	0.6	1.2	0.3	1.1	-0.4	0.1
Spain	1.1	2.1	1.2	1.6	-	-
United Kingdom	2.7	2.5	3.2	2.7	3.1	2.8
Japan	1.5	1.3	1.6	1.1	0.9	1.1
China	7.2	7.0	7.4	7.1	7.4	7.3
India	4.7	5.4	5.4	6.4	5.7	5.9
Brazil	2.6	2.9	1.3	2.0	0.3	1.4
Russia	1.0	2.0	0.2	1.0	-	-

Sources: OECD (September 2014). European commission (May 2014). IMF (July 2014).

3.2 Commodity prices and inflation

In August, commodity prices trended overall downwards, year on year. Under these conditions, inflation recorded in August a decline in most countries of the euro area.

3.2.1 Energy commodity prices

Brent prices recorded in August a decline of 4.4 percent, averaging $102.7 per barrel, its lowest level since July 2012. This decrease is attributed to a weaker demand and to oversupply on the market, despite geopolitical tensions, particularly due of the resumption of Libyan exports. Year on year, the Brent price was down 7.5 percent.

Regarding the outlook for oil prices[1], the World Bank revised up its July projections, now assuming a price of $106.1 per barrel in 2014 from 102.8 in April, which is an upward revision of 3.2 percent. In contrast, the IMF expects a price of $104.14 per barrel in its WEO of July, down slightly from $104.17 provided in its April WEO.

3.2.2 Non energy commodity prices

In August 2014, non-energy prices were down, year on year, as the Dow Jones-UBS index fell 2.5 percent. This change covers a net decrease of 10.3 percent in the agricultural commodity price index and an 8 percent increase in the base metals price index.

In the world phosphate market, the price of crude phosphate remained unchanged at $110 per tonne in July and August. Potassium Chloride prices stagnated, month on month, for the fourth consecutive month. TSP and DAP prices continued to rise since two months ago, with respective rates of 1.5 percent

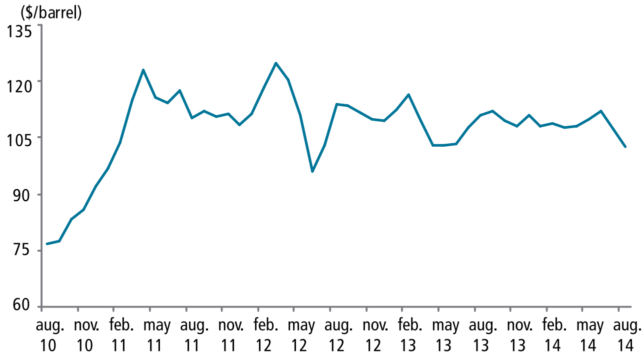
1 The World Bank and IMF make their forecasts based on the average price of the three oil categories (Brent, WTI and Dubai).

Table 3.3: Change in unemployment rate

	2012	2013	juin 2014	juilet 2014	août 2014
United States	8.1	7.4	6.1	6.2	6.1
Euro area	11.3	11.9	11.5	11.5	N.D
France	9.8	10.3	10.2	10.3	N.D
Italy	10.7	12.2	12.3	12.6	N.D
Germany	5.5	5.3	5.0	4.9	N.D
Spain	24.8	26.1	24.6	24.5	N.D
United Kingdom	7.9	7.5	N.D	N.D	N.D

Source : Eurostat.

Chart 3.10: World price of brent oil in dollars



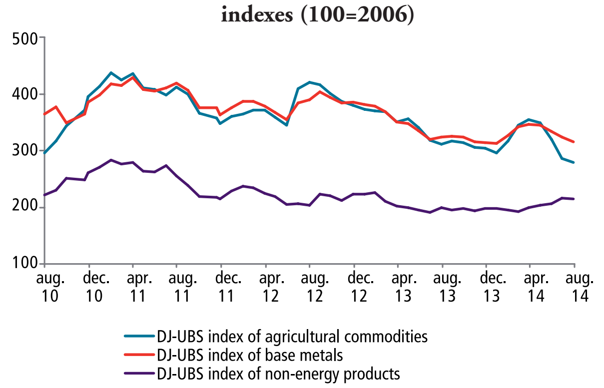
Source: Datastream.

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

	Q3:14	Q4:14	Q1:15	Q2:15	2015	2016	2017
Oil	104.93	104.03	104.60	104.27	103.93	101.71	99.73

Source : Bloomberg.

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



Source: Datastream.

and 1.1 percent. Similarly, the urea price rose in August by 6.7 percent as against 1.3 percent in the previous month. Year on year, prices were down 24.1 percent for crude phosphate and 27 percent for Potassium Chloride, while they grew 6.1 percent for urea, 15.3 percent for DAP and 16.8 percent for TSP. Durum wheat prices were down 6 percent in August, month on month, and 13.7 percent from one year to another.

3.2.3 Inflation in the world

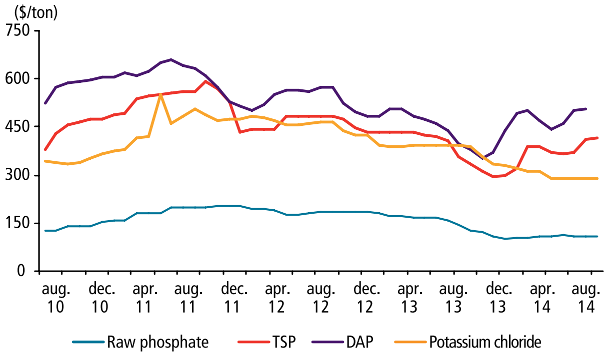
According to an initial Eurostat estimate for August, inflation stabilized in the euro area at 0.4 percent in August, with a stagnation of 0.8 percent in Germany, a decline from 0.6 percent to 0.5 percent in France and from 0 percent to -0.2 percent in Italy, as well as a further price decline from -0.3 percent to -0.5 percent in Spain. Inflation in the United Kingdom dropped slightly from 1.6 percent to 1.5 percent between July and August. Similarly, inflation in July was down from 2.1 percent to 2 percent in the United States and from 3.6 percent to 3.4 percent in Japan.

In key emerging economies, inflation in August stagnated at 6.5 percent in Brazil and decreased slightly from 2.3 percent to 2.2 percent in China. In other emerging economies, available data remain those of July and show an increase in inflation from 6.5 percent to 7.2 percent in India and a decrease from 6.8 percent to 6.6 percent in South Africa and from 7.8 percent to 7.4 percent in Russia. In terms of outlook, the IMF forecasts an inflation rate limited to 1.6 percent in 2014 and 1.7 percent in 2015 in advanced economies, while in emerging and developing countries, this rate would stand at 5.4 percent in 2014 before declining slightly to 5.3 percent in 2015.

3.3 Morocco's import unit price index

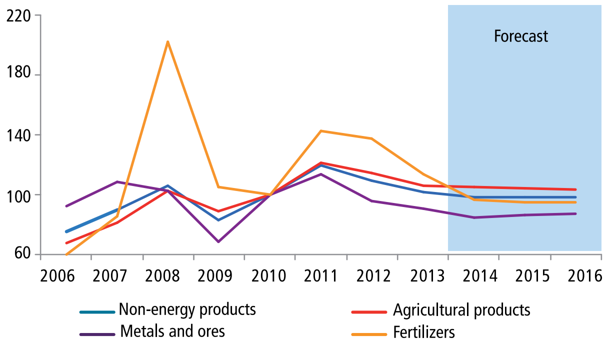
Month on month, the non-energy import price index (IPI) fell by 2.4 percent in July

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



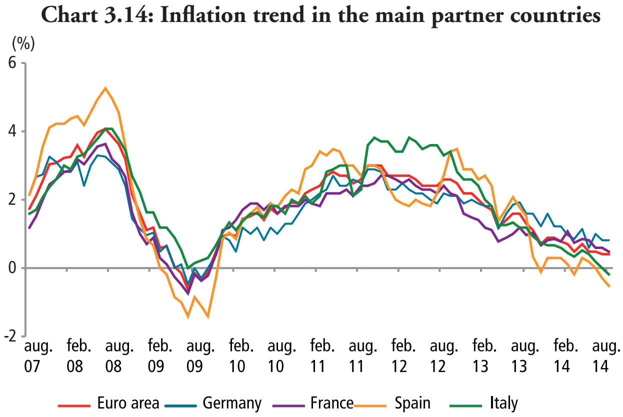
Source: World Bank.

Chart 3.13: Outlook for commodity prices indexes



Source: World Bank.

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat.

2014, after an average increase of 1.7 percent in the second quarter 2014.

Indeed, the food IPI growth was down 3.4 percent, after an average increase of 1.2 percent a quarter earlier. In particular, the average import price of wheat registered a decline of 5.8 percent, after rising 3 percent. In the same vein, the IPI of semi-finished goods declined by 1 percent, after being almost stable in the second quarter.

Meanwhile, the mining IPI dropped by 2.3 percent, after an average increase of 3.3 percent in the previous quarter, in conjunction with a 3.7 percent decline in the sulfur unit price, after rising 5.4 percent.

The energy price index continued its downward trend that started since the second quarter of 2012, with a decline of 2.1 percent in July 2014, mainly due to a 3.6 percent decline in oil unit prices.

Year on year, the non-energy IPI continued to decline since the third quarter of 2013, with a decrease of 3.7 percent in July 2014 as against 4 percent a quarter earlier. This change reflects a 13.9 percent drop in food unit prices, as opposed to 12.8 percent. In particular, the average import price of wheat fell by 18.2 percent, after a decline of 12.8 percent.

However, the mining IPI rose 3.1 percent in July, as against an average of 2.8 percent in the second quarter of the year. This change was attributed to a 4.1 percent increase in the average import unit price of iron, after rising 8.4 percent. Similarly, the price index of semi-finished goods rose 10.5 percent, in conjunction with respective increases of 4.7 percent and 1 percent in the average unit price of paper and cardboard and that of plastics.

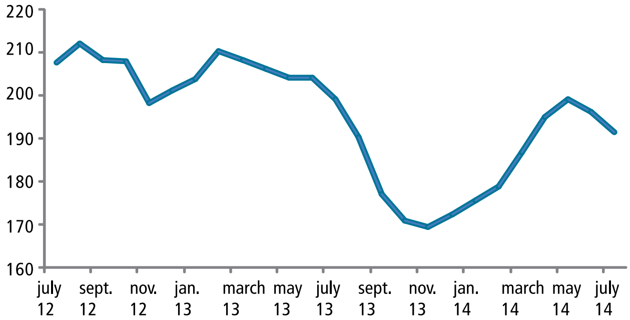
The energy index showed a further decline of 7.7 percent in July 2014, from 5.8

Table 3.5 : World inflation outlook, YoY

	OECD		European commission		IMF	
	2014	2015	2014	2015	2014	2015
United States	1.5	1.7	1.7	1.9	1.4	1.6
Euro area	0.7	1.1	0.8	1.2	0.9	1.2
Germany	1.1	1.8	1.1	1.4	1.4	1.4
France	0.9	1.1	1.0	1.1	1.0	1.2
Spain	0.1	0.5	0.1	0.8	0.3	0.8
Italy	0.5	0.9	0.7	1.2	0.7	1.0
United Kingdom	2.0	2.1	1.9	2.0	1.9	1.9
Japan	2.6	2.0	2.5	1.6	2.8	1.7

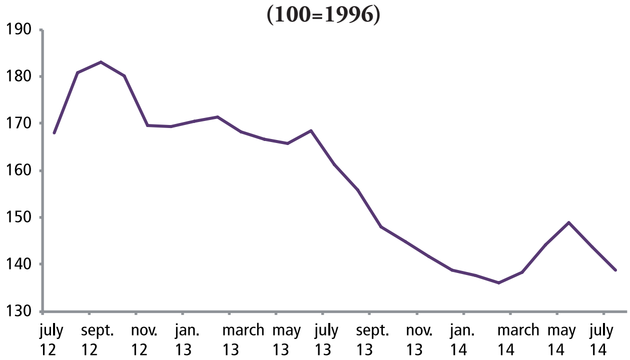
Sources: OECD. European commission (May 2014) and IMF (April 2014) .

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



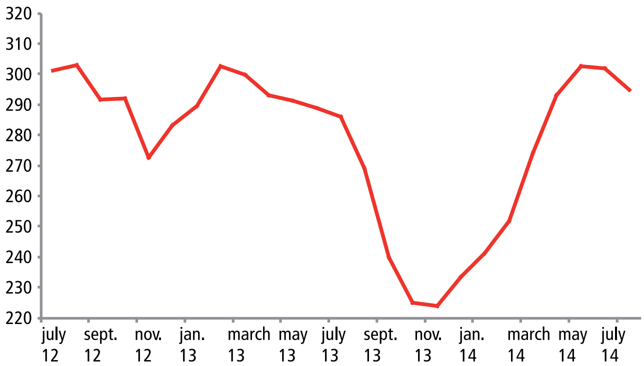
Sources: Foreign Exchange Office, and BAM calculations.

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



Sources: Foreign Exchange Office, and BAM calculations.

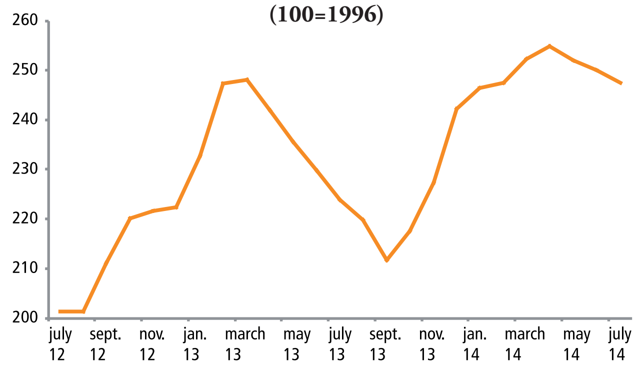
Chart 3.17: Mineral import price index (100=1996)



Sources: Foreign Exchange Office, and BAM calculations.

percent in the second quarter, particularly following respective drops of 8.8 percent and 3 percent in the import unit price of crude oil and diesel compared to declines of 6.4 percent and 1.4 percent in the previous quarter.

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



Sources: Foreign Exchange Office, and BAM calculations

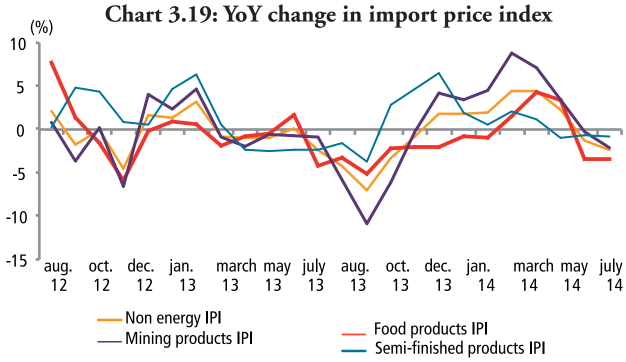
Table 3. 6 : Change in import price index (IPI)

	Monthly change in %			Annual change in %		
	Q1 2014	Q2 2014	July 2014	Q1 2014	Q2 2014	July 2014
Non energy IPI	2.7	1.7	-2.4	-13.0	-4.0	-3.7
Food IPI	-0.1	1.4	-3.4	-19.2	-12.8	-13.9
Semi-finished	1.1	-0.3	-1.0	2.5	7.0	10.5
Mining IPI	5.5	3.3	-2.3	-14.0	2.8	3.1

N.B: Indexes calculated on the basis of unit prices in Dirhams

Sources: Foreign Exchange Office, and BAM calculations

Chart 3.19: YoY change in import price index



Sources: Foreign Exchange Office. and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

Recent money market developments reveal a slight decrease in the interbank rate, standing at 3.01 percent on average in July and August 2014, thus remaining close to the key rate, which was kept unchanged at 3 percent at the last Bank Board meeting on June 17, 2014. Lending rates remained in the second quarter 2014 stable at 5.98 percent on average, covering higher rates on cash advances and lower rates on other bank loan categories. As to deposit rates, the weighted average rate of 6- and 12-month deposits remained almost unchanged in July from its level of the second quarter of 2014, standing at 3.80 percent, covering an increase of 6 basis points in the 6-month deposits and a decrease of 5 basis points in the one-year deposits.

Meanwhile, the M3 growth slowed down from 4.2 percent on average in the second quarter to 3.5 percent in July, keeping the monetary gap negative. At the same time, the annual bank credit growth decelerated from 4.2 percent to 3.9 percent, mainly reflecting a decline of 1.6 percent in financial loans, after a 6.4 percent rise in the previous quarter, and to a lesser extent, the deceleration of cash advances. However, the growth of loans to the private sector showed a marked improvement, continuing their acceleration that started in the fourth quarter of 2013. The dirham's effective exchange rate depreciated in the second quarter, compared to the first quarter of 2014, by 0.37 percent in nominal terms and 1.57 percent in real terms.

In the assets market, real estate prices were down 1.3 percent from one quarter to the next, reflecting respective declines of 0.1 percent, 3 percent and 3.3 percent in residential property prices, urban land ones and commercial property prices. Overall, these developments indicate the absence of monetary and real estate inflationary pressures in the medium term.

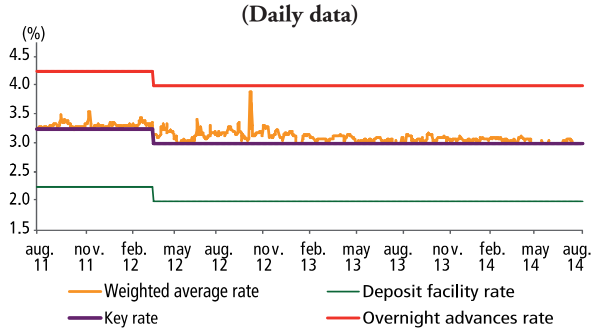
4.1 Monetary conditions

4.1.1 Interest rates

At its meeting of June 17, 2014, the Bank Board decided to maintain the key rate unchanged at 3 percent. Under these conditions, the interbank market weighted average rate stood at 3.01 percent on average in July and August 2014, slightly down compared the second quarter of 2014.

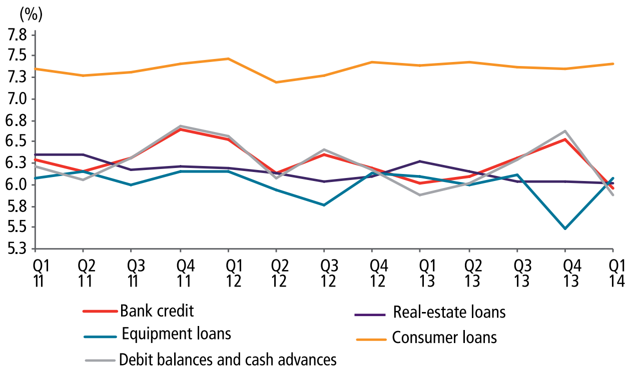
As to lending rates, BAM's survey among banks for the second quarter of 2014 indicates a virtually stable weighted average rate of bank loans, thus standing at 5.98 percent. By credit purpose, rates on cash advances increased from 5.87 percent to 5.96 percent, while rates on consumer and real estate loans decreased by 6 and 7 basis points, respectively. Similarly, rates on equipment loans moved down from 6.08 percent to 5.44 percent, from one quarter to the next, reflecting a decline of 96 basis points in rates on loans to individual entrepreneurs and a decrease of 66 basis points in those granted to corporations.

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



**Data at August 25th, 2014.*
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).*

Regarding deposit rates, the weighted average rate of 6- and 12-month deposits remained almost unchanged in July from its level of the second quarter 2014, standing at 3.80 percent. This change reflects an increase of 6 basis points in the 6-month deposit rate to 3.74 percent and a decrease of 5 basis points in the one-year deposit rate to 3.86 percent.

Concerning Treasury bond yields on the primary market, short and medium-term rates showed decreases in July, compared to the second quarter, ranging from 5 basis points for 13-week bonds to 11 basis points for 52-week ones. In the secondary market, the same trend pattern was registered for various maturities.

4.1.2 Money. credit and liquid investments

M3 growth

Data for July 2014 suggest a slower annual growth of money supply compared to its average in the second quarter. Consequently, the monetary gap remained negative, thus indicating the absence of monetary inflationary pressures in the medium term.

The annual growth of M3 stood at 3.5 percent in July from 4.2 percent in the second quarter, reflecting a decrease of 15.9 percent in net claims on central government, as against an increase of 4.5 percent, and a slight slowdown in the bank credit growth.

As to of the main components of M3, bank money recorded an annual increase of 2.9 percent, below 4.2 percent recorded in the second quarter. After an increase of 3.3 percent in the previous quarter, money market fund shares/units scored an annual decline of 3.2 percent, particularly reflecting a base effect due to the significant increase in the previous year.

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

	2012	2013				2014		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	july
6 -month deposits	3.55	3.52	3.56	3.55	3.59	3.51	3.68	3.74
12- month deposits	3.84	4.02	3.89	3.83	3.92	3.86	3.91	3.86
Weighted average	3.73	3.85	3.76	3.73	3.79	3.71	3.81	3.80

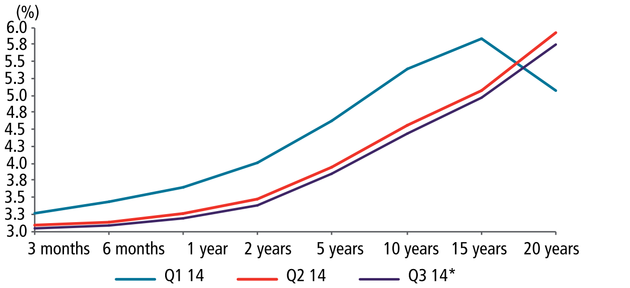
Source : BAM.

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

	2012	2013				2014		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	July
21 days	-	-	-	-	-	-	-	-
24 days	3.71	-	-	-	-	-	-	-
35 days	3.78	4.12	-	-	-	-	-	-
43 days	-	-	-	-	-	-	-	-
44 jours	-	-	-	-	-	-	-	-
45 jours	3.97	-	-	-	-	-	-	-
13 weeks	3.40	3.93	3.94	3.50	3.48	3.30	3.08	3.03
26 weeks	3.57	4.07	4.11	3.82	3.74	3.45	3.15	-
52 weeks	3.84	4.20	4.23	4.11	4.13	3.63	3.25	3.14
2 years	4.24	4.57	4.68	4.61	4.69	4.04	3.35	-
5 years	4.52	4.75	-	4.93	5.08	4.62	3.91	3.82
10 years	4.84	-	-	5.42	5.60	5.43	4.47	-
15 years	5.08	5.52	5.69	5.71	5.85	5.87	5.15	-
20 years	-	-	-			5.96	5.66	-

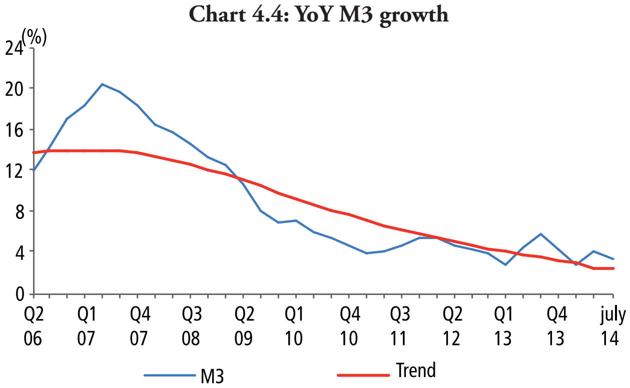
Source : BAM.

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



**Observation of the third quarter of 2014 corresponds to the daily average of data from July 1st to August 19, 2014.*
Source : BAM.

Chart 4.4: YoY M3 growth



Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

During the second quarter of 2014, bank liquidity improved by 25.3 billion dirhams, mainly due to Treasury operations in foreign assets. Indeed, the Treasury caused a liquidity injection of 15.8 billion dirhams, owing to a significant increase in investments in the money market. This increase is attributable to an issue made on international markets of one billion euros on June 19 and the collection, in April, of a donation of 4.1 billion dirhams from Qatar.

In addition, transactions in foreign assets had an expansive impact of 13.9 billion dirhams on liquidity, mainly resulting from an OCP bond issue on international markets, totaling $1.5 billion or 12.3 billion dirhams.

The expansive impact of the two abovementioned mentioned factors was partially offset by net withdrawals of currency in circulation, which reached 5.7 billion dirhams in the quarter.

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

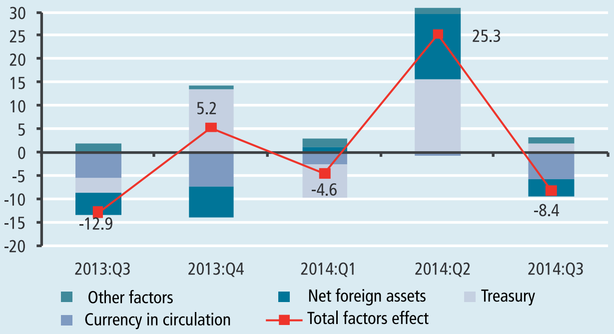


Chart B 4.1.2: Monthly change in the impact of autonomous liquidity factors (in billion dirhams)

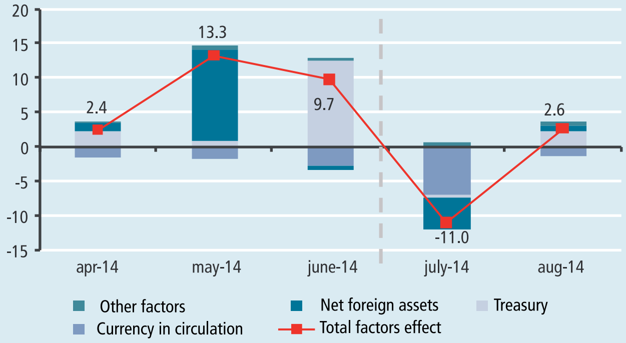


Chart B 4.1.3: Change in reserve requirements (in millions of DH)

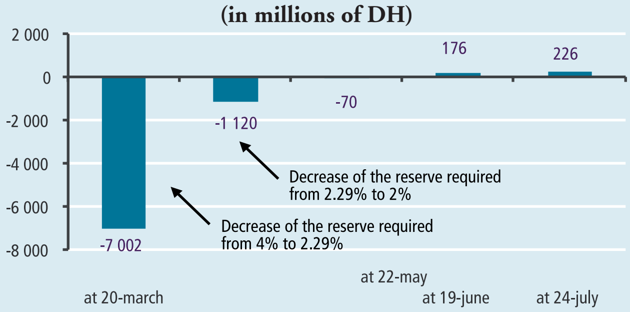
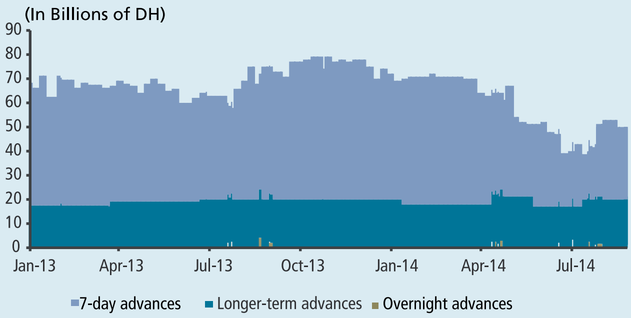


Chart B 4.1.4: BAM interventions on the money market



During the third quarter of 2014*, autonomous factors had a negative impact of 8.4 billion dirhams on bank liquidity, due to a significant increase in money in circulation.

Indeed, net withdrawals of money in circulation totaled 8 billion dirhams, due to summertime and Eid al-Fitr.

In addition, foreign currency transactions caused a liquidity drain of 3.7 billion dirhams, due to a relatively large volume of foreign currency net sales (7.4 billion), partially offset by foreign banknotes sales against dirhams (3.7 billion dirhams).

However, Treasury operations caused a liquidity injection of nearly two billion dirhams, primarily due to the difference between:

- On the one hand, the repayment of domestic debt to the banking system (17 billion), settlement of subsidy costs (7.4 billion) and payment of civil service salaries (5.6 billion) and retirement pensions (3.6 billion);
- On the other hand, bank subscriptions to T-bond auctions (6.4 billion) as well as a decline in outstanding investments in the money market (-3.6 billion dirhams), plus tax and customs revenues, including the second installment of corporate taxes.

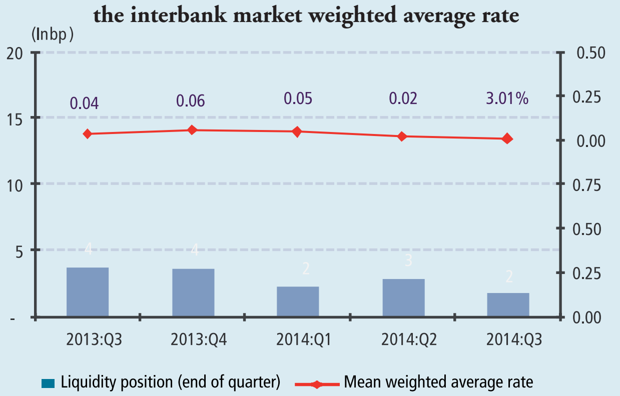
1- The period from July 1 to August 25, 2014.

Given the restrictive impact of autonomous factors observed throughout the third quarter, the outstanding amount of BAM's interventions stood at 48.9 billion dirhams as at August 25, up 5.3 billion compared to the end of the previous quarter.

7year secured loan operations under the VSME funding program and 12.3 percent for 3-month repo operations.

In addition, the money market weighted average rate was down one basis point from the average of the previous quarter, standing at 3.01 percent. Its volatility remains low at 2 basis points from 3 basis points in the second quarter.

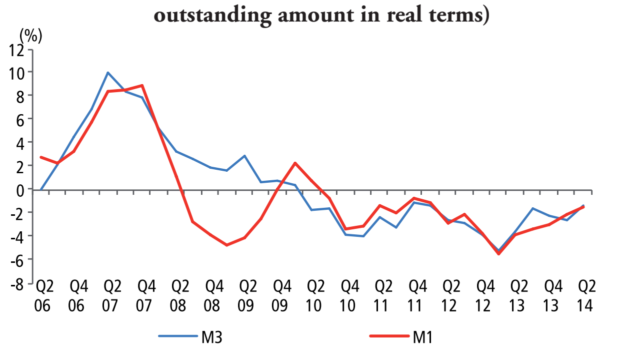
Chart B 4.1.5: Change in the mean and standard deviation of the interbank market weighted average rate



In contrast, time deposits rose 2.4 percent, as against 0.5 percent in the second quarter, mainly due to improved deposits of households and public nonfinancial corporations. Similarly, the growth of currency in circulation accelerated from 4.5 percent to 5.9 percent, mainly following withdrawals on the occasion of Eid Al-Fitr and summertime. Demand deposits were up 7.9 percent, year on year, a level similar to that recorded in the previous quarter.

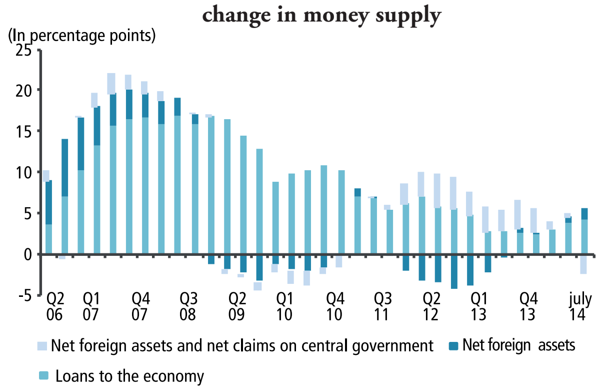
By economic unit, households' demand deposits and time ones grew by 7.6 percent and 7.2 percent, respectively as against 6.7 percent and 5.6 percent. Conversely, the growth of households' savings accounts decelerated from 7.9 percent to 1.6 percent, thus continuing their slowing trend that started since the fourth quarter of 2013. Deposits of private nonfinancial corporations scored annual declines of 11.7 percent for demand deposits and 28 percent for time deposit accounts, much more marked than 5.3 percent and 22.8 percent, observed respectively in the previous quarter. Deposits of public nonfinancial corporations registered an annual decrease of 21.1 percent, as against an increase of 20.1 percent, while their time deposits were up 74 percent, as against 35.3 percent.

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 potential real GDP growth, minus the average rate of decline in money circulation velocity.
Source : BAM.

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



Source : BAM.

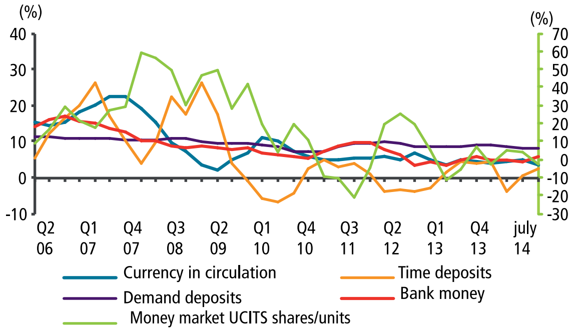
Credit

July 2014 data show a slowdown in the annual bank lending growth to 3.9 percent from 4.2 percent on average in the second quarter of 2014.

This slowdown reflects divergent trends across major bank loan categories. Thus, financial loans recorded an annual decline of 1.6 percent in July, as opposed to an increase of 6.4 percent in the second quarter. Similarly, cash advances decelerated, year on year, from 0.7 percent to a zero growth. The annual growth of real estate loans remained virtually unchanged at 2.4 percent compared to the previous quarter. This change reflects a deceleration from 5.1 percent to 4.9 percent in housing loans and a contraction of 4.7 percent in loans to developers, after a drop of 3.7 percent. However, equipment loans and consumer ones improved by 5.2 percent and 7.1 percent, year on year, as against 3.1 percent and 0.9 percent a quarter earlier. The significant improvement in consumer loans in July was largely due to the merger of a finance company with a local bank. Outstanding nonperforming loans grew by 26.3 percent, as against 24 percent in the second quarter, thus bringing their ratio to bank loans from 6.4 percent to 6.7 percent.

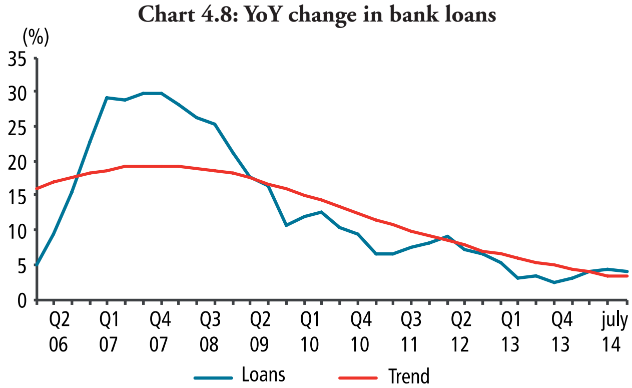
The analysis of bank loans by institutional sector shows a slower growth of credit to financial companies, a contraction of loans to the public sector and a further acceleration of lending to the private sector. Indeed, the annual growth of loans to financial companies decelerated from 8.4 percent to 1.6 percent in July. Loans to the public sector were down 8.6 percent, year on year, as against an increase of 3.3 percent a quarter earlier, reducing their contribution to the bank credit growth to a negative level or -0.6

Chart 4.7: YoY change in the major M3 components



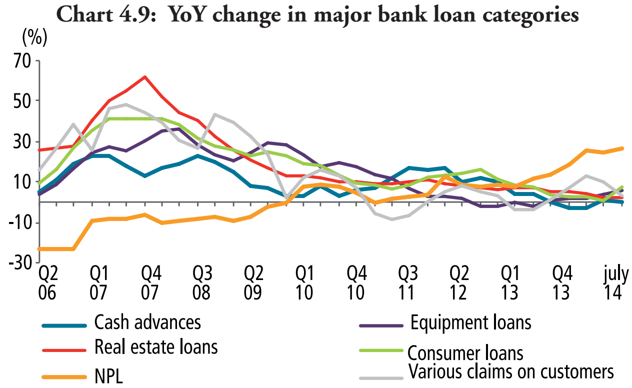
Source : BAM.

Chart 4.8: YoY change in bank loans



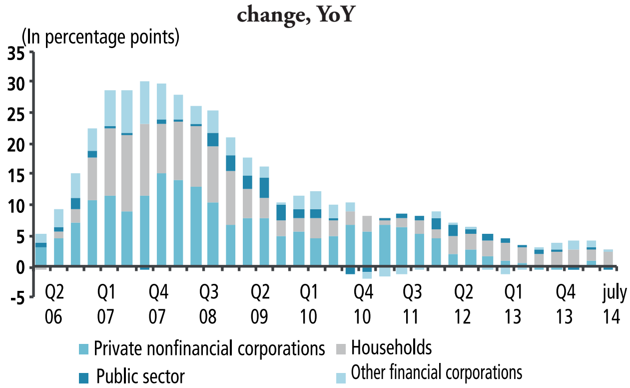
Source : BAM.

Chart 4.9: YoY change in major bank loan categories



Source : BAM.

Chart 4.10: Contribution of institutional sectors to credit change, YoY



Source : BAM.

percentage point from 0.2 percentage point. In contrast, loans to the private sector increased by 5.2 percent in July, as against 3.6 percent in the second quarter, thus continuing their acceleration that started since the fourth quarter 2013. This trend was attributed to both accelerations from 1.7 percent to 3.8 percent in loans to nonfinancial corporations and from 6.6 percent to 7.6 percent in loans to households.

Furthermore, BAM's lending conditions survey indicates relatively tighter supply conditions in the second quarter 2014 compared to the first quarter. This tightening would have affected cash advances and loans to real estate development. Concerning individuals, banks would have rather relaxed lending criteria for both housing loans and consumer ones. Credit demand would have increased due to higher demand from companies, while demand from individuals would have decreased slightly.

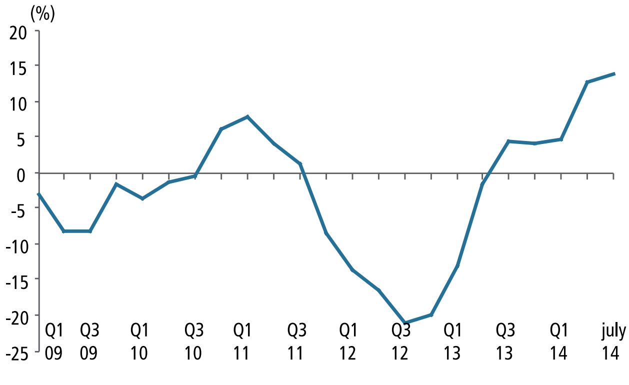
Concerning loans granted to nonfinancial sectors by other financial companies, not included in the monetary analysis, data as at end-June 2014 indicate an annual increase of 2 percent in loans accorded by finance companies, as against 1.8 percent in the first quarter of 2014. This acceleration reflects particularly an increase of 25.5 percent in factoring loans, as against 15.2 percent in the previous quarter. In contrast, the leasing annual growth remained almost stable at 0.1 percent, while consumer loans were down 0.6 percent, as against 0.7 percent a quarter earlier. Loans accorded by offshore banks showed a decline of 3.7 percent, less marked than that of 8.6 percent in the first quarter.

Other sources of money creation

Despite a monthly decrease of 3.3 percent, net international reserves (NIR) increased by 13.9 percent in July, as against 12.5 percent on average in the second quarter, reflecting an easing in trade deficit and improvement in travel receipts and donations from Gulf countries.

Net claims on central government contracted by 15.9 percent, year on year, as against a rise of 4.5 percent a quarter earlier, reflecting a 14.1 percent decline in net claims of other depository institutions. This trend was due to slower claims of these institutions and an expansion of their liabilities. Indeed, the annual increase in claims was limited to 1.5 percent, from 10.7 percent in the second quarter, particularly due to the deceleration from 21.4 percent to 9.2 percent in the growth of Treasury bills held by banks and contraction of 46 percent in money market fund shares/units, after a fall of 45.3 percent in the previous quarter. Liabilities expanded by 200 percent, following a significant increase in Treasury investments in the interbank market.

Chart 4.11: Annual growth of net international reserves



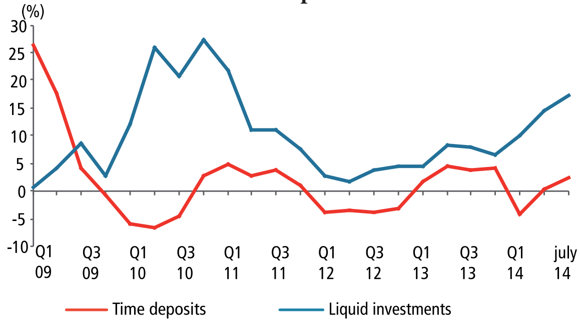
Source : BAM.

Liquid investments

In July 2014, liquid investment aggregates rose by 17.1 percent, year on year, as against 14.5 percent in the second quarter. This acceleration was observed in all categories of liquid investments.

Securities included in the LI1 aggregate moved up 14.6 percent, as against 12.8 percent, mainly in conjunction with the acceleration from 14.7 percent to 15.4 percent in outstanding negotiable Treasury bonds. Similarly, bond fund shares/units included in the LI2 aggregate showed an increase of 24.3 percent, as opposed to 19.7 percent in the past quarter, particularly due to a higher net asset value due to lower Treasury bond yields in the secondary market. In the same vein, equity and diversified fund shares/units, which compose the LI3 aggregate, rose 11 percent in July, as against 8 percent in the second quarter 2014.

Chart 4.12: YoY change in liquid investments and time deposits



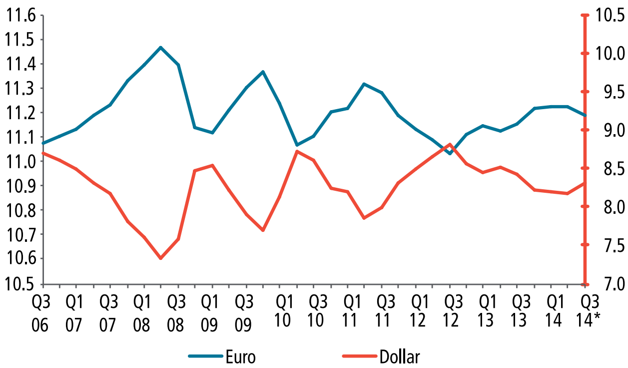
Source : BAM.

Exchange rate

Compared to the second quarter, the dirham appreciated in July and August by 0.33 percent against the euro, while it depreciated by 1.52 percent versus the dollar.

The dirham's effective exchange rate, calculated based on the bilateral exchange rates with Morocco's major trading partners and competitors, depreciated by 0.37 percent in nominal terms compared to the first quarter of 2014. The depreciation of the national currency was more significant in real terms, reaching 1.57 percent, due to an inflation rate of Morocco broadly lower than that of partner countries and competitors.

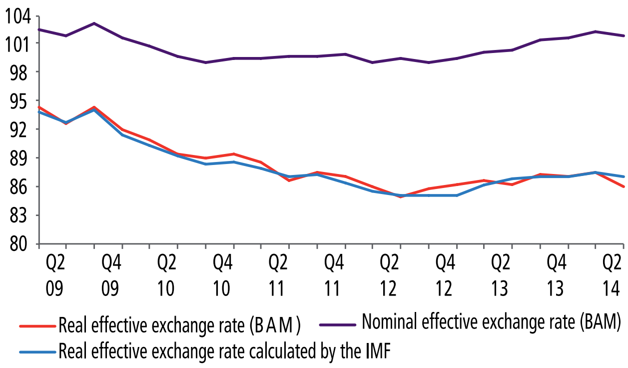
Chart 4.13: Exchange rate of the dirham



** Observation of the third quarter 2014 corresponds to the arithmetic average of data from July 1 to August 25, 2014.*

Source : BAM.

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



Sources: IMF and BAM calculations.

4.2. Asset prices

4.2.1 Real estate assets

In the second quarter 2014, the Real Estate Price Index (REPI) posted a new quarterly decline of 1.3 percent, as against 0.2 percent in the first quarter. This change was due to respective decreases of 0.1 percent, 3 percent and 3.3 percent in residential property prices, urban land ones and commercial property prices. Meanwhile, the number of transactions was up 9.8 percent, quarter on quarter, as against 1.8 percent a quarter earlier. This increase was primarily driven by a 15.6 percent increase in residential property sales.

Year on year, the REPI fell 2.6 percent, covering respective declines of 0.3 percent and 7.6 percent in residential property prices and land ones as well as a 2.8 percent increase in commercial property prices. The number of transactions moved down 2.2 percent, mainly reflecting decreases of 4.1 percent in commercial property sales and 15.5 percent in urban land ones.

Moreover, recent data on real estate loans indicate that housing loans rose 4.9 percent in July, year on year, from 4.8 percent in the second quarter. However, credit to property development fell further by 4.7 percent, as against 3.2 percent in the second quarter of 2014.

Chart 4.15: Change in Real Estate Price Index

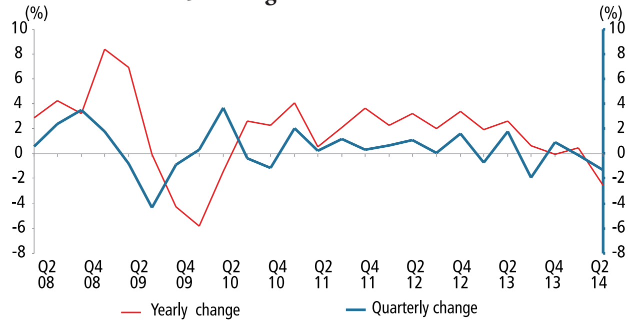
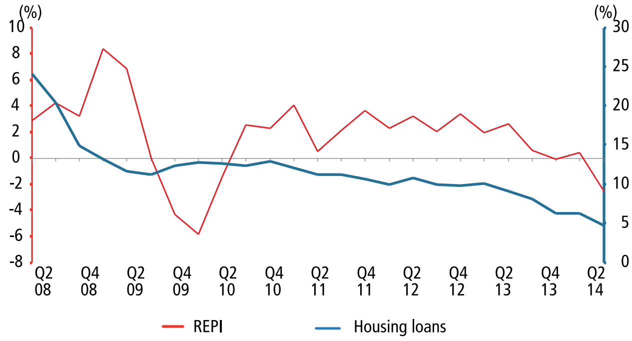


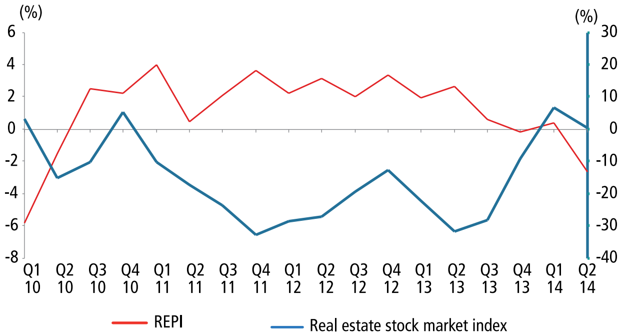
Chart 4.16: YoY change in the REPI and housing loans*



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

Sources: BAM and ANCFCC.

Chart 4.17: YoY change in the REPI and the real estate stock market index



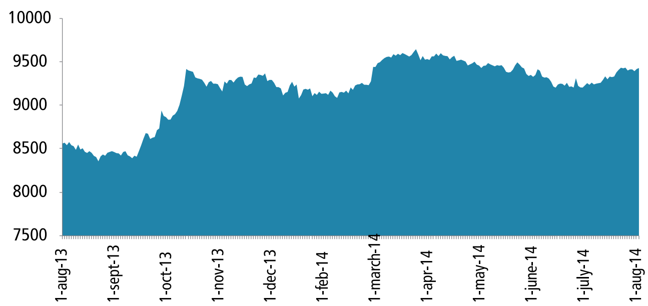
Sources: BAM, ANCFCC and Casablanca Stock Exchange.

4.2.2 Financial assets

4.2.2.1 Shares

In the second quarter of 2014, the MASI depreciated by 3.1 percent from the previous quarter. Conversely, data as at August 22 show that the benchmark index trended again upwards in July and August, bringing its performance since the beginning of the year to 3.5

Chart 4.18: Daily change in MASI



Source: Casablanca Stock Exchange.

percent. This recovery was due to the good performance of the sectors of "construction and building materials", "telecommunications" and "banks". In the same vein, market capitalization rose 3 percent at end-August[1], standing at 464.6 billion dirhams, mainly in connection with the price appreciation.

Regarding the valuation indicators of Casablanca Stock Exchange, the Price Earnings Ratio stood at 17.4 at end-July, slightly up 0.1 compared to the first quarter, while the price to book ratio stabilized at 2.3.

As to stock market activities, the average daily volume of transactions on the central market reached 102.8 million dirhams in the first two months of the third quarter, as against 75.8 million a quarter earlier. This trend is attributable to bond transactions, with an average daily amount of 31.2 million dirhams, as against 8.1 million in the second quarter. In the block market, the trading volume over the same period stood at 2.1 billion dirhams, as opposed to 3.4 billion during the second quarter. In total, the aggregate volume of transactions since the beginning of the year amounted to 25.4 billion dirhams, as against 33.7 billion over the same period last year. This decrease is due to a contraction in block market transactions and, to a lesser extent, a decline in central market operations.

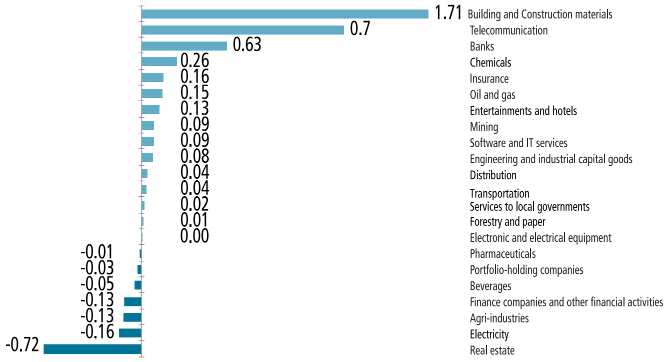
4.2.2.2 Debt securities

Treasury bonds

In the first seven months of the year, Treasury issues totaled 71.4 billion dirhams, as against 97.8 billion over the same period of the previous year. The breakdown of these issues by maturity reveals that the Treasury has focused

[1] Data as at August 22, 2014.

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



Source: Casablanca Stock Exchange.

Chart 4.20: Change in outstanding Treasury bonds

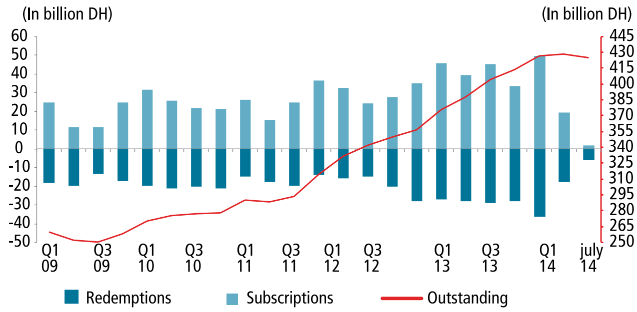


Chart 4.21: Change in outstanding negociable debt securities

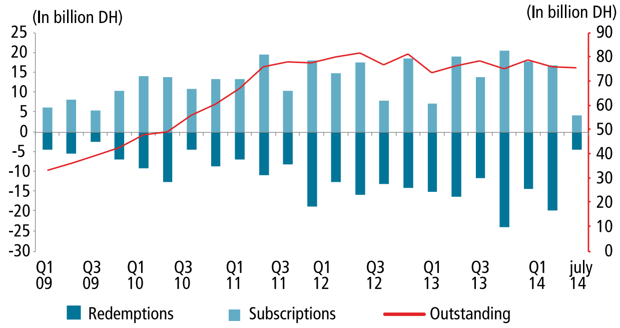
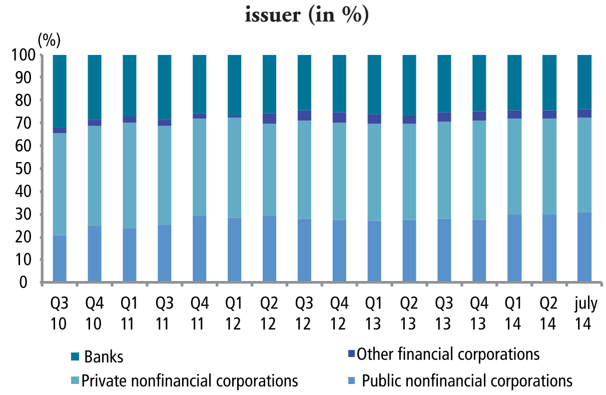


Chart 4.22: Change in the structure of outstanding bonds by issuer (in %)



since the beginning of 2014 on medium and long terms, with respective shares of 38.5 percent and 47.9 percent. These issues matched average rates ranging from 3.17 percent to 3.40 percent for the short term, as against 3.94 percent to 4.22 percent a year earlier, from 3.76 percent to 4.20 percent for the medium term, as opposed to 4.62 percent to 4.75 percent, and from 5.04 percent to 5.76 percent for the long term, as against 5.38 percent to 5.66 percent. Taking into account repayments of 59.8 billion dirhams, outstanding Treasury bills stood at 424.5 billion dirhams.

Other debt securities

The amount of issues of other debt securities stood at end-July at 38.8 billion dirhams, as against 31.5 billion a year earlier. Issues of certificates of deposit, amounting to 29.1 billion dirhams and focusing on short and medium-term maturities, showed a year-on-year increase of 3.4 billion dirhams, with average rates ranging between 3.8 percent and 4.55 percent.

Meanwhile, finance companies have issued since the beginning of the year bills amounting to 3.2 billion with rates between 4 percent and 4.4 percent, after almost no issues over the same period of the previous year. As to commercial paper, emissions totaled 6.6 billion at end-July with rates ranging from 4.59 percent to 6.07 percent.

Taking into account repayments of 38.4 billion dirhams, outstanding negotiable debt securities stood at 75.5 billion dirhams, almost stagnating compared to end-December.

Bond issues, up 2.3 billion from one year to the next, totaled at end-July 6.7 billion, including 3.7 billion issued by private nonfinancial corporations, 2.7 billion by public corporations and 260 million by other financial companies. Taking into account repayments, outstanding bond issues have decreased by 1.7 percent since the beginning of the year to 89.5 billion dirhams, including 42 percent issued by private nonfinancial corporations, 31 percent by public institutions and 24 percent by banks.

4.2.2.3 Mutual funds

The latest data released by the Transferrable Securities Board (CDVM)[1] indicate that subscriptions to mutual fund shares/units stood at 313 billion dirhams, as against 305.5 billion over the same period of 2013, with a share of 76 percent in money market fund shares/units and 23 percent in bond fund shares/units. Meanwhile, redemptions totaled 269.5 billion dirhams, from 325.9 billion a year earlier.

Taking into account an overall performance of mutual funds of 5.2 percent, net assets appreciated by 13.4 percent to 277.3 billion dirhams. This change was primarily driven by the year-to-date increase in net assets of bond and diversified funds by 17.1 percent and 27 percent, respectively.

1 UCITS data as at August 15, 2014.

5. RECENT INFLATION TRENDS

Inflation continues to evolve at relatively low levels, reaching 0.4 percent in July and 0.3 percent in the first half. This trend is mainly due to a large decline in volatile food prices, especially those of fresh fruits and vegetables. It was intensified by lower prices of some medicinal products in June and a decline in core inflation (CPIX), down from 1.5 percent in 2013 to 1.2 percent in the first seven months of 2014.

By component, this change reflects a virtual stagnation of inflation of tradables (CPIXT) at 1.4 percent, in a context of low inflation in Morocco's major trading partners, as well as a decline in inflation of nontradables (CPIXNT), down from 1.7 percent in 2013 to 0.9 percent on average over the first seven months of 2014.

These changes more than offset the effects of higher fuel prices resulting primarily from reductions in subsidies on oil products.

Industrial producer prices continued to drop since the beginning of the previous year, with an annual decline of 2.1 percent in July after that of 2.3 percent one month earlier, mainly due to lower international commodity prices.

5.1 Inflation trends

After starting the year at moderate levels, inflation decelerated sharply in the second quarter, before observing a relative recovery in July. Indeed, it stood at 0.3 percent on average in the first seven months of 2014. This weaker inflation rate is largely attributed to lower volatile food prices and, to a lesser extent, a decline in core inflation and the effect of the repricing of certain medicines occurred in June. These changes more than offset the impacts of successive increases of fuel prices, in conjunction with reductions in subsidies on petroleum products during this period.

Inflation rose from -0.3 percent in May to -0.1 percent in June and 0.4 percent in July, partly reflecting an easing in the fall in volatile food prices from -9.2 percent to -7.3 percent and -7.1 percent, respectively. This trend is mainly attributed to lower prices of fresh vegetables, with rates of 17.7 percent in May, 14 percent in June and 10.7 percent in July.

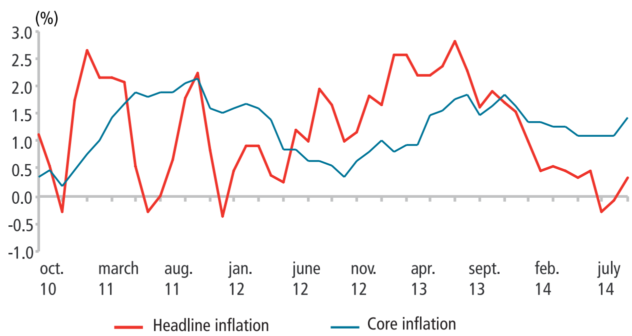
Prices of "fuels and lubricants" grew faster from 10.8 percent in June to 14.2 percent in July, in conjunction with a

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	may 13	june 14	july 14	may 13	june 14	july 14
Inflation	**-0,2**	**0,2**	**0,1**	**-0,3**	**-0,1**	**0,4**
- Volatile price food products	-1.5	1.4	-0.8	-9.2	-7.3	-7.1
- Fuels and lubricants	0.0	0.9	3.1	9.9	10.8	14.2
-A dministered goods excluding fuels and lubricants	0.1	-0.8	0.2	0.8	-0.2	0.0
Core inflation	**0.2**	**0.4**	**0.3**	**1.1**	**1.1**	**1.4**
- Food products	0.1	0.2	0.3	1.1	1.0	1.2
- Clothing and footwear	-0.2	0.1	0.5	2.3	2.3	2.5
- Housing. water. gas. electricity and other fuels*	0.1	0.2	0.0	1.7	1.7	1.7
- Furniture. household appliances and common house maintenance	0.1	0.1	0.0	0.8	1.0	0.9
- Health*	0.0	0.3	-0.2	3.2	3.2	2.6
- Transportation*	-0.1	0.1	-0.1	0.9	1.2	1.2
- Communication	0.0	0.0	0.0	-9.0	-9.0	2.1
- Entertainment and culture	0.0	0.0	-0.1	-0.9	-0.9	-1.0
- Education	0.0	0.0	0.0	3.5	3.5	3.5
- Restaurants and hotels	0.0	0.2	0.3	2.3	2.3	2.3
- Miscellaneous goods and services	0.1	0.1	0.0	1.2	1.3	1.3

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

Chart 5.1: Headline inflation and core inflation, YoY

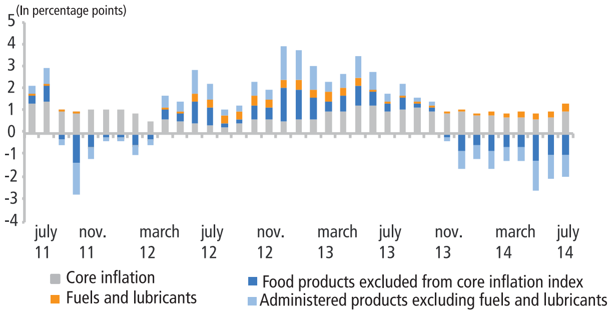


Sources: HCP, and BAM calculations.

diesel subsidy reduction and more marginally with the depreciation of the exchange rate. Prices of administered products excluding fuels and lubricants registered a decline of 0.2 percent in June, reflecting a 5.3 percent decrease in pharmaceutical prices. This impact was slightly mitigated in July by faster growth of prices of medical services and passenger road transport.

Excluding volatile food and administered products, core inflation moved up from 1.1 percent in the second quarter to 1.4 percent in July. This change was mainly due to the dissipation of the effect of lower telephone charges recorded in July 2013.

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



Sources: HCP, and BAM calculations.

Table 5.2: Domestic oil selling prices

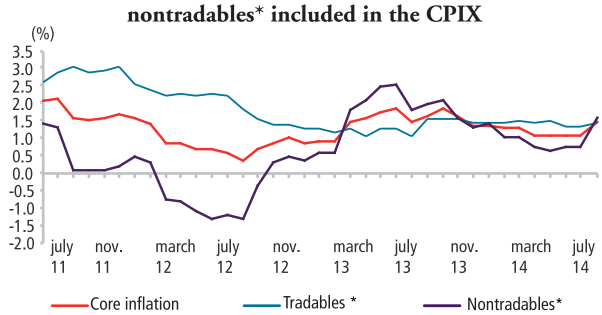
Products (DH/Liter)	As from 1 july 14	16 july 14	1 augst 14	16 augst 14	1 sept. 14	16 sept 14
Premium gasoline	13.68	13.56	13.2	13.04	12.98	13.06
Diesel 50	9.20	9.69	9.69	9.69	9.69	9.69
Industrial fuel (Dh/Tonne)	6095.46	5911.58	5894.12	5903.25	5863.00	5888.89

Source : Ministry of Energy and Mining.

5.2 Tradable and nontradable goods

Price analysis by category of goods indicates that core inflation trends result mainly from a change in the inflation of nontradables (CPIXNT). Indeed, this type of inflation rose from 0.7 percent in June to 1.6 percent in July, in connection with a 2.6 percent increase in "telephone and fax" prices, after a fall of 10.7 percent, and with an easing in the decline in fresh meat prices from 0.7 percent to 0.1 percent. The contribution of this category of goods to core inflation rose from 0.4 percentage point on average in the first half to 0.7 in July.

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



* *Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

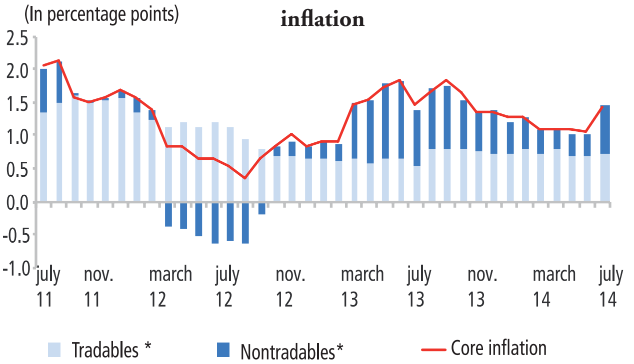
Table 5.3: Change in the price indexes of tradables* and nontradables* included in the CPIX

	Monthly change (%) may 14	june 14	july 14	YoY change (%) may 14	june 14	july 14
Tradables	0.0	0.1	0.1	1.3	1.3	1.4
Nontradables	0.0	0.2	0.3	0.7	0.7	1.6

Sources: HCP, and BAM calculations.

In a context of low inflation rates in Morocco's major trading partners, the growth of prices of tradables remained at 1.4 percent, a rate similar to that registered since the beginning of the year. The contribution of tradables to core inflation remained virtually unchanged at 0.7 percentage point over the same period.

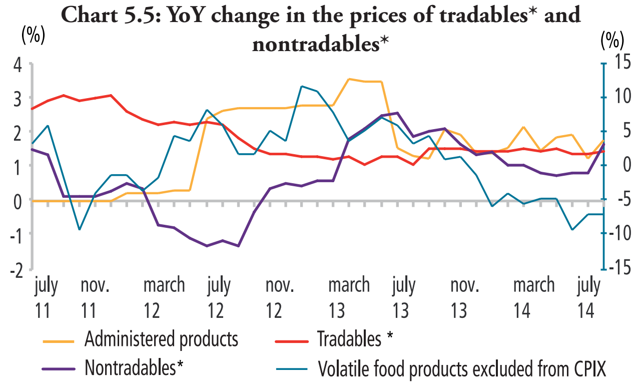
Chart 5.4: Contribution of tradables* and nontradables* to core inflation



** Excluding volatile food products and administered goods.*

Sources: HCP, and BAM calculations.

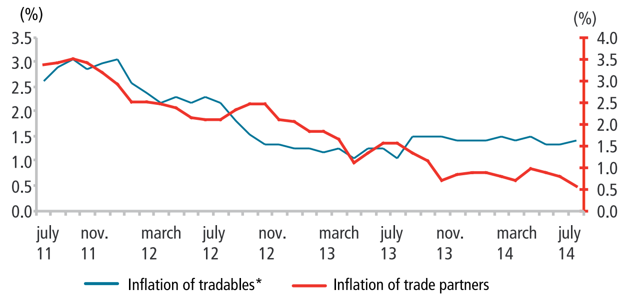
Chart 5.5: YoY change in the prices of tradables* and nontradables*



** Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

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



** Excluding volatile food and administered products.*

Sources: HCP, IFS, and BAM calculations.

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

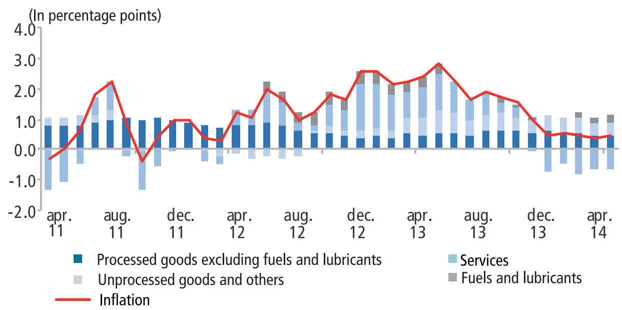
	Monthly contribution to inflation		Yoy contribution to inflation	
	june 14	july 14	june 14	july 14
Products excluded from core inflation index Including:	0.1	0.0	-0.8	-0.6
Administered products	0.2	-0.1	-1.0	-1.0
Volatile food products	-0.1	0.1	0.2	0.4
Tradables*	0.0	0.0	0.5	0.5
Nontradables*	0.1	0.1	0.2	0.5

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

5.3 Goods and services

The breakdown of the consumer price index in goods and services shows that higher inflation in July reflects mostly an increase in services inflation from 1.1 percent to 1.9 percent, due to telephone charges that brought the contribution of services to inflation from 0.4 to 0.6 percentage point. This price trend was also driven by higher prices of fuels and lubricants, moving up, in one month, from 10.8 percent to 14.2 percent and, to a lesser extent, by a change in unprocessed goods whose drop eased from 4.4 percent in June to 3.9 percent in July. Prices of processed goods excluding fuels and lubricants rose by 0.7 percent, as against 0.8 percent in June. The contribution of this category of goods to inflation remained stable at 0.3 percentage point compared to the previous month.

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



Sources: HCP, and BAM calculations.

Table 5.5: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	may 14	june 14	july 14	may 14	june 14	july 14
Processed goods*	0.1	-0.2	-0.1	1.0	0.8	0.7
Unprocessed goods and others	0.0	0.1	0.1	1.2	1.1	1.9
Services	-0.9	1.0	0.0	-5.4	-4.4	-3.9
Fuels and lubricants	0.0	0.9	3.1	9.9	10.8	14.2

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

5.4 Industrial producer price index

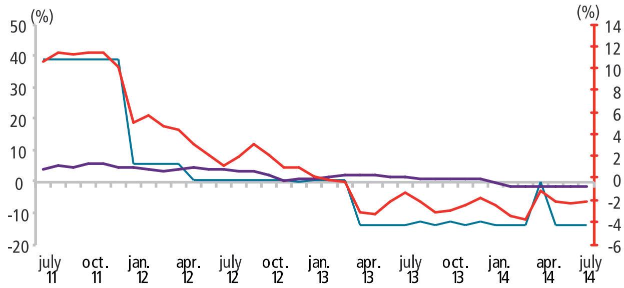
Industrial producer price index showed monthly increases of 0.1 percent and 0.5 percent in June and July, after scoring declines in the previous eight months. This trend was attributed to increases of 1.1 percent and 2.5 percent in "coke and refining" prices over the past two months and, to a lesser extent, price increases of 0.1 percent and 0.6 percent in "food industries". It also covers price stability in the production of chemical industries as opposed to a decrease of 13.2 percent in May. Year on year, industrial producer prices continue to trend downwards since February 2013, showing a decline of 2.1 percent in July as against 2.3 percent in the previous month.

5.5 Inflation expectations

According to the findings of BAM's quarterly survey on inflation expectations for the second quarter of 2014, the financial sector experts project a lower inflation rate over the next six quarters from 2.4 percent in the first quarter to 2.1 percent. These expectations are primarily driven by changes in pump prices and decisions to reform the subsidies system for staple products, while experts are fewer than the previous quarter to consider the fiscal policy stance and demand pressures as the main determinants of inflation over 6 quarters.

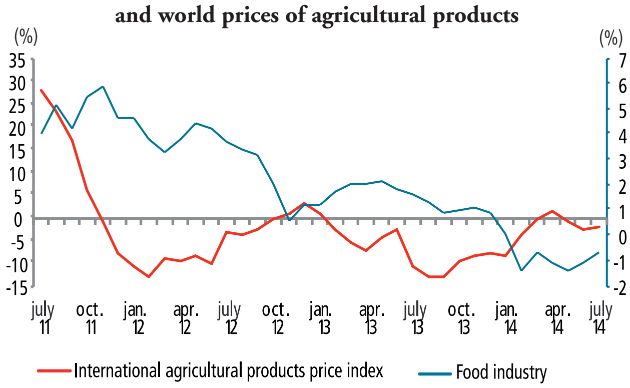
Furthermore, BAM's business survey in industry for July 2014 shows a continued moderation in inflation over the next three months. The percentage of corporations expecting an acceleration of the general price level over this period moved down to 30 percent in July from 48 percent in May and 35 percent in June, while the percentage of corporations predicting a

Chart 5.8: YoY change in industrial producer price indexes



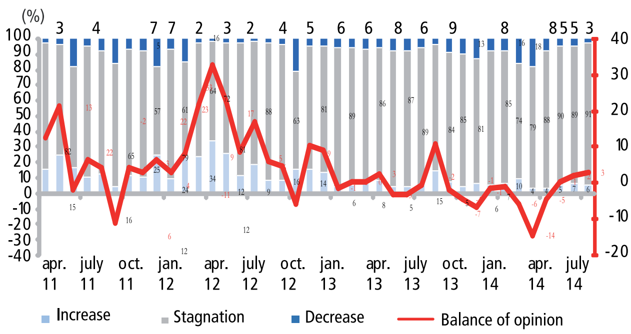
Sources: HCP, and BAM calculations.

Chart 5.9: YoY change in domestic food industrial producer prices and world prices of agricultural products



Sources: World Bank, HCP, and BAM calculations.

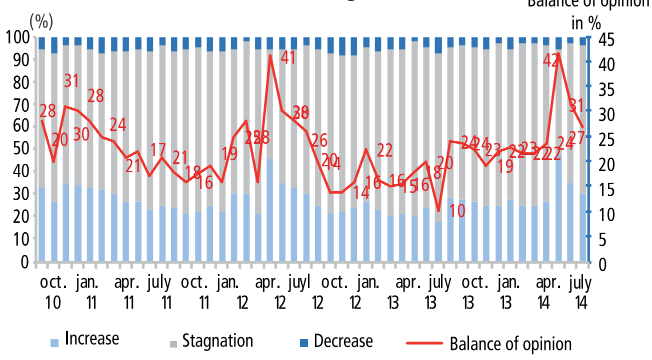
Chart 5.10: Trend in industrial producer prices in the next three months (balance of opinion of BAM survey)



Source: BAM monthly business survey.

stagnation moved up to 66 percent from 47 percent and 62 percent, respectively (Chart 5.11). In addition, these data indicate that industrial producer prices should not change significantly over the next three months, according to 91 percent of manufacturers (Chart 5.10).

Chart 5.11: 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 depends on the assumptions and developments considered for a series of variables affecting economic activity and inflation. This scenario takes into account the new provisions of the partial indexation system for some energy prices, as provided for by the government decrees No. 3-01-14 and No. 31-14, as well as new billing terms and pricing provisions for electricity, drinking water and sanitation, which came into effect as of August 2014. Assuming the non-realization of the major risk factors identified, inflation over the next six quarters would average around 1.6 percent, a level above the average rate provided in the previous MPR. In 2014, inflation is expected to be around 0.7 percent. In 2015, it should average around 1.9 percent. For this forecasting exercise, the balance of risks is broadly neutral. Externally, risks are associated with uncertainties surrounding growth in major trading partner countries and changes in international energy prices. Internally, they come from more pronounced-than-expected possible effects of higher oil and electricity prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

After a slight deceleration of global growth in the first quarter of the current year, temporary factors behind this poor performance, such as the severe winter and overstocking, seem to dissipate gradually, as evidenced by the recent trends. Nevertheless, this momentum remains contrasting depending on the constraints faced by different economies. Indeed, in the second quarter of this year, the United States and China have already returned to more dynamic growth rates, as their fiscal and monetary policies were kept broadly accommodative. In contrast, growth in the euro area decelerated, mainly due to the persistence of financial fragmentation and vulnerability of public and private balance sheets. Similarly, a large number of emerging countries continue to suffer from tighter financial conditions, lower foreign demand and, in some cases, weaker investment and consumption.

In sum, while the year started in relatively difficult conditions, prospects for the global economy in 2014 were only slightly lowered by international financial institutions. As such, the acceleration of growth in the United States and China should benefit positively international exports. However, intensification of geopolitical tensions in the MENA region and Ukraine raises more concerns about an increase in commodity prices and its possible negative interactions with financial and real spheres.

Detailed analysis shows that economic growth in the euro area slowed down slightly to 0.7 percent in the second quarter of 2014 from 0.9 percent in the first quarter. This deceleration reflects a contraction of growth in Germany (to 1.3 percent in Q2 2014 from 2.2 percent in Q1) and France (to 0.1 percent in Q2 from 0.8 percent in Q1), and further recession in Italy (to -0.3 percent in Q2 from -0.4 percent in Q1). Spain is an exception in the euro area, as the recovery in output continued in the second quarter of 2014, thus confirming the trend observed since the beginning of the current year (to 1.2 percent in Q2 from 0.5 percent in Q1).

Except for the favorable profile of private consumption, as evidenced by the marked growth in the volume of retail sales and new passenger car registrations, investment and foreign trade showed mixed trends. Indeed, in April and May, the average level of production of capital goods (non-construction investment leading indicator) was down 0.5 percent compared to the first quarter of 2014, thus confirming the trends provided in the European Commission's survey among purchasing managers, which concluded that industrial production is still recovering gradually. Regarding the construction sector, recent figures and survey data indicate that production fell by about 0.6 percent from the first quarter, thus reflecting further funding constraints and an extension of the rebalancing process in the real estate market. Finally, the latest trade data in the euro area point to a positive contribution of foreign trade to GDP, although this trend reflects a further decline in imports rather than a dynamic exports growth.

Regarding the labor market, the latest statistics suggest that the unemployment trend is likely to be reversed. In fact, the unemployment rate fell from 11.7 percent in March to 11.5 percent in July, reflecting a decrease in Germany (to 4.9 percent in July from 5.2 percent in March) and Spain (to 24.5 percent from 25.1 percent) and a slight increase in Italy (to 12.6 percent from 12.4 percent) and France (to 10.3 percent from 10.2 percent).

In this context, inflation is still evolving at low levels in the euro area from 0.5 percent in March to 0.3 percent in August. This change reflects a sluggish economy that involves significant underutilized productive factors and further moderation in energy and food prices.

As to the American economy, after a sluggish start of the year, activity showed again a positive trend with a growth of 2.4 percent in the second quarter from 1.9 percent in the first quarter. This change reflects primarily the dissipation of temporary factors that had weighed on growth, like destocking and lower exports. Private domestic demand continues to support growth, as evidenced by the significant increase in private consumption expenditure and gross fixed capital formation.

The economic recovery in the second quarter had positive effects on the labor market in the United States. Indeed, unemployment fell further between March and July from 6.7 percent to 6.2 percent, which means that the relevant indicator dropped by more than 3 percent compared to 2009.

Inflation, which is still following the change observed in recent months, continued its upward trend in the United States from 1.7 percent in March to 2 percent in July. This trend is mainly due to further rising energy and food prices, which recorded in July respective increases of 2.6 percent and 2.5 percent.

Taking into account all these developments, the International Monetary Fund projects, in its update of July, a growth of 1.1 percent in 2014 and 1.5 percent in 2015 for the euro area. For the United States, it forecasts a growth of 1.7 percent and 3 percent in 2014 and 2015, respectively. Compared with June MPR, the growth forecasts of the euro area were kept unchanged, while those of the U.S. economy were revised downward (a rate of 2.8 percent was expected for 2014).

Downside risks to the medium-term economic outlook persist. Regarding geopolitical instability, the escalation of tensions in Iraq and Libya as well as the persistence of the Ukrainian crisis heighten the fears about a significant rise in energy prices. On financial markets, the Fed monetary policy normalization process is still raising concerns about a possible rise in long-term interest rates, especially if financial conditions strengthen in a more pronounced-than-expected manner. In addition, in the euro area, the continued drop in prices fuel concerns about a further decline in inflation, especially in the case of adverse economic shocks. Finally, a lower-than-expected growth in emerging markets could negatively affect international trade.

Against this backdrop, the weighted average growth rates of Morocco's major trading partners (Germany, Spain, France, Italy and the United Kingdom) assumed in this forecasting exercise stand at around 1.1 percent in 2014 and 1.6 percent in 2015. Compared to June MPR, the growth forecasts of Morocco's major partners were not revised significantly. For the record, these rates are calculated on the basis of an average weighted by these countries' respective shares in Moroccan foreign trade.

Regarding inflation forecasts, the Fed, in its latest Monetary Policy Report of July, anticipates inflation to range between 1.5 percent and 1.7 percent in 2014 and between 1.5 percent and 2 percent in 2015. Meanwhile, the ECB, in its bulletin of August, expects inflation at 0.7 percent in 2014 and 1.2 percent in 2015, down from the previously reported levels. In the medium term, risks to inflation in the euro area remain broadly balanced, due to uncertainties surrounding the economic activity, exchange rates and commodity prices.

Under these conditions, projections of non-energy import prices, included in the forecasting models developed by Bank Al-Maghrib, expect a decline in 2014. In 2015, the indicators point to a stagnation of import prices in conjunction with the mixed prospects for demand from emerging countries, major non-energy commodity-importing countries.

6.1.2 National environment

In line with the assumptions of the previous MPR, the prospects for economic growth would remain broadly positive in 2014. They should benefit from the acceleration of nonagricultural activities, mainly driven by the positive profile of the foreign demand. However, the contraction of the agricultural value added and mixed trends in domestic demand should restrain the overall growth of the Moroccan economy.

Indeed, the latest data from the Ministry of Agriculture and Fisheries confirm the average profile of the 2013-2014 crop year, with a cereal production of 68 million quintals, down almost 30 percent from the previous crop year. This decline could be partially offset by the strong performance of other agricultural sectors, particularly the citrus branch. Nevertheless, the contribution of agriculture to growth would remain negative for the current year. Regarding the 2014-2015 crop year, an average cereal production of 68 million quintals is also assumed in the central scenario.

Contrary to the agricultural sector, nonagricultural activities should return to very encouraging growth rates in 2014, albeit below their long-term level. This consolidation is attributed to a recovery in the industrial sector and a strong increase in tourism, encouraged by a more pronounced foreign demand, as well as an uptrend in other commercial activities. In terms of demand, the more marked momentum of exports should continue to drive the national growth for the rest of the year. It is worth mentioning that the diversification of Morocco's exportable offer, which now includes new high value added products, resulted in an increase of 8 percent in total exports in value at end-July, including almost 20 percent generated by the outstanding performance of the automotive sector. Regarding investment, virtual stagnation is expected in 2014, in conjunction with the public investment effort and the momentum of equipment loans. Finally, household final consumption in 2014 remains shrouded in uncertainty, fueled mainly by a decline in rural household incomes, stagnation in transfers from Moroccans living abroad and increase in unemployment since the beginning of the year.

In light of these developments, nonagricultural growth should be around 3 percent in 2014, as against 2.3 percent a year earlier and overall activities would grow at a rate close to 2.5 percent, owing to the underperformance of the agricultural component. Compared to projections published in the MPR of June, a slight downward revision was made, mainly due to the more moderate-than-expected trend of domestic demand.

Conditions in the labor market deteriorated in the second quarter of 2014, under the combined effect of a 0.3 percentage point decline in the participation rate and a rise of 0.5 point in the unemployment rate over the same period a year earlier. Overall, the unemployment rate rose from 8.8 percent to 9.3 percent over the same period, covering an increase of 0.4 point in both urban and rural unemployment rates, which now stand at 14.2 percent and 3.6 percent as against 13.8 percent and 3.2 percent, respectively.

Regarding the employment dynamics, in the second quarter of this year, only 39,000 new jobs were created, sharply down compared to the number of jobs provided in the previous year (165,000 jobs). The most significant number of jobs were created in urban areas (28,000 jobs), while 11,000 new positions were provided in rural areas. At the sectoral level, the sectors of "services" and "construction" contributed to the creation of 43,000 and 14,000 new jobs, while the branches of "industry including crafts" and "agriculture, forestry and fisheries" suffered losses of 11,000 and 7,000 jobs, respectively.

Tensions in the labor market could ease in the short term, as suggested by BAM's latest quarterly business survey. Indeed, manufacturers broadly expect an increase in employed workforce in the current quarter, with a greater optimism in the "food" and "chemical and related" industries. However, they anticipate a slight decline in employment in "electrical and electronics" branches as well as "textile and leather" industries. Under these conditions and in accordance with decisions taken by the government, the central scenario of this forecasting exercise includes a 10 percent increase in the minimum wage (5 percent in July 2014 and 5 percent in July 2015).

Finally, in view of ongoing geopolitical tensions in Iraq and Ukraine, the World Bank, in its July edition, projected that oil prices should increase from \$103 a barrel to \$106 in 2014 and from \$99 to \$104 in 2015. The IMF, in its update of July, anticipated a virtual stagnation in oil prices at \$104.1 per barrel in 2014 and a slight rise to \$99.6 per barrel in 2015. Uncertainties surrounding these projections are broadly neutral, as the concerns of increased geopolitical tensions are offset by the risk of lower-than-expected growth in emerging economies. Therefore, taking into account the provisions of the indexation system, as provided for by the Head of Government's Decree No. 03.01.14 of January 15, 2014, the diesel price at the pump should increase gradually over the forecast horizon.

6.2 Inflation outlook and balance of risks

Assuming the non-materialization of the major risks described below, inflation central forecast for the next six quarters is expected to stand at 1.6 percent, above the rate expected in the latest MPR. Similarly, the inflation forecast for 2014 shows an average rate of 0.7 percent, lower than the rate reported in the previous MPR. In 2015, inflation is projected to average around 1.9 percent, higher than the rate reported in the previous MPR. It should be noted that these estimates reflect the new provisions of the partial indexation system for certain energy prices, as provided for by the government decrees No. 3-01-14 and No. 31-14, as well as new billing terms and pricing provisions for electricity, drinking water and sanitation, which came into force as of August 2014.

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

The balance of risks to the baseline scenario of this exercise is broadly neutral. This trend stems from uncertainties surrounding commodity prices and foreign demand for Morocco, as well as more pronounced-than-expected possible effects of higher oil and electricity prices. The materialization of one or more of these risks could cause the inflation to deviate from the central forecast, at a value included in the forecast range presented in the fan chart (with a probability 90 percent).

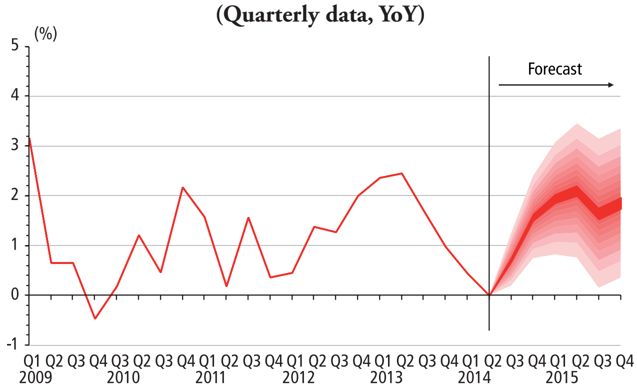
TTable 6.1: Inflation outlook for 2014 Q3 –2015 Q4

	2014		2015				Moyenne		FH*
	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015	
Central forecast (%)	0.7	1.6	1.9	2.1	1.6	1.9	0.7	1.9	1.6

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2014 Q3 – 2015 Q4 (Quarterly data, YoY)



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

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