BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 30/ 2014

Document prepared for
the Bank Board
March 25, 2014

Monetary Policy Report

Document prepared for
the Bank Board

March 25, 2014

بنك المغرب

LIST OF ABBREVIATIONS

ANCFCC	:	National Land Registry Office
APC	:	Cement manufacturers professional association
BAM	:	Bank Al-Maghrib
CFG	:	Casablanca Finance Group
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	:	Consumer Price Index
CPIX	:	Core inflation indicator
CPIXNT	:	Consumer price index of nontradables
CPIXT	:	Consumer price index of tradables
CUR	:	Capacity utilization rate
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
IPPI	:	Industrial producer price index
MASI	:	Moroccan All Shares Index
MPR	:	Monetary Policy Report
NPL	:	Nonperforming loans
OCP	:	Office chérifien des phosphates (Moroccan Phosphates Office)
OECD	:	Organization for Economic Cooperation and Development
ONE	:	Office national d'électricité (National Electricity Office)
OPEC	:	Organization of the Petroleum Exporting Countries
PER	:	Price Earning Ratio
REPI	:	Real estate price index
SMIG	:	Salaire Minimum Interprofessionnel Garanti (minimum wage)
YoY	:	Year-on-year
UCITS	:	Undertakings for collective investment in transferable securities
UPC	:	Unit production cost
VA	:	Value added

TABLE OF CONTENTS

List of charts, tables and boxes **5**

Press release **9**

Overview **11**

1. Aggregate supply and demand **15**

1.1 Output 15
1.2 Consumption 18
1.3 Investment 19
1.4 Foreign trade 21

2. Pressures on output capacity and labor market **23**

2.1 Pressures on output capacity 23
2.2 Pressures on the labor market 24

3. International environment and import prices **26**

3.1 Global financial conditions and economic activity 26
3.2 Commodity prices and inflation 30
3.3 Morocco’s import unit price index 32

4. Monetary conditions and asset prices **35**

4.1 Monetary conditions 35
4.2 Asset prices 41

5. Recent inflation trends **45**

5.1 Inflation trends 45
5.2 Tradable and nontradable goods 46
5.3 Goods and services 47
5.4 Industrial producer price index 47
5.5 Inflation expectations 48

6. Inflation outlook **49**

6.1 Baseline scenario assumptions 49
6.2 Inflation outlook and balance of risks 52

LIST OF CHARTS

Chart 1.1 : GDP projected growth Q4-2013 - Q4-2014 15
Chart 1.2 : YoY change in the GDP and its components 16
Chart 1.3 : YoY change in domestic non agricultural GDP and in partner countries' GDP 16
Chart 1.4 : Contribution of the primary, secondary and tertiary sectors to overall growth 16
Chart 1.5 : YoY change in the construction sector's value added and cement cumulative sales 17
Chart 1.6 : Sectoral contribution to overall growth....17
Chart 1.7 : YoY change in household final consumption and Remittances of Moroccan expatriates 18
Chart 1.8 : YoY change in household final consumption, agricultural VA and consumer loans 18
Chart 1.9 : YoY change in investment. construction sector's value added andequipment loans 19
Chart 1.10 : Change in general business climate 19
Chart B1.1.2 : Regular income 20
Chart B1.1.1 : Budget balances 20
Chart B1.1.3 : Overall expenditure....20
Chart 1.11 : YoY change in exports 21
Chart 1.12 : YoY change in imports 21
Chart 1.13 : YoY change in phosphate exports 22
Chart 1.14 : YoY change in crude oil imports....22
Chart 2.1 : Nonagricultural output gap....23
Chart 2.2 : Industrial capacity utilization rate 23
Chart 2.3 : Balance of opinion on the change in production unit cost....23
Chart 2.4 : YoY change in apparent labor productivity 24
Chart 2.5 : Change in job creations per sector 24
Chart 2.6 : YoY change in the private sector's average wage index in nominal and real terms 25
Chart 3.1 : Change in the yield of ten-year euro area and U.S. government bonds 26
Chart 3.2 : Change in the OIS-LIBOR spread 26
Chart 3.3 : Change in the major stock market indexes of advanced economies....27
Chart 3.4 : Change in the MSCI EM and MASI....27
Chart 3.5 : Change in VIX and VSTOXX....27
Chart 3.6 : YoY change in credit in the United States and euro area 28
Chart 3.7 : GDP growth in advanced countries 28
Chart 3.8 : GDP growth in emerging countries....29
Chart 3.9 : Change in high-frequency indicators in the USA and euro area....29
Chart 3.10 : World price of brent oil in dollar per barrel 30
Chart 3.11 : Change in the DJ-UBS non-energy commodity indexes 30
Chart 3.12 : Change in the world prices of phosphate and derivatives....31
Chart 3.13 : Outlook for commodity price indexes 31
Chart 3.14 : Inflation trend in the main partner countries....32
Chart 3.15 : Non-energy import price index 32
Chart 3.16 : Food import price index....33
Chart 3.17 : Mineral import price index....33
Chart 3.18 : Import price index of semifinished goods 33
Chart 3.19 : YoY change in import price index....34
Chart 4.1 : Change in the interbank rate....35
Chart 4.2 : Term structure of TB interest rates in the Treasury securities market....36

Chart B 4.1.1 : Quarterly change in the impact of autonomous liquidity factors 36
Chart B 4.1.2 : Monthly change in the impact of autonomous liquidity factors 36
Chart B 4.1.3 : Change in reserve requirements 37
Chart B 4.1.4 : BAM interventions on the money market 37
Chart B 4.1.5 : Change in the mean and standard deviation of the interbank market weighted average rate 37
Chart 4.3 : Change in lending rates 38
Chart 4.4 : YoY M3 growth 38
Chart 4.5 : Money gap 38
Chart 4.6 : Contribution of the major conterparts to YoY change in money supply 38
Chart 4.7 : YoY change in the major M3 components 39
Chart 4.8 : YoY change of bank loans 39
Chart 4.9 : YoY change of major bank loan categories 39
Chart 4.10 : Contribution of institutional sectors to credit change, YoY 40
Chart 4.11 : Annual growth of net internationales reserves 40
Chart 4.12 : YoY change in liquid investments and time deposits 40
Chart 4.13 : Exchange rate of the dirham 41
Chart 4.14 : Real and nominal effective exchange rate of the dirham 41
Chart 4.15 : Change in real estate price index 41
Chart 4.16 : YoY change in the REPI and housing loans 42
Chart 4.17 : YoY change in the REPI and the real estate stock market index 42
Chart 4.18 : Change market indexes 42
Chart 4.19 : Performance. since the beginning of the year, of sectoral indexes, in % 43
Chart 4.20 : Stock market valuation in Morocco and in some emerging countries in the second quarter of 2013 44
Chart 4.21 : Change in Treasury bonds outstanding 44
Chart 4.22 : Change in debt securities outstanding 44
Chart 5.1 : Headline inflation and core inflation 45
Chart 5.2 : Contribution of the prices of major CPI items to inflation 46
Chart 5.3 : YoY change in the prices of tradables, nontradables, volatile food products and administered products 46
Chart 5.4 : Contribution of tradables and nontradables to core inflation 46
Chart 5.5 : YoY change in the prices of tradables and nontradables 46
Chart 5.6 : YoY change in inflation of tradables and inflation in trade partner countries 47
Chart 5.7 : Contribution of goods and services prices to inflation 47
Chart 5.8 : YoY change in industrial producer price indexes 48
Chart 5.9 : YoY change in domestic food industrial producer prices and world prices of agricultural products 48
Chart 5.10 : Trend in industrial producer prices in the next three months 48
Chart 5.11 : Corporate managers' inflation expectations for the three coming months 48
Chart 6.1 : Inflation forecast, 2014 Q1 – 2015 Q2 53

LIST OF TABLES

Table 1.1 : YoY growth of quarterly GDP at chained prices per major sectors 15
Table 1.2 : Change in the trade balance at end february 2014 21
Table 2.1 : Quarterly indicators of activity, employment, and unemployment 24
Table 3.1 : YoY change in quarterly growth 28
Table 3.2 : Global growth outlook 29

Table 3.3 : Change in unemployment rate ...30
Table 3.5 : Oil futures price ...30
Table 3.5 : World inflation outlook ...32
Table 3. 6 : Change in import price index ...34
Table 4.2 : Deposits rates ...36
Table 5.1 : Inflation and its components ...45
Table 5.2 : Domestic oil selling prices ...46
Table 5.3 : Change in the price indexes of tradables and nontradables included in the CPIX ...46
Table 5.4 : Price indexes of tradables and nontadables excluding volatile food and administered products ...47
Table 5.5 : Price indexes of goods and services ...47
Table 6.1 : Inflation outlook for 2014 Q1 –2015 Q2...53

LIST OF BOXES

Box 1.1 : Budget execution at end-January 2014 ...20
Box 4.1 : Liquidity and monetary policy implementation...36

بنك المغرب

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 25, 2014

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, March 25, 2014.
2. At this meeting, the Board examined recent economic, monetary and financial developments and inflation forecasts up to the second quarter of 2015.
3. At the international level, the Board noted the continued improvement of economic conditions in the advanced countries. Year-on-year growth relatively strengthened in the United States, the United Kingdom and Japan, and was positive in the euro area for the first time since the first quarter of 2013. In the major emerging countries, economic activity slowed down in the fourth quarter in China, India and Brazil. The latest available labor market data show continued improvement in the United States and stagnant unemployment rate in the euro area at around 12 percent. With respect to monetary policy decisions, both the European Central Bank and the U.S. Federal Reserve kept their policy rates unchanged at their last meetings, but the Fed has further reduced the size of its monthly asset-purchase program. In response to persistent pressures on inflation and on their national currencies, several central banks in emerging countries have increased their policy rates. Financial conditions remained broadly accommodating in advanced economies, albeit with some tension in stock markets. Bank lending continued to contract in the euro area in January, down 2.2 percent year on year, and increased slightly by 2 percent in the United States in February. Commodity prices remained broadly on a declining trend, except for energy, as the Brent price rose in February at a monthly rate of 0.8 percent to 108.8$/barrel. This helped keep inflation low in the major developed countries, reaching in February 0.7 percent in the euro area and 1.1 percent in the United States.
4. Domestically, the national economy grew by 4 percent in the third quarter 2013, reflecting an increase of 19.9 percent in agricultural value added and a deceleration to 1.7 percent in nonagricultural activities, down from 2.4 a quarter earlier and 4.5 percent on average in 2012. This slowdown is mainly due to the declines observed in the mining, manufacturing and construction sectors, combined with a deceleration in tertiary activities. For the whole of 2013, growth would range between 4.5 and 5 percent, before slowing down to between 2.5 and 3.5 percent in 2014 impacted by the expected decline in agricultural GDP. The latter would be partially offset by the improvement of nonagricultural sectors, expected to expand by about 4 percent, but with considerable uncertainty surrounding non-market activities, construction and mining. Under these conditions, the nonagricultural output gap would remain negative, broadly suggesting the absence of pressures on prices in the short term. The sluggish growth in nonagricultural activity in 2013 has impacted the urban labor market, which recorded a loss of 32,000 jobs in the fourth quarter and an increase in the unemployment rate by 1.2 point year on year to 14.4 percent, bringing its rate for the full year to 14 percent.
5. On the fiscal side, budget implementation at-end February 2014 shows that the deficit widened to 19.7 billion dirhams, compared with 13.7 billion at the end of February 2013. Overall spending was up 7.8 percent, driven by increases of 27.8 percent in investment, 4.2 percent in subsidy costs and 7.8 percent in other goods and services. At the same time, ordinary income improved by 7.4 percent, as tax revenues rose by 1.4 percent and grants were up 2.1 billion. For the full year 2014, the Finance Act expects budget deficit to narrow to 4.9 percent of GDP, down from 5.4 percent in 2013.

6. External account data at end-February 2014 show that the trade deficit, after declining by 3.2 percent in 2013, widened by 4.7 percent from the same period of 2013. As a result of the significant increase in cereal imports, which largely exceeded the decrease in capital goods purchases, imports rose by 3.8 percent. At the same time, exports were up 2.8 percent, resulting from an 18.1 percent drop in shipments of phosphates and derivatives and a 7.6 percent rise in other exports, driven by car industry sales which more than doubled in a year. Remittances of Moroccan expatriates and travel receipts were down 3.3 percent and 0.9 percent, respectively. Considering the expected developments in all these variables and revenues from grants, the current account deficit would shrink to about 7.5 percent of GDP at the end of 2014, as against 7.8 percent at the end of 2013. Net FDI inflows contracted by 6.7 billion, partly due to a base effect from their exceptional level early 2013. In this context, the stock of international reserves stood at 151.3 billion dirhams at the end of February 2014, equaling 4 months and 10 days of goods and services' imports, and should remain at this level throughout the year.
7. In the monetary sphere, the data for February show a further slowdown in the growth rate of monetary aggregates and a continuing negative money gap, suggesting the absence of monetary inflationary pressures in the medium-term. At end-February 2014, M3 grew by 2.7 percent, down from 4.3 percent in the fourth quarter 2013, and bank credit growth stabilized at its average rate of 2013, at 3 percent. Based on the available data on both supply and demand, credit growth is expected at about 4 percent in 2014. Although the interbank rate stabilized around the key rate, lending rates increased somewhat in the fourth quarter 2013, driven by those on cash loans. Moreover, the effective exchange rate of the dirham appreciated by 0.2 percent in nominal terms compared to the previous quarter, but remained almost unchanged in real terms.
8. As a result of the 1.7 percent year-on-year decrease in residential property prices, the real estate price index fell by 1.4 percent in the fourth quarter of 2013, after having increased by 0.6 percent a quarter earlier.
9. Against this background, inflation, measured by the year-on-year change in the consumer price index, averaged 1 percent in the fourth quarter 2013, before falling to 0.5 percent in January and 0.4 percent in February 2014. Core inflation stabilized at 1.3 percent in the first two months of the year, in connection with the stagnant inflation of nontradable goods at 1 percent and the slight rise in the prices of tradable goods to 1.5 percent from 1.4 percent in January. Industrial producer prices in January further declined at the same average rate of the fourth quarter 2013, at 2.4 percent.
10. Given the above elements and considering the recent Government decisions relating to the indexation of some energy prices, inflation is expected on average at 1.8 percent in 2014, 2.3 percent at the end of the forecast horizon (second quarter of 2015), and 2 percent over this horizon.
11. In this context where the central inflation forecast is consistent with the medium-term price stability objective and the balance of risks remains broadly neutral, the Board decided to keep the key rate unchanged at 3 percent.
12. Noting the persistently significant liquidity shortage in the money market, the Board decided to reduce the required reserve ratio by 2 percentage points to 2 percent.
13. The Board also examined and approved, after considering the opinion of the Audit Committee, the Bank's accounts, the management report and the allocation of profits for fiscal year 2013.
14. Finally, the Board reviewed and approved the banknote and coin issue plan for the year 2014.

OVERVIEW

In early 2014, the global economy is still marked by continued improvement in economic conditions, which began in the second quarter of 2013 in developed countries. Between the third and fourth quarters of 2013, year-on-year growth accelerated from 2 to 2.5 percent in the United States, from 1.9 to 2.7 percent in the United Kingdom and from 2.4 to 2.7 percent in Japan. In the euro area, it improved to 0.5 percent after a contraction of 0.3 percent, driven by faster growth in Germany and France and an easing in contraction in Italy and Spain. In emerging economies, growth slowed down slightly in the fourth quarter to 7.7 percent in China, 4.7 percent in India and 1.9 percent in Brazil. In the labor market, the latest available data show continued improvement in the United States, with an unemployment rate of 6.7 percent in February, while in the euro area the economic recovery is slow to feed through to employment, as the jobless rate broadly persists at around 12 percent. In terms of outlook, the IMF and the European Commission revised up their global growth forecasts to 3.7 percent in 2014 and 3.9 percent in 2015.

In capital markets, with the exception of the stock exchange compartment, signs of loosening are registered in advanced economies, with an easing of sovereign rates mainly in peripheral eurozone countries. In contrast, bank lending has continued to decline since May 2012 in the euro area, and slightly accelerated in the United States to 2 percent in February. In key emerging markets, bond yields broadly stabilized between January and February, but their trend remains surrounded by strong uncertainty, in conjunction with the lack of visibility regarding the exit from the U.S. Federal Reserve's quantitative easing policy, a situation which continues to put heavy pressure on the currencies of several of these countries.

On the commodity market, except for energy commodities where the Brent price recorded a monthly rise of 0.8 percent in February, prices remain overall tilted to the downside. Against this backdrop, inflation in February moved down from 0.8 percent to 0.7 percent in the euro area and from 1.6 percent to 1.1 percent in the United States.

These trends suggest for Morocco the absence of significant external inflationary pressures in the coming quarters.

Nationally, growth stood at 4.0 percent in the third quarter of 2013, with a 19.9 percent growth of the agricultural value added, while nonagricultural activities decelerated to 1.7 percent from 2.4 percent in the previous quarter and 4.5 percent on average in 2012. This slowdown is mainly due to the contraction in the value added of secondary activities, with a decline of 0.1 percent in the processing industry, 3.2 percent in the mining industry and 0.2 percent in the construction sector, combined with a slowdown in tertiary activities. Throughout 2013, growth should range between 4.5 and 5 percent before decelerating to a rate between 2.5 and 3.5 percent in 2014. This trend would largely reflect the expected decline in the agricultural GDP, partially offset by the recovery of nonagricultural activities which should, due to a base effect, rise by around 4 percent, albeit with significant uncertainty about nonmarket activities, construction and mining industry. Deceleration in nonagricultural activities in 2013 greatly impacted the labor market in urban areas where conditions deteriorated significantly, particularly in the fourth quarter with a loss of 32,000 jobs and a 1.2 point increase in the unemployment rate to 14.4 percent, bringing its level for the full year 2013 to 14 percent.

Under these conditions, the output gap would continue to be negative in the coming months. This result is confirmed by Bank Al-Maghrib's business survey which shows in January a capacity utilization rate in industry below its historical average. Meanwhile, the growth of domestic final consumption slowed to 3.8 percent in the third quarter from 4.2 percent a quarter earlier. This deceleration should continue in the short term given the persistent decline, at end-February, in remittances from Moroccans living abroad, lower household confidence index and higher unemployment rate in the fourth quarter of 2013. Similarly, the investment rate slowed to 0.5 percent in the third quarter of 2013 from 2.4 percent a quarter earlier.

Regarding public finance, after a significant decline in fiscal deficit in 2013 from 7.3 to 5.4 percent of GDP, budget execution for January 2014 reveals a surplus of 2.8 billion. This result was partly due to a 13.7 percent improvement in current revenues to 20.7 billion, and lower expenditure, despite higher payroll and investment. For the full year 2014, the Finance Act expects a reduced budget deficit to 4.9 percent.

Concerning the external account, after a 3.2 percent reduction in 2013, the trade deficit widened by 4.7 percent at end-February. Owing to a significant increase in cereal supplies, which more than offset the decline in purchases of capital goods, imports rose by 3.8 percent, faster than the 2.8 percent expansion in exports. The change in exports covers an 18.1 percent decrease in sales of phosphates and derivatives and a 7.6 percent increase in other exports, mainly those of the automotive industry, which more than doubled compared to the same period of 2013. At the same time, expatriate remittances and travel receipts at end-February were down 3.3 percent and 0.9 percent, respectively. Based on expected changes in these variables and grant revenues, the current account deficit should be around 7.5 percent by the end of 2014, slightly up compared to 2013. Net FDI flows fell by 6.7 billion to 4.1 billion dirhams at end-February. However, excluding considerable transactions in the agri-food industry early 2013, these flows would have increased by 18.6 percent.

Under these conditions, the stock of international reserves stood at 151.3 billion dirhams at end-February 2014, equaling 4 months and 9 days of imports of goods and services.

On the monetary side, February data show further slowdown in the growth of monetary aggregates and continued negative monetary gap, indicating a lack of monetary inflationary pressures in the medium term. Indeed, money supply grew by 2.7 percent at end-February from 4.3 percent in the fourth quarter of 2013, while bank credit growth slowed down from 3 percent in 2013 to 2.8 percent at end-February. Based on data available on both supply and demand, credit growth in 2014 should be around 4 percent. Although the interbank rate stabilized around the key rate, lending rates appreciated slightly in the fourth quarter 2013, driven by interest rates on cash loans. Moreover, the dirham's effective exchange rate appreciated by 0.2 percent in nominal terms compared to the previous quarter, but remained almost unchanged in real terms.

In the real estate market, due to a 1.7 percent decline in residential property prices, the real estate price index fell in the fourth quarter of 2013 by 1.4 percent, year on year, after rising 0.6 percent a quarter earlier.

Under these conditions, inflation, measured by the year-on-year change in the consumer price index, averaged 1 percent in the fourth quarter of 2013, before moving down to 0.5

percent in January and 0.4 percent in February 2014. Core inflation stabilized at 1.3 percent during the last two months, in conjunction with stagnant inflation of nontradables at 1 percent and a slight increase of 1.5 percent in that of tradables from 1.4 percent in January. In addition, industrial producer prices continued to decline in January by 2.4 percent, a rate similar to that of the fourth quarter.

Based on all these elements and given the recent decisions taken by the Government on the indexation of certain petroleum prices, inflation should be broadly consistent with the price stability objective. The average forecast was revised slightly downward to 1.8 percent in 2014 and should stand at 2.3 percent at the end of the forecast horizon (second quarter of 2015), with an average of 2 percent over the same forecast horizon. Core inflation would remain moderate, not exceeding 2 percent.

1. AGGREGATE SUPPLY AND DEMAND

National growth would have stood at 4.8 percent in the fourth quarter 2013, reflecting a nonagricultural growth of 2.2 percent and a 24.5 percent increase in the agricultural value added. The downturn of nonagricultural activities is mainly due to sluggish foreign demand for the most export-oriented sectors, continued pressures on global commodity prices as well as restrictive budgetary stance, which affected growth, particularly through the slowdown of government consumption and investment. However, household final consumption would remain resilient, thanks to improved agricultural incomes. Overall, growth forecasts remain unchanged within a range between 4.5 percent and 5 percent in 2013 and around 3 percent in 2014. These projections indicate a lower agricultural value added and a recovery of nearly 4 percent of nonagricultural activities in 2014. However, this relative recovery remains surrounded by considerable uncertainties, particularly about nonmarket activities, construction and mining industry.

1.1 Output

National growth stood at 4 percent in the third quarter 2013, covering an improvement of 19.9 percent in the agricultural value added and a 1.7 percent increase in nonagricultural GDP. In the fourth quarter, it would have stood at 4.8 percent, according to forecasts by BAM, thanks to a 24.5 percent increase in the agricultural value added and 2.2 percent in nonagricultural GDP.

In the first quarter 2014, the latest available data suggest a deceleration in GDP growth to 3.1 percent, mainly due to a decline of 3.5 percent in the agricultural value added. However, nonagricultural activities should improve relatively by 3.6 percent.

At the sectoral level, the crop year 2013-2014 started in climatic conditions marked, according to data as at March 10, 2014, by a year-on-year decline of 37.7 percent in the amount of rainfall and a dam-filling rate of 71.3 percent, on average, as against 84.8 percent a year earlier. However, initial estimates about cereal production indicate a level exceeding 70 million quintals in the current crop year. Regarding the activity of inshore and small-scale fishing, landings showed a 3.4 percent decrease in volume in January 2014, with particularly a decline of 44.6 percent in cephalopods and virtual stagnation in the volume of pelagic fish.

Concerning nonagricultural activities, the value added of the extractive industry would

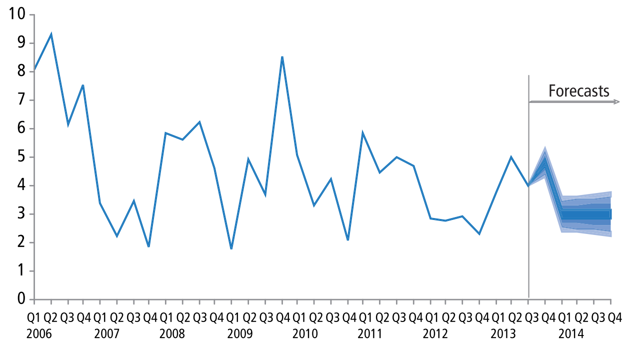
Table 1.1: YoY growth of quarterly GDP at chained prices per major sectors (%)

Activity sectors	2011	2012				2013				2014
	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV$_F$	QI$_F$
Agriculture	4.3	-8.3	-9.5	-8.5	-9.1	17.7	22.8	19.9	24.5	-3.5
Nonagricultural VA	**5.1**	**4.4**	**4.5**	**4.7**	**4.0**	**1.9**	**2.4**	**1.6**	**1.8**	**3.3**
Extractive industry	9.5	-5.0	-5.0	4.7	-3.6	-3.6	0.1	-3.2	-3.7	-4.2
Processing industry	3.5	2.9	1.4	1.4	0.1	0.5	0.8	-0.1	0.4	0.6
Electricity and water	12.1	11.3	9.0	9.9	-1.9	-4.2	-0.9	1.9	4.9	4.6
Construction	7.0	5.0	3.5	-0.5	0.7	-5.9	-4.6	-0.2	-0.6	-1.7
Trade	4.9	3.2	2.7	2.0	1.4	2.3	3.7	3.1	3.0	2.7
Hotels and restaurants	-6.8	-4.8	3.9	2.7	8.7	3.7	5.1	4.4	4.5	3.9
Transportation	3.9	2.8	4.2	2.5	5.3	0.2	2.7	2.9	2.8	3.0
Post and telecommunication	23.0	23.7	22.4	27.1	28.6	14.7	11.5	8.9	8.5	8.5
General government and social security	4.5	7.4	6.9	6.3	6.1	6.3	6.3	2.0	2.5	4.7
Other services*	4.4	5.1	5.5	5.4	5.8	2.5	2.8	2.2	2.2	3.5
Taxes on products net of subsidies	1.4	5.6	5.7	4.5	4.8	1.0	2.4	2.8	2.8	2.8
Nonagricultural GDP	**4.7**	**4.5**	**4.6**	**4.7**	**4.1**	**1.8**	**2.4**	**1.7**	**2.2**	**3.6**
Gross Domestic Product	**4.7**	**2.8**	**2.7**	**2.9**	**2.3**	**3.8**	**5.0**	**4.0**	**4.8**	**3.1**

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

Sources: HCP, and BAM forecasts.

Chart 1.1: GDP projected growth Q4-2013 - Q4-2014*



(*) Fans depending on the standard deviation.

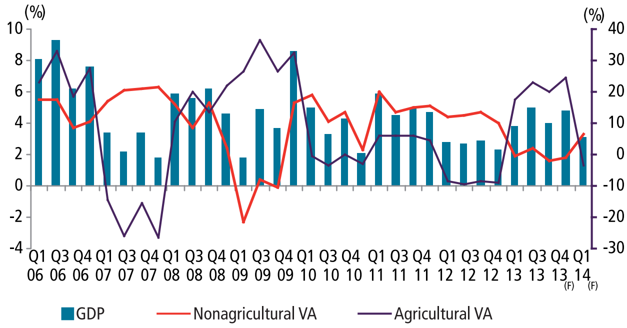
Sources: HCP, and BAM forecasts.

have dropped by 3.7 percent in the fourth quarter 2013, after a decline of 2.2 percent on average in the first three quarters. Indeed, the volume of marketable production of crude phosphate fell by 3.5 percent, after a 4.6 percent decrease in the third quarter, and that of exports dropped by 13.6 percent. In addition, the crude phosphate price fell sharply by 40.5 percent in the fourth quarter to $101 per tonne in December 2013 as against $185 a year earlier. In 2014, January data show a 1.4 percent decrease in the volume of phosphate exports, while production rose slightly by 0.5 percent, year on year. Meanwhile, the crude phosphate price was down 42.9 percent. Overall, the trends observed suggest a further contraction of the mining value added in the first quarter of 2014.

The manufacturing value added would have risen 0.4 percent in the fourth quarter, representing an average increase of 0.4 percent in 2013, well below its long-term performance. After three quarters of consecutive declines, medium and high-voltage electricity sales, intended primarily for the industrial sector, rebounded by 3.9 percent in the fourth quarter. In 2014, industrial activity would be partly supported by the uptrend in the automotive sector, whose exports moved up 43.7 percent at end-February 2014. However, this recovery remains fragile, conditioned by the renewed momentum of other sectors and the strong recovery of European markets. In addition, according to Bank Al-Maghrib business survey of February 2014, manufacturers expect a lower activity compared to the previous month and a stable utilization capacity rate at around 68 percent. Output and new orders are expected to improve, according to business leaders.

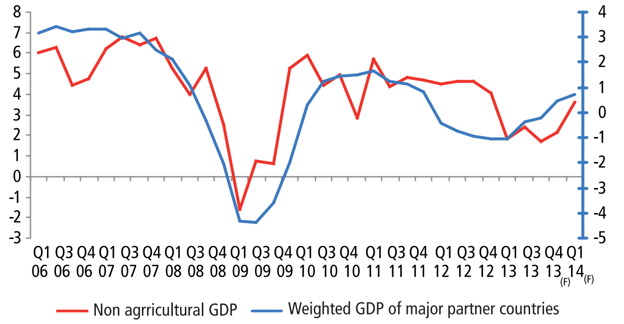
In parallel, the value added of "electricity and water" would have risen by 4.9 percent in the fourth quarter, as against 1.9 percent in the previous quarter. This change would be primarily attributed to respective increases of 8.1 percent and 4.5 percent in local net

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



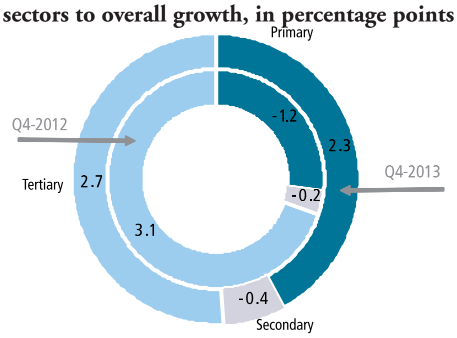
Sources: HCP, and BAM calculations and forecasts.

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.

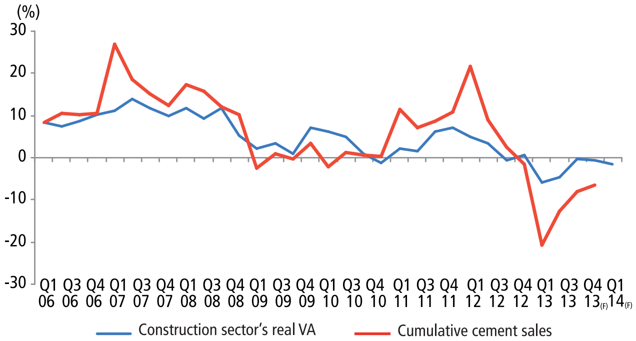
production of the National Electricity and Water Office and in its overall sales, after a slight decline of 0.3 percent a quarter earlier. In the first quarter of 2014, the growth of this sector would remain dynamic, assuming that the trend observed at end-February 2014 would continue, with mainly increases of 4.4 percent and 1.2 percent in electricity production and sales.

The construction sector's value added would have declined 0.6 percent in the fourth quarter of 2013, after a 0.2 percent drop in the previous quarter. After a rebound of 3.4 percent in the third quarter, cement sales almost stagnated in the fourth quarter. In early 2014, the real estate sector outlook remains negative, with particularly a decline of 9.1 percent in cement sales in late February, after a decline of 18.4 percent over the same period a year earlier.

Regarding tertiary activities, the value added of posts and telecommunications would have risen 8.5 percent in the fourth quarter of 2013, as against 8.9 percent in the third quarter. The latest data available at the end of December 2013 show a growth of 8.7 percent in the number of mobile phone subscribers and 46 percent in that of Internet subscribers. In the first quarter 2014, this branch should maintain its pace of growth, as the price index of the communication branch continued to decline to 9 percent in February 2014. The trade and transport value added, closely linked to other sectors, should grow by almost 3 percent in the first quarter of 2014.

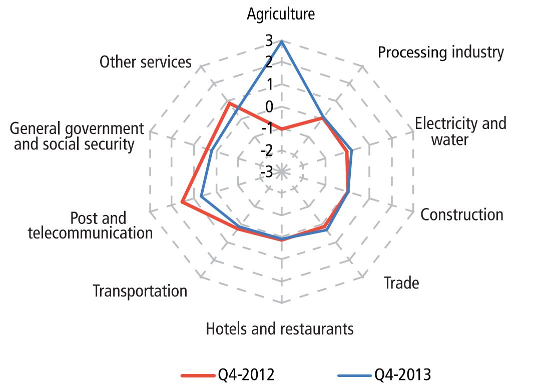
The value added of hotels and restaurants increased by 4.5 percent in the fourth quarter of 2013, a rate similar to that registered in the first three quarters. In 2014, January data highlight year-on-year respective increases of 9.6 percent and 9.2 percent in tourist arrivals and overnight stays in classified hotels. Assuming that this trend would continue, the growth of value added of this branch would stand at 3.9 percent in the first quarter 2014.

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



Sources: APC, HCP and BAM forecasts.

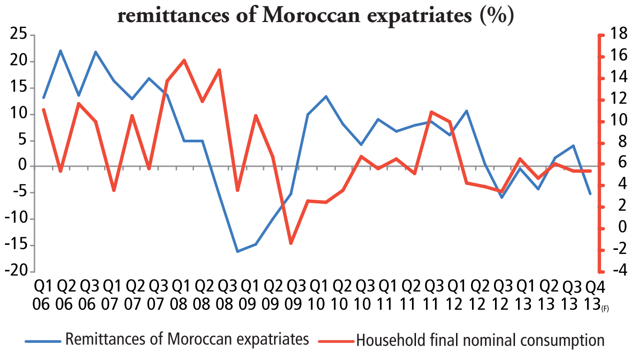
Chart 1.6: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations.

Throughout 2014, growth prospects remain unchanged compared to the previous Monetary Policy Report of December 2013. National growth should be around 3 percent, covering a decline in agricultural value added and relative recovery of nearly 4 percent in nonagricultural growth. Many uncertainties weigh on these prospects, particularly those related to the degree of materialization of downside risks to agricultural value added and the strong recovery of nonagricultural activities, which remains largely dependent on tensions in global commodity prices, the scale of recovery in the euro area and the capacity of national operators to benefit from it.

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



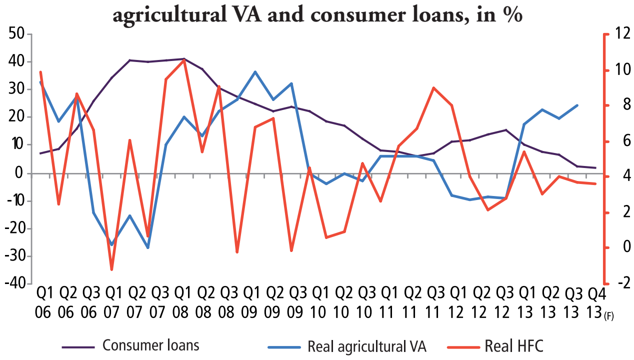
Sources: HCP, Foreign Exchange Office, and BAM calculations and forecasts.

1.2 Consumption

Year on year, the growth of the national final consumption decelerated relatively in the third quarter of 2013 to 3.8 percent from 4.2 percent a quarter earlier. This change reflects a slowdown in its two components, namely, the household consumption and the government one. Growth of the latter continued its downward trend that started in the first quarter of 2013 to 4.3 percent.

The growth of household consumption slowed down to 3.7 percent in the third quarter from 4 percent in the previous quarter, but remains above the 2012 performance. This trend should continue in the coming quarters. Indeed, the household confidence survey, conducted by the HCP, indicates that the household confidence index recorded in the fourth quarter 2013 a decrease of 4.2 points compared to the same period of the previous year and 1.2 point, quarter on quarter. The increase in the unemployment rate to 9.5 percent in the fourth quarter of 2013 should negatively impact the households' consumption patterns. Indeed, the urban unemployment rate moved up from 13.2 percent to 14.4 percent, due to a loss of 32,000 jobs. In addition, monetary data

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



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

indicate that consumer loans decelerated sharply, in one year, from 7.3 percent to 2 percent at the end of February 2014, while foreign trade indicators show a decline of 3.3 percent in remittances from Moroccans living abroad.

Regarding government consumption, the latest available data on Treasury expenses and revenues show a 2.3 percent decline in operating expenses at end-January. This change reflects a 2.4 percent increase in personnel costs and a 10.6 percent decline in spending on other goods and services.

1.3 Investment

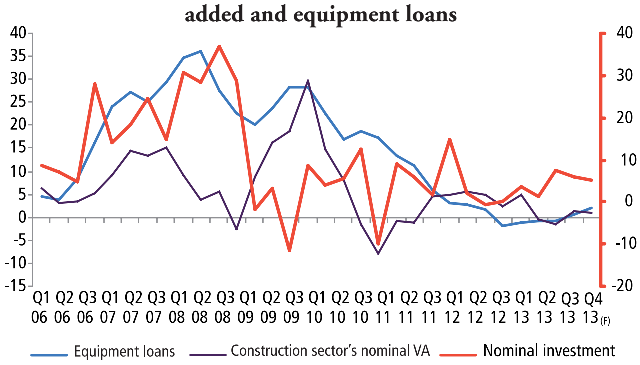
In real terms, investment slowed down in the third quarter 2013 to 0.5 percent from 2.4 percent in the previous quarter.

In late February, the monetary data show a 0.7 percent increase in equipment loans as against 0.8 percent over the same period last year. Meanwhile, real estate loans slowed down from 7.5 percent to 3 percent in one year.

Regarding foreign trade data, imports of capital goods and FDI flows decreased by 10.1 percent and 60.1 percent, respectively, at the end of February 2014. The decline in FDI flows covers deterioration in both revenue and expenditure. However, the quarterly findings of BAM monthly business survey in industry for the fourth quarter of 2013 highlight that 72 percent of manufacturers describe the general business climate as average.

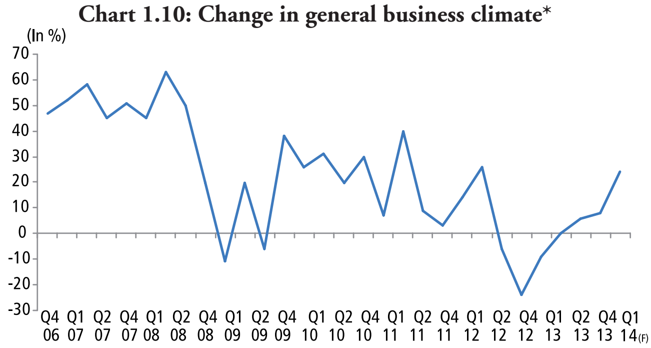
In addition, cement sales at end-February dropped by 9.1 percent after a decline of 18.4 at end-February 2013. In addition, the real estate price index recorded a quarter-on-quarter decrease of 0.4 percent, covering respective drops of 1.4 percent and 1.1 percent in residential property prices and commercial ones as well as a 1.5 percent increase in land prices.

Chart 1.9: YoY change in 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.*

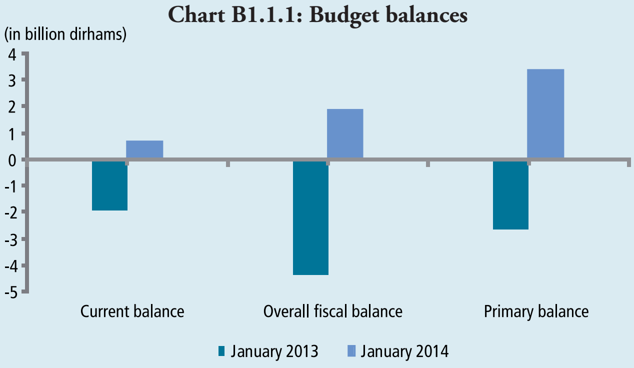
Source: BAM monthly business survey.

Box 1.1: Budget execution at end-January 2014

Budget execution for January 2014 reveals a 1.9 billion surplus as against a deficit of 4.4 billion in January 2013. Regarding revenues, this result was due to a 10.1 billion increase of positive balance of Treasury special accounts and the collection of 2.1 billion as donations from the GCC countries, recorded as nontax revenue. Concerning expenditure, with the exception of personnel, subsidy and investment expenditure, all other lines were down. The current balance was positive at 666 million, as against a deficit of 1.9 billion in January 2013.

The Treasury's current revenues rose by 13.7 percent to 20.7 billion, owing to increases of 2 percent in tax revenue to 18 billion and 1.9 billion in nontax revenues to 2.5 billion compared to January 2013. The change in tax revenue reflects lower corporate tax revenues and customs duties, while income tax receipts, indirect taxes and registration and stamp fees showed increases.

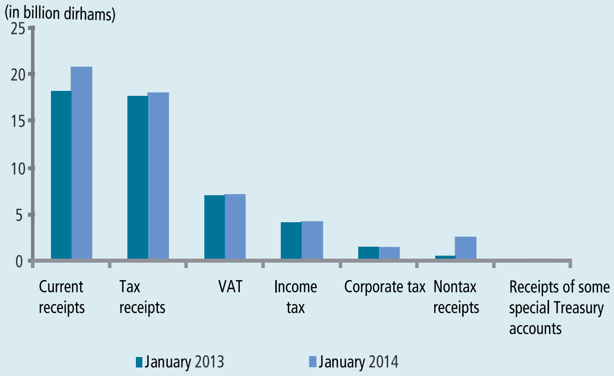
Chart B1.1.1: Budget balances



Source: Ministry of Economy and Finance

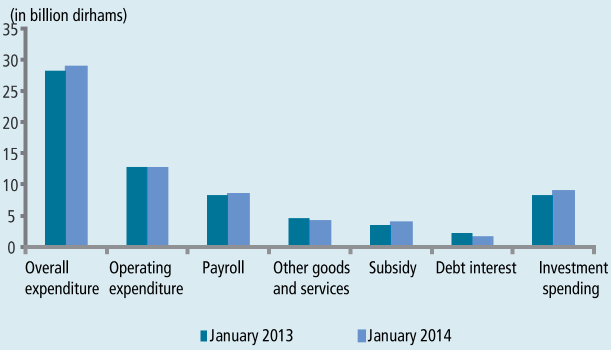
Indeed, direct tax revenues fell by 0.9 percent to 5.7 billion, essentially covering a 1.4 percent increase in income tax receipts to 4.1 billion and a 6.4 percent decrease in corporate tax revenues to 1.4 billion. Indirect taxes revenue improved by 4.7 percent to 9.3 billion dirhams. The VAT revenue dropped by 0.2 percent to 7.1 billion, covering a decrease of 10.3 percent in domestic VAT to 3.4 billion and an 11.5 percent increase to 3.7 billion in revenues from import VAT. Domestic consumer taxes generated 2.2 billion, up 24.9 percent. Revenues from customs duties were down 6.6 percent to 611 million, while registration and stamp fees rose by 0.8 percent to 2.4 billion.

Chart B1.1.2: Current revenues



Source: Ministry of Economy and Finance

Chart B1.1.3: Overall expenditure



Overall expenditure amounted to 29 billion dirhams, up 2.4 percent, covering a 9.6 percent increase in investment expenditure to 8.9 billion and 0.5 percent decrease in current expenditure to 20 billion. Indeed, operating expenses declined 2.3 percent to 12.6 billion, owing to a 10.6 percent drop in costs of other goods and services to 4.2 billion, while staff costs grew by 2.4 percent to 8.4 billion. Debt interest charges were down 14.2 percent to 1.5 billion. Subsidy costs increased by 13 percent to 3.8 billion compared to January 2013.

Given the repayment of 1.4 billion as arrears, bringing the stock to 9.2 billion, the Treasury financing balance moved into a surplus of 474 million as against a cash need of 9.7 billion in January 2013. Due to a negative external net flow of 409 million, the Treasury's financing capacity allowed it reduce debts in the domestic market, amounting to 65 million as against a net internal debt of 10.5 billion in January 2013.

Data available at end-January 2014 on Treasury expenses and revenues indicate a 9.6 percent increase in investment expenditure after a 6.2 percent decline as part of the 2013 budget execution.

1.4 External accounts

After a reduction of 3.2 percent in 2013, the trade deficit widened by 4.7 percent at end-February 2014, in connection with a 3.8 percent increase in imports, faster than 2.8 percent registered in exports. Thus, the import coverage stood at 48.4 percent from 48.8 percent in 2013.

Import growth resulted primarily from a significant increase of 2.5 billion dirhams in supplies of wheat, which more than offset the 10.1 percent decline in purchases of capital goods, under a further decline since the beginning of the year. Consumer goods imports rose by 7.6 percent to 10.6 billion dirhams, due to an increase of 28.6 percent in passenger car imports. In contrast, energy purchases showed a drop of 1 percent, covering a 26.8 percent decrease in gas-oil purchases to 4.2 billion dirhams and a 35.9 percent increase in petroleum gas supplies to 4 billion dirhams. Similarly, purchases of semi-finished goods decreased by 0.7 percent to 12.4 billion dirhams.

Export trends at the end of February 2014 covers an 18.1 percent decline in sales of phosphates and derivatives to 4.4 billion dirhams, and a 7.6 percent increase in other exports to 25 billion dirhams. Thus, shipments of cars continued their upward trend to 3 billion dirhams as against 1.4 billion over the same period last year. Similarly, shipments of the agricultural and agri-food sector improved by 2.1 percent to 6.4 billion dirhams, mainly owing to a 23.1 percent increase in citrus and vegetables sales. However, the food industry sales fell by 5 percent.

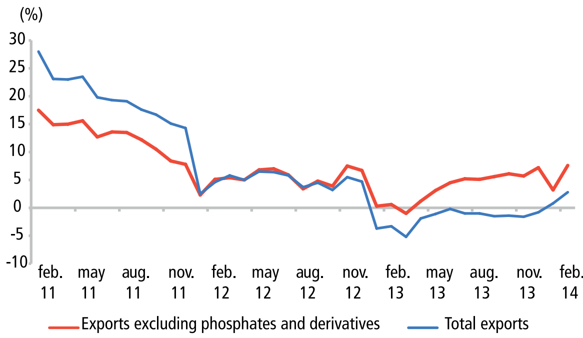
Meanwhile, shipments of electronics industry and those of the pharmaceutical sector grew

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

(In millions of dirhams)	February 2013	February 2014*	Change Amount	Change %
Exports	**28 603**	**29 414**	**+ 811**	**+2.8**
Phosphates and derivatives	5 346	4 379	- 967	-18.1
Exports excluding phosphates and derivatives'	**23 257**	**25 035**	**+1 778**	**+7.6**
Textile and leather	5 446	5 312	-134	-2.5
Agriculture and food industry	6 247	6 381	+134	+2.1
Automobile	4 409	6 337	+ 1 928	+43.7
Electronics	1 168	1 310	+142	+12.2
Aeronautics	1 227	1 197	-30	-2.4
Imports	**58 589**	**60 810**	**+2 221**	**+3.8**
Energy imports	14 993	14 844	-149	-1.0
Non-energy imports	**43 596**	**45 966**	**+2 370**	**+5.4**
Imports excluding energy and cereals	**41 893**	**41 587**	**-306**	**-0.7**
Consumer goods	9 831	10 574	+743	+7.6
Food products	5 163	8 282	+3 119	+60.4
Capital goods	13 205	11 877	-1 328	-10.1
Semi-finished goods	12 538	12 448	-90	-0.7
Trade deficit	**29 986**	**31 396**	**1 410**	**+4.7**

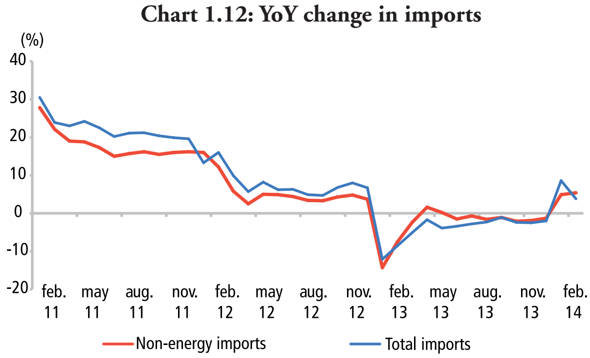
** Provisional data.*
Source: Foreign Exchange Office.

Chart 1.11: YoY change in exports



Source: Foreign Exchange Office.

Chart 1.12: YoY change in imports



Source: Foreign Exchange Office.

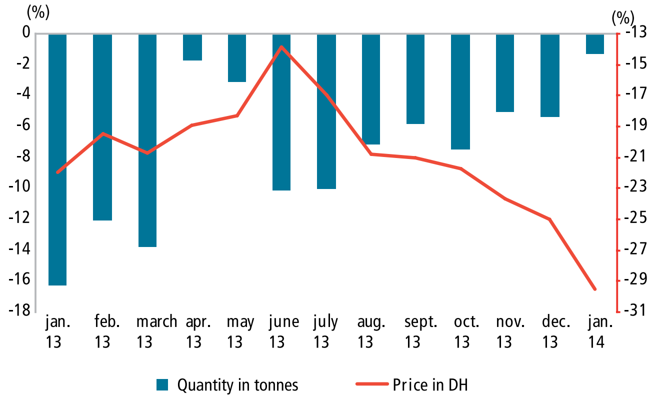
by 12.2 percent and 29.5 percent to 1.3 billion and 158 million dirhams, respectively. In contrast, textile and leather exports fell 2.5 percent to 5.3 billion dirhams, due to respective declines of 6.6 percent and 3.6 percent in exports of hosiery items and ready-made garments, while footwear sales moved up 13.7 percent. Similarly, the aeronautics sector sales dropped by 2.4 percent to 1.2 billion dirhams.

Travel receipts dropped slightly by 0.9 percent in February 2014 to 8 billion dirhams, compared to the same period of 2013, while transfers from Moroccans living abroad declined by 3.3 percent to 8.8 billion.

Based on expected trends in the components of the current account, the deficit of the latter should stand in 2014 at around 7.5 percent as a percentage of GDP, slightly up compared to 2013.

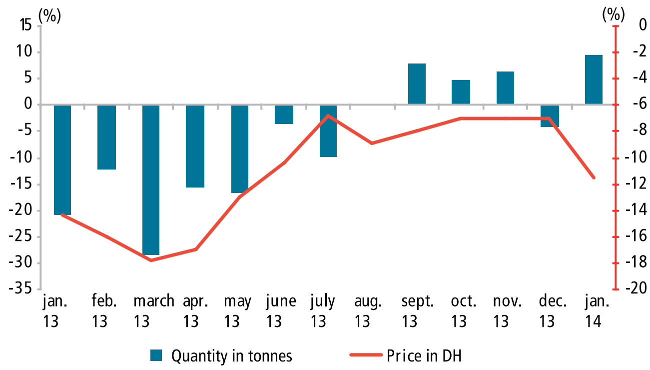
Foreign direct investment flows shrank by 6.2 billion to 4.1 billion dirhams. However, these flows were up 18.6 percent, excluding the significant agri-food transactions in February 2013. Given the other elements of the capital account, the outstanding net international reserves stood at 151.3 billion dirhams at end-February 2014, equaling 4 months and 10 days of goods and services' imports.

Chart 1.13 : YoY change in phosphate exports



Source: Foreign Exchange Office.

Chart 1.14 : YoY change in crude oil imports



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

In the fourth quarter of 2013, nonagricultural output gap would have been below zero, according to Bank Al-Maghrib estimates, while capacity utilization rate (CUR) in the industrial sector stagnated in January 2014 at 69 percent. As to the labor market, the situation in the fourth quarter deteriorated significantly in urban areas, with particularly a net loss of 32,000 jobs and an increase of 1.2 percentage point in the unemployment rate to 14.4 percent. Concerning costs, private sector wages grew by 3.4 percent, year on year, in real terms.

Overall, although the data do highlight some tensions in production costs, the deterioration of the labor market conditions in urban areas and the persistence of spare capacity in the economy do not suggest significant price pressures in the coming quarters.

2.1 Pressures on output capacity

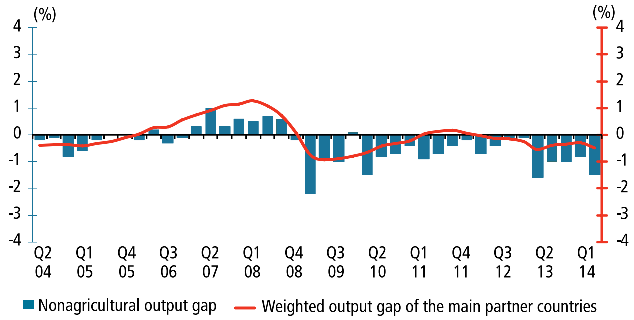
The latest estimates of Bank Al-Maghrib indicate that the output gap was negative in the fourth quarter of 2013 and should remain unchanged in the first quarter of 2014, suggesting the absence of significant price pressures.

At the same time, the findings of BAM's monthly business survey in industry show that the CUR stabilized in January at 69 percent, slightly below its historical average (71 percent). This trend affected all sectors, with the exception of electrical and electronic industries, in which the CUR rose from 70 to 77 percent.

The same survey shows that the unit production costs would have increased overall in the fourth quarter of 2014, quarter on quarter (Chart 2.3). According to manufacturers, this change would be particularly due to higher commodity prices. Similarly, the industrial producer price index inched down 0.3 percent over the same period as against an increase of 0.5 percent a quarter earlier.

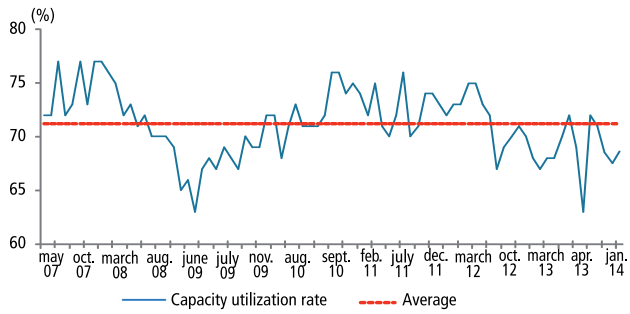
Apparent labor productivity in nonagricultural activities rose by 1.8 percent year on year in the last quarter of 2013, after an increase of 2.8 percent, due to the combined effect of stagnant nonagricultural employment

Chart 2.1: Nonagricultural output gap



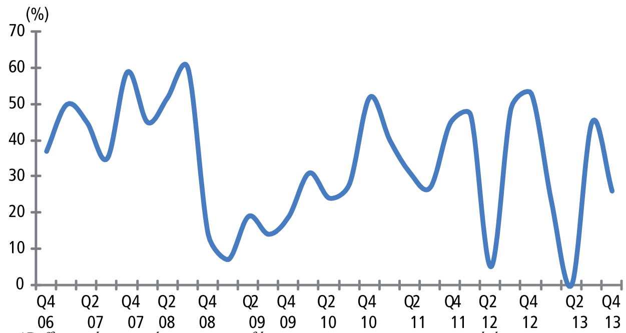
Sources: HCP, Eurostat and BAM estimates.

Chart 2.2: Industrial capacity utilization rate



Source: BAM monthly business survey.

Chart 2.3: Balance of opinion* on the change in production unit cost



**Difference between the percentage of businesses reporting an increase and those reporting a decrease.*

Source: BAM monthly business survey.

and sharply slower nonagricultural growth from 4 to 1.8 percent (Chart 2.4).

2.2 Pressures on the labor market

At the end of the fourth quarter, the labor force aged 15 and over expanded by 1.8 percent to 11.7 million, reflecting increases of 2.9 percent in rural areas and 0.9 percent in urban areas. This rise was accompanied by a slight increase of 0.1 point in the participation rate to 48.2 percent, albeit with a decline of 0.5 point to 42.1 percent in urban areas.

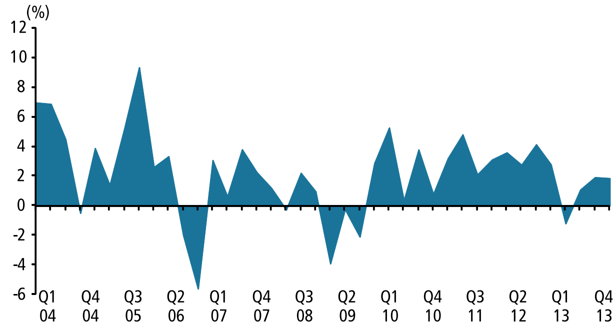
Over the same period, 100,000 jobs were created, nearly two-thirds of which as unpaid jobs and held almost entirely by a female workforce. This change covers a creation of 132,000 jobs in rural areas and a loss of 32,000 jobs in urban areas (Chart 2.5).

At the sectoral level, agriculture and services remain the only job-providing sectors, with 102,000 and 91,000 jobs respectively. In contrast, the industrial and construction sectors showed further respective losses of 41,000 and 53,000 jobs.

Employed labor force totaled 10.6 million people, up 1 percent. However, the employment rate dropped from 43.9 to 43.6 percent overall and from 37 to 36 percent in urban areas (Table 2.1).

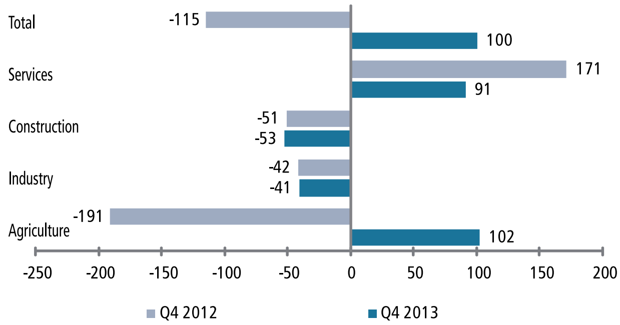
The unemployment rate edged up, year on year, from 8.7 to 9.5 percent, reflecting increases from 13.2 to 14.4 percent in urban areas and from 3.6 to 4 percent in rural areas. By age group, the largest increase was registered among urban young people aged 15 to 24 years, whose rate rose from 32.8 to 34.6 percent (Table 2.1).

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.

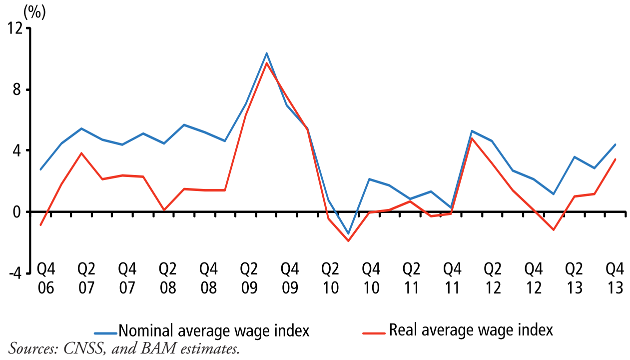
Table 2.1: Quarterly indicators of activity, employment, and unemployment

In thousand / in %	Q4- 2012 Urban	Q4- 2012 Rural	Q4- 2012 Total	Q4- 2013 Urban	Q4- 2013 Rural	Q4- 2013 Total
Labor force and employment						
Labor force [(1)]	6 169	5 363	11 532	6 222	5 519	11 741
Labor force participation rate (%) [(2)]	42.6	56.4	48.1	42.1	57.6	48.2
Employed labor force	5 357	5 168	10 525	5 325	5 300	10 625
Employment rate (%) [(3)]	37.0	54.3	43.9	36.0	55.3	43.6
Unemployment						
Unemployed labor force	812	195	1 007	897	219	1 116
Unemployment rate (in %) [(4)]	13.2	3.6	8.7	14.4	4	9.5
By age						
.15 - 24 years	32.8	8.6	18.1	34.6	9.8	19.6
.25 - 34 years	19.0	3.2	12.4	19.8	3.9	13.0
.35 - 44 years	7.2	2.1	5.2	8.6	1.7	5.8
By degree						
. Non-graduates	6.5	2.0	3.7	8.3	2.5	4.6
. Graduates	18.1	10.1	16.2	18.6	9.8	16.5

(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.

Regarding costs trends, the private sector wage index, based on CNSS data, posted in the fourth quarter a year-on-year increase of 4.4 percent in nominal terms and 3.4 percent in real terms.

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



Sources: CNSS, and BAM estimates.

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

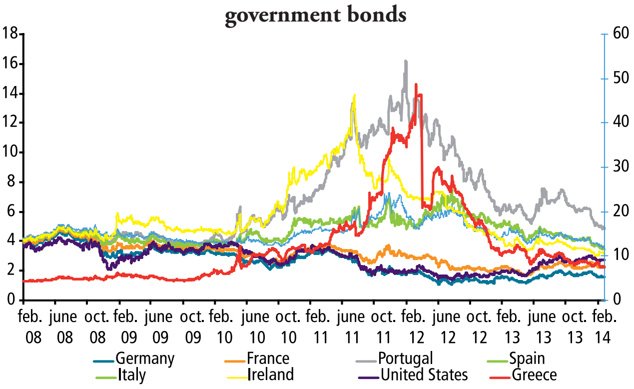
Global economic conditions continued the recovery that began since the second quarter of 2013 in advanced economies. Indeed, the results of national accounts for the fourth quarter and recent data on high-frequency indicators suggest a further strengthening of economic activity and its prospects in these countries. The growth in the United States continued to improve, which impacted the labor market, as the unemployment rate remained below 6.8 percent in early 2014. In the euro area, economic activity continued its moderate recovery, but is still marked by persistently high unemployment and disinflation risks. In emerging countries, growth slowed down relatively and financial conditions trends remain unclear, particularly due to the Fed's gradual withdrawal of its quantitative easing measures. On global commodity markets, except for energy products, prices trended generally downward. Under these conditions, the IMF and the European Commission revised up their economic outlook for 2014 and 2015.

3.1 Global financial conditions and economic activity

3.1.1 Financial conditions

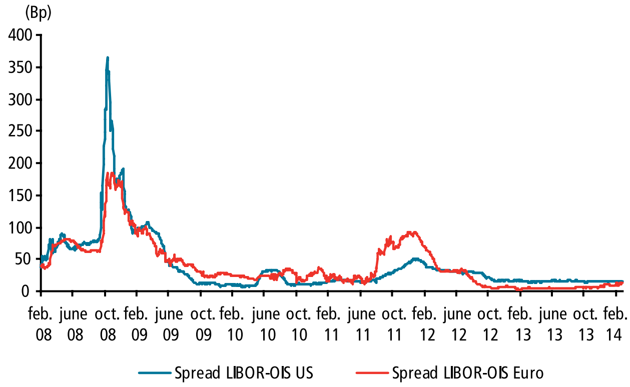
In February 2013, with the exception of the stock-exchange compartment, financial markets of advanced economies showed signs of easing. In bond markets, sovereign yields continued to ease in advanced economies. Between January and February, 10-year yields in peripheral eurozone countries fell from 8.1 percent to 7.7 percent in Greece, from 3.9 percent to 3.7 percent in Italy and from 5.4 percent to 5 percent in Portugal. In addition, Moody's upgraded on February 21 Spain's long-term sovereign rating with a notch from "Baa3" to "Baa2", referring to a faster-than-expected rebalancing of the economy, and the implementation of reforms to improve the medium-term growth. In this context, the Spanish sovereign 10-year yields fell from 3.8 percent to 3.5 percent, its lowest level since 8 years. Yields on U.S. Treasury bills moved down slightly to 2.7 percent in February from 2.8 percent a month earlier. In major emerging economies, 10-year yields recorded divergent trends between January and February. They stagnated at 12.9 percent in Brazil, declined slightly from 4.6 percent to 4.5 percent in China and from 10.1 percent to 10 percent in Turkey, while they increased in India from 8.7 percent to 8.8 percent.

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



Source: Datastream .

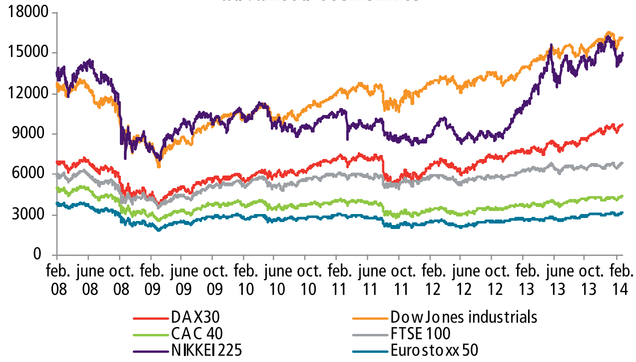
Chart 3.2: Change in the OIS-LIBOR spread*



** 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 .

In money markets, the 3-month Euribor and Libor stagnated in February at 0.29 percent and 0.24 percent, respectively. The euro Libor-OIS spreads rose between January and February from 9.5 basis points to 11.7 points, while the dollar Libor-OIS spreads were up from 15.1 points to 15.7 points. The annual credit growth increased in the United States to 2 percent in February, from 1.3 percent in the previous month. In the euro area, the contraction that began in May 2012 continued in January, with a decrease of 2.2 percent as against 2.3 percent a month earlier.

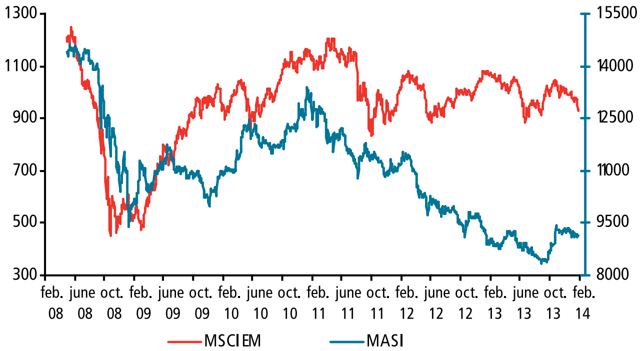
Chart 3.3: Change in the major stock market indexes of advanced economies



Source: Datastream.

In stock markets, most major indexes of advanced economies registered declines, with an increase of their volatility. Indeed, from January to February, the EUROSTOXX50, Dow Jones Industrials and NIKKEI225 were down 0.6 percent, 2.2 percent and 7.1 percent, respectively. Similarly, the DAX30 fell 0.4 percent and the FTSE100 was down 0.6 percent. In contrast, the CAC40 was up 0.8 percent, from one month to another. In terms of volatility, VSTOXX rose between January and February, from 18.1 basis points to 18.7 points, while VIX was up from 14.1 basis points to 15.6 points. Similarly, indexes of emerging economies continued to decline, as the MSCI EM dropped by 2.1 percent, month on month, mainly reflecting a decline of 2.6 percent in MSCI China and 2.9 percent in those of Turkey and India.

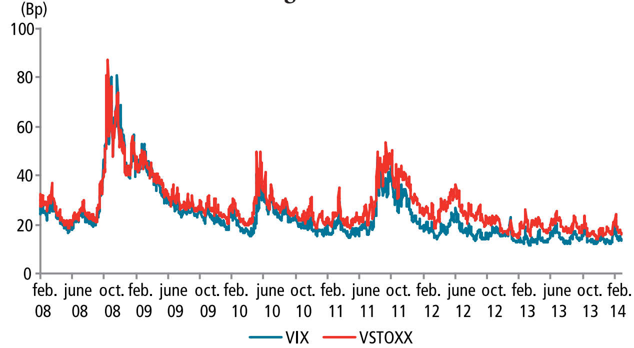
Chart 3.4: Change in the MSCI EM and MASI



Source: Datastream.

In foreign exchange markets, the euro appreciated slightly by 0.3 percent, averaging $1.37 in January against $1.36 in December. In addition, the single currency depreciated by 0.2 percent vis-à-vis the pound sterling, and by 1.5 percent against the Japanese yen. The currencies of key emerging economies stagnated against the dollar. Between January and February, the dollar traded at 2.4 Brazilian real, 62.2 Indian rupees and 6.1 Chinese yuan.

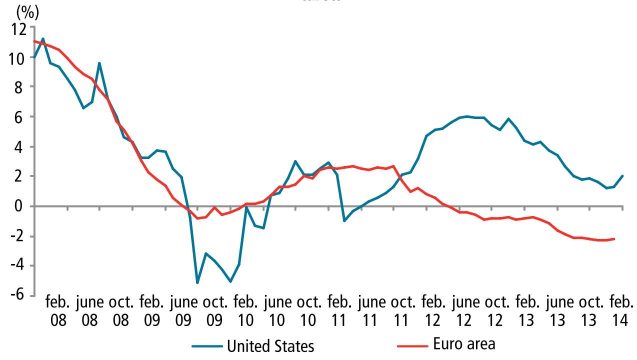
Chart 3.5: Change in VIX and VSTOXX



Source: Datastream.

With regard to monetary policy decisions, the ECB and the Bank of England kept at their meetings of February 6 their key rates unchanged at 0.25 percent and 0.5 percent. The Fed announced on March 19, 2014, a further reduction of $10 billion in its bond buyback program, bringing it to $55 billion a month. It also reiterated that it would maintain its key rate low for a longer period.

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



Source: Datastream.

3.1.2 Global economic activity

The most recent data indicate a further recovery of global economy in the last quarter of 2013 in most developed countries, with a slight slowdown in emerging economies.

In the United States, GDP growth accelerated from 2 percent in the third quarter to 2.5 percent in the fourth quarter, supported by a favorable development of exports and private consumption. Similarly, growth strengthened in the United Kingdom to 2.7 percent from 1.9 percent in the previous quarter, in conjunction with an uptrend in secondary and tertiary sectors. In Japan, GDP continued its upward trend that started at the beginning of the year and, therefore, growth stood at 2.7 percent in the fourth quarter from 2.4 percent, driven by the government stimulus policy.

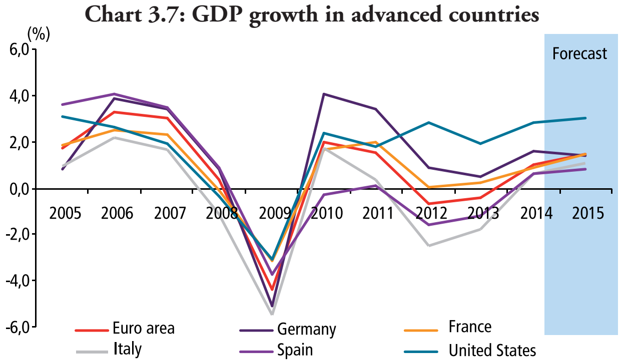
Table 3.1: YoY change in quarterly growth

	2012			2013			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	2.8	3.1	2.0	1.3	1.6	2.0	2.5
Euro area	-0.5	-0.7	-1.0	-1.2	-0.6	-0.3	0.5
France	0.1	0.0	-0.3	-0.4	0.5	0.3	0.8
Germany	1.1	0.9	0.3	-0.3	0.5	0.6	1.4
Italy	-2.6	-2.9	-3.0	-2.6	-2.3	-1.9	-0.8
Spain	-1.6	-1.7	-2.1	-1.9	-1.6	-1.1	-0.2
United Kingdom	0.0	0.2	0.2	0.7	1.8	1.9	2.7
Japan	3.3	-0.1	-0.4	-0.1	1.3	2.4	2.7
China	7.6	7.4	7.9	7.7	7.5	7.8	7.7
India	4.5	4.6	4.4	4.8	4.4	4.8	4.7
Brazil	0.6	0.9	1.8	1.8	3.3	2.2	1.9

Source : Eurostat.

In the euro area, GDP grew by 0.5 percent, year on year, after contracting 0.3 percent in the previous quarter. This performance was driven by an acceleration of growth from 0.6 percent to 1.4 percent in Germany, due to the momentum of its exports, and from 0.3 percent to 0.8 percent in France, mainly owing to rising household consumption. In addition, the contraction of GDP decelerated from 1.1 percent to 0.2 percent in Spain and from 1.9 percent to 0.8 percent in Italy.

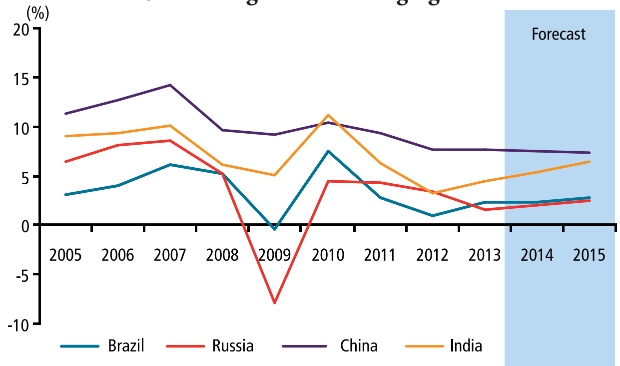
Chart 3.7: GDP growth in advanced countries



Source: IMF.

In emerging countries, growth slowed down slightly from 7.8 percent to 7.7 percent in China and from 4.8 percent to 4.7 percent in India, while it decelerated in Brazil for the second consecutive quarter, from 2.2 percent to 1.9 percent.

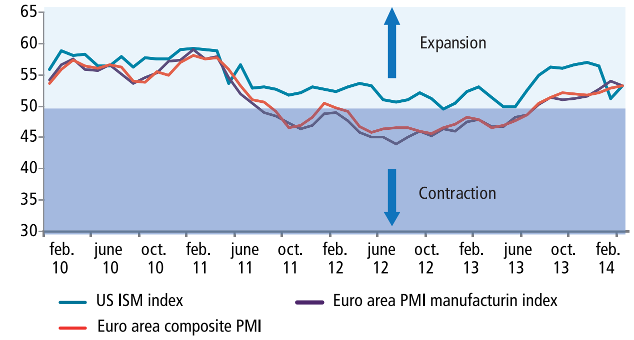
Chart 3.8: GDP growth in emerging countries



Source: IMF.

In addition, data from economic surveys show that the eurozone composite PMI rose from 52.9 to 53.3 points in February, reflecting a further recovery. Private activity is till supported by the manufacturing sector, whose PMI stood at 53.3 points in February. In the United States, the ISM manufacturing index stood at 53.2 points from 51.3 in the previous month, thus exceeding the expansion threshold by 6.4 percent.

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



Source: Datastream .

Under these conditions, the IMF, in its January update, revised up its forecasts, especially for major advanced economies. Indeed, it expects a slight acceleration of growth to 3.7 percent in 2014 and 3.9 percent in 2015. By country, growth in the United States should be 2.8 percent in 2014 and 3 percent in 2015. In the euro area, the IMF expects a growth of 1 percent in 2014 and 1.4 percent in 2015. Moreover, in the United Kingdom and Japan, growth should stand at 2.4 percent and 1.7 percent in 2014 before decelerating to 2.2 percent and 1 percent in 2015, respectively.

Table 3.2: Global growth outlook

	Forecasts (%)					
	European commission		IMF*		OECD	
	2014	2015	2014	2015	2014	2015
Global GDP	3.6	3.9	3.7	3.9	2.7	3.6
United States	2.9	3.2	2.8	3.0	1.7	2.9
Euro area	1.2	1.8	1.0	1.4	-0.4	1.0
Germany	1.8	2.0	1.6	1.4	0.5	1.7
France	1.0	1.7	0.9	1.5	0.2	1.0
Italy	0.6	1.2	0.6	1.1	-1.9	0.6
Spain	1.0	1.7	0.6	0.8	-1.3	0.5
United Kingdom	2.5	2.4	2.4	2.2	1.4	2.4
Japan	1.6	1.3	1.7	1.0	1.8	1.5
China	7.4	7.4	7.5	7.3	7.7	8.2
India	4.7	5.4	5.4	6.4	3.0	4.7
Brazil	2.3	2.9	2.3	2.8	2.5	2.2
Russia	2.3	2.7	2.0	2.5	1.5	2.3

Sources: OECD (November 2013). European commission (febriary 2013). IMF (Jan. 2013).

3.1.3 Labor market

The latest labor market data indicate persistently high unemployment in the euro area, where it stagnated at 12 percent, while in the United States, it stood at 6.7 percent in February, after reaching 6.6 percent in January, its lowest level since November 2008.

In partner countries, this rate increased between November and December from 10.8 percent to 10.9 percent in France and from 12.7 percent to 12.9 percent in Italy. In Germany and Spain, it fell slightly to 5 percent and 25.8 percent from 5.1 percent and 25.9 percent a month earlier. In the United Kingdom, November 2013 data highlight that unemployment remains unchanged at 7.2 percent from one month to another.

Regarding labor market prospects in developed countries, February 2014 projections from the European Commission predict an unemployment rate of 6.5 percent in the United States in 2014, which should decline to 5.8 percent in 2015. Similarly, in the euro area, the unemployment rate would stand at 12 percent in 2014 and decline slightly to 11.7 percent in 2015.

In partner countries, the Commission forecasts for Germany an unemployment rate of 5.2 percent in 2014 and 5.1 percent in 2015. In France, the unemployment rate should remain stable at 11 percent in 2014 and 2015. In Italy and Spain, the rate would be 12.6 percent and 25.7 percent in 2014, respectively, before declining to 12.4 percent and 24.6 percent in 2015. In the United Kingdom, it would stand at 6.8 percent in 2014 and should fall to 6.5 percent in 2015.

3.2 Commodity prices and inflation

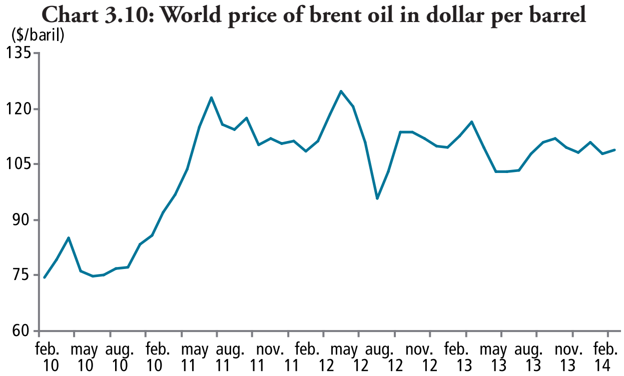
Early this year, commodity prices trended overall downwards, from one year to the next, with the exception of energy prices which were higher than in the previous year. Under these conditions, the disinflationary pressures continue in most developed countries, particularly in the euro area, where inflation stood at fairly low levels.

Table 3.3: Change in unemployment rate

	2012	2013	Dec. 2013	Jan. 2014	feb. 2014
United States	8.1	7.4	6.7	6.6	6.7
Euro area	11.4	12.1	12.0	12.0	N.D
France	10.2	10.8	10.8	10.9	N.D
Italy	10.7	12.2	12.7	12.9	N.D
Germany	5.5	5.3	5.1	5.0	N.D
Spain	25.1	26.4	25.9	25.8	N.D
United Kingdom	7.9	N.D	N.D	N.D	N.D

Source : Eurostat.

Chart 3.10: World price of brent oil in dollar per barrel



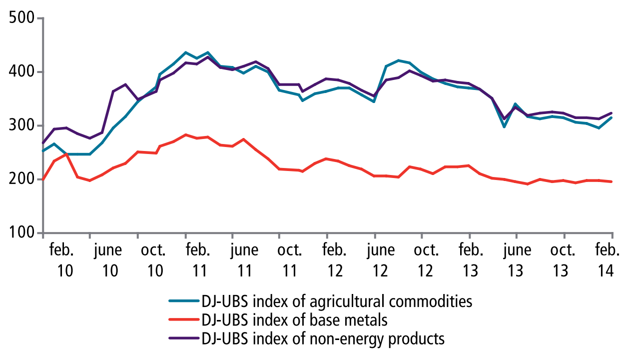
Source: Datastream.

Table 3.5: Oil futures price (Brent in U.S. $)

	Q1:14	Q2:14	Q3:14	Q4:14	2014	2015	2016
Oil	108.20	108.00	106.46	104.93	106.88	101.68	97.21

Source : Bloomberg.

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



Source: Datastream.

3.2.1 Energy commodity prices

The Brent price rose by 0.8 percent in February 2014 to $108.8 from $107.9 per barrel in the previous month. This change reflects fears over supply, in conjunction with the ongoing tensions in the oil-producing areas in Africa, particularly Libya and South Sudan. However, year on year, the Brent price remains down 6.6 percent.

Regarding the outlook for oil prices for 2014[1], the World Bank revised down its January estimates from $105.7 per barrel to $103.5. However, the IMF revised up its forecasts from $101.35 in its WEO of October 2013 to $103.84 per barrel in its updated WEO of January 2014. The European Commission expects a Brent price of $104.1 per barrel in its winter projections, compared to $105.8 provided in the autumn forecasts.

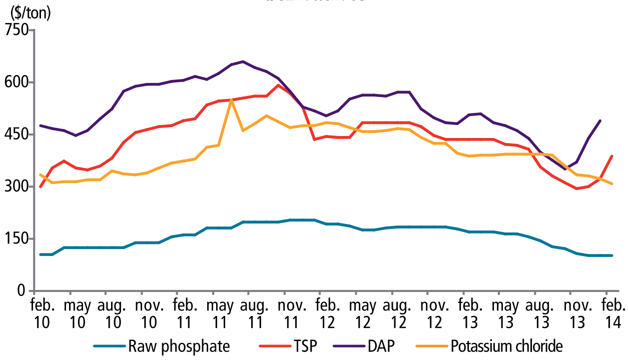
3.2.2 Non energy commodity prices

Non-energy prices were broadly down in February 2014. Indeed, the relevant Dow Jones index declined significantly by 14.3 percent, reflecting sharp declines of 13.8 percent in the index of industrial base metal prices and 14.8 percent in agricultural commodities index.

In the world market of phosphate and derivatives, the price of crude phosphate continued to rise since the previous month. Indeed, it stood at $103 per tonne in February, from $102.2 in January, up 0.8 percent. Similarly, DAP and TSP prices rose 11.9 percent and 20.3 percent, respectively, from one month to another. In contrast, Urea and Potassium Chloride prices were down 2.4 percent and 4.2 percent, respectively, between January and February 2014. With the exception of DAP, whose price was up 1.7 percent, year on year, prices fell 39.4 percent for crude phosphate, 20.1 percent

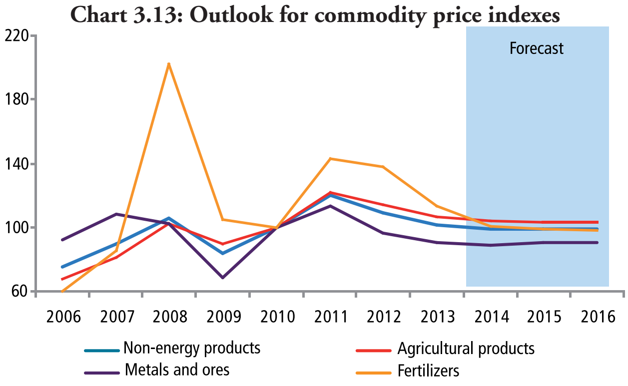
1 The World Bank and the IMF make their forecasts based on the average price of the three oil categories (Brent, WTI and Dubai).

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



Source: World Bank.

Chart 3.13: Outlook for commodity price indexes



Source: World Bank.

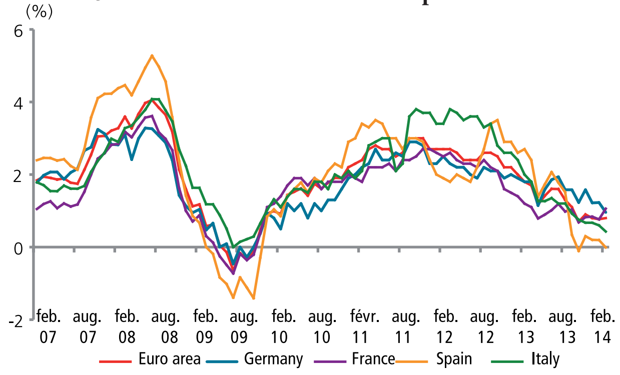
for Potassium Chloride, 16.4 percent for Urea and 10.9 percent for TSP.

3.2.3 Inflation in the world

According to an initial Eurostat estimate for February, inflation in the euro area would fall to 0.7 percent from 0.8 percent in January, covering an increase from 0.8 percent to 1.1 percent in France and decreases from 1.2 percent to 1 percent in Germany, from 0.6 percent to 0.4 percent in Italy and from 0.3 percent to 0.1 percent in Spain. In the United States, inflation declined in February, from 1.6 percent to 1.1 percent. In the United Kingdom and Japan, the latest available data remain those of January and show a slight drop in inflation from 2 percent to 1.9 percent and from 1.6 percent to 1.4 percent, respectively. In emerging and developing economies, inflation recorded a decline in China from 2.5 percent to 2 percent in February, while it increased slightly from 5.6 percent to 5.7 percent in Brazil.

Regarding the outlook, the IMF expects in January 2014 that inflation would reach 5.6 percent in 2014 in emerging and developing countries and would decrease to 5.3 percent in 2015. However, it should be limited to 1.7 percent in 2014 in developed countries, before increasing slightly to 1.8 percent in 2015.

Chart 3.14: Inflation trend in the main partner countries



Source: Eurostat and Datastream.

Table 3.5 : World inflation outlook, YoY

	Dec. 2013	jan. 2014	feb. 2014	Forecast 2014	2015
United States	1.5	1.6	1.1	1.6	1.9
Euro area	0.9	0.8	0.7	1.0	1.3
Germany	1.2	1.2	1.0	1.4	1.4
France	0.8	0.8	1.1	1.2	1.2
Spain	0.3	0.3	0.1	0.3	0.9
Italy	0.7	0.6	0.4	0.9	1.3
Japan	1.6	1.4	n.d.	2.5	1.2

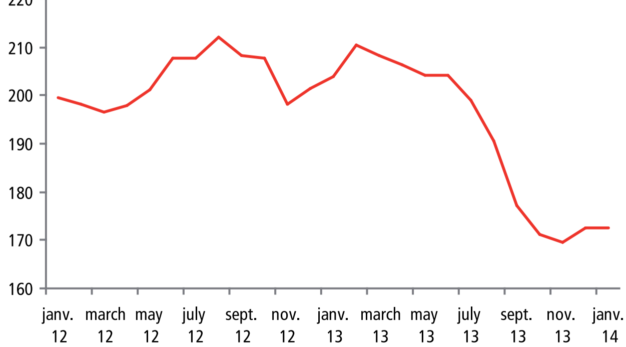
Sources : European Commission and datasteam.

3.3 Morocco's import unit price index

Month on month, the non-energy import price index (IPI) recorded in January 2014 a slight increase of 0.1 percent from 1.7 percent in the previous month, reflecting a slower index of semi-finished goods and mining imports. However, the fall of food prices was less marked.

Indeed, the mining IPI rose 1.1 percent as against 7.3 percent a month earlier. This

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



Sources: Foreign Exchange Office, and BAM calculations.

deceleration is due to a slowdown in the growth of prices of imported sulfur from 3 percent to 1.9 percent and those of iron and steel from 11.1 percent to 0.5 percent.

Prices of semi-finished goods fell from 6.4 percent to 1.5 percent, particularly due to a 4.6 percent decrease of the price index of imported wires and bars as against 1.1 percent in December. In contrast, average prices of plastics rose 2.2 percent from 0.6 percent in the previous month.

In addition, the food IPI virtually stabilized in January, due to stagnant IPI of wheat, while it declined by 4.7 percent a month earlier.

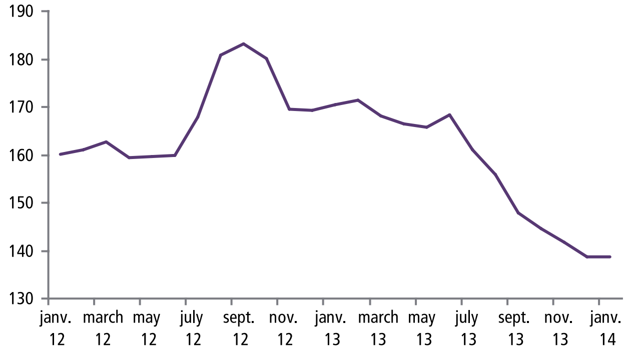
Over the whole year 2013, the non-energy IPI began a downward trend since March (-0.9 percent), which accentuated between July and September to an average of -4.6 percent. Since October, the growth index recovered to 1.7 percent in December after a decline of 0.8 percent in November.

Year on year, the non-energy IPI dropped by 15.3 percent in January 2014, as against 14.3 percent in December. Indeed, the food IPI decreased by 18.7 percent, after a 17.9 percent drop in the previous month, particularly due to a 32.7 percent decline in the average import price of corn. The average import unit price of wheat fell by 12.2 percent, as against a decline of 14 percent a month earlier.

The mining IPI declined by 16.1 percent as against 15.1 percent a year earlier. This change covers a slower fall in the average import unit price of sulfur from 41.2 percent to 37.1 percent and a deceleration of that of iron from 32.1 percent to 15.6 percent.

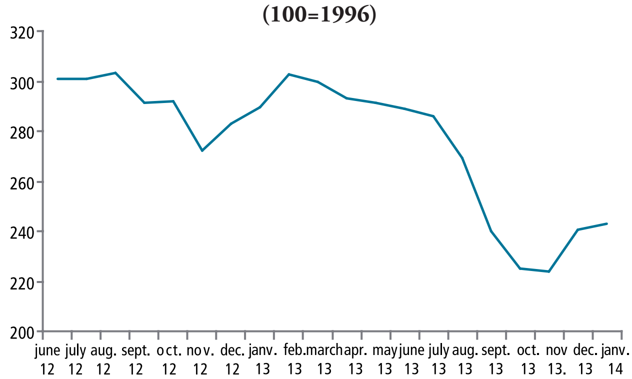
The IPI of semi-finished goods slowed down from 8.8 percent in December to 5.5 percent in January. This deceleration

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



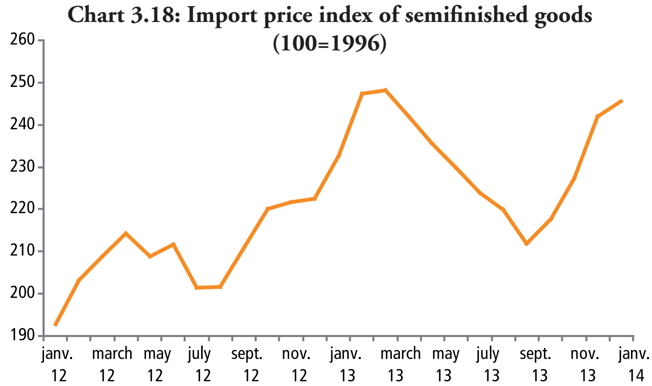
Sources: Foreign Exchange Office, and BAM calculations.

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



Sources: Foreign Exchange Office, and BAM calculations.

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



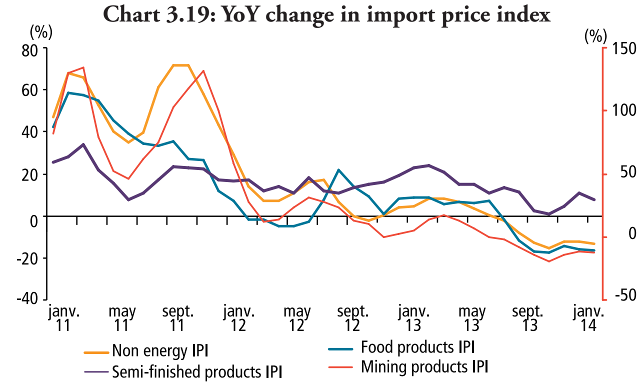
Sources: Foreign Exchange Office. and BAM calculations is due to a slowdown of the average price of rolled products, from 19.5 percent to 7.6 percent. However, the IPI of plastics rose 3.9 percent in January from 1.9 percent in December.

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

	Monthly change in %			Annual change in %		
	nov. 2013	**dec. 2013**	**jan. 2014**	**nov. 2013**	**dec. 2013**	**jan. 2014**
Non energy IPI	-0.8	1.7	0.1	-14.4	-14.3	-15.3
Food IPI	-2.1	-2.0	-0.2	-16.4	-17.9	-18.7
Semi-finished products IPI	4.5	6.4	1.5	2.6	8.8	5.5
Mining IPI	-0.4	7.3	1.1	-17.8	-15.1	-16.1

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

Chart 3.19: YoY change in import price index



Sources: Foreign Exchange Office. and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

Recent developments in the money market indicate a virtual stability of the interbank rate at 3.05 percent on average over the first two months of 2014, thus remaining aligned with the key rate, which was kept unchanged at 3 percent at the last meeting of December 17, 2013. Due to unfavorable economic conditions and surrounded by uncertainties, lending rates in the fourth quarter of 2013 show an increase of 22 basis points to 6.52 percent, reflecting particularly higher rates on cash advances. Meanwhile, the M3 growth decelerated from 4.2 percent in the fourth quarter of 2013 to 3.2 percent on average in January and February 2014, which kept the monetary gap negative. Bank lending continues to trend moderately, showing an annual growth of 3.2 percent, slightly up compared to 3 percent on average in the last quarter of 2013. In 2014, bank lending should register an annual growth of around 4 percent. The dirham's effective exchange rate appreciated by 0.45 percent in January 2014 in nominal terms, compared to the fourth quarter of 2013, while it remained almost unchanged in real terms, due to an inflation rate of Morocco broadly lower than that of the main partners and competitors. Moreover, the real estate price index in the fourth quarter of 2013 decreased by 1.4 percent, year on year, after rising 0.6 percent in the previous quarter, mainly due to a 1.7 percent decrease in residential property prices, as against a 1 percent increase in the third quarter. The growth of commercial property prices slowed down to 0.2 percent from 0.8 percent, while land prices did not change significantly, after increasing 0.5 percent. Overall, the analysis of these developments generally shows the absence of monetary and real-estate price inflationary pressures in the medium term.

4.1 Monetary conditions

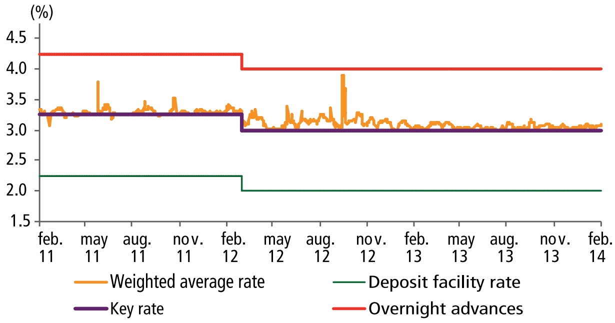
4.1.1 Interest rates

At its meeting of December 17, 2013, the Bank Board decided to keep the key rate unchanged at 3 percent. Under these conditions, the interbank market weighted average rate reached 3.05 percent on average over the first two months of 2014, remaining almost stable compared to the fourth quarter of 2013.

Treasury bond yields on the primary market during the first two months of the year showed decreases compared to the previous quarter, ranging from one base point for 10-year bonds to 53 basis points for two-year bonds. However, yields on 15-year bonds increased slightly by 8 basis points. In the secondary market, the same trend pattern broadly marked various maturities, except for the rate on 20-year bonds, which remained stable.

As to deposit rates, the weighted average rate of 6- and 12-month deposit rates rose by 4 basis points to 3.83 percent between the fourth quarter 2012 and January 2014. This change covers an increase of 8

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



**Data at February 28th, 2013.*
Source : BAM.

Table 4.1: Change in Treasury bond yields on the primary market

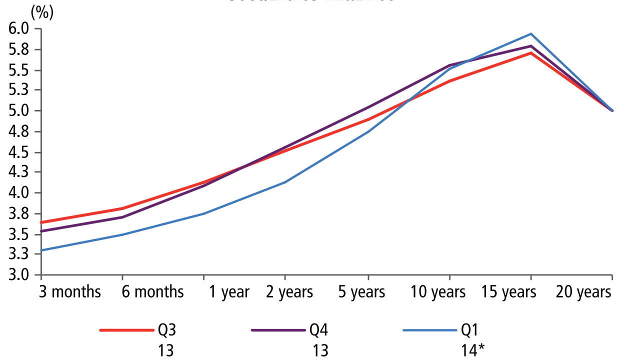
	2012			2013				2014
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*
21 days	-	-	-	-	-			-
24 days	-	-	3.71	-	-			-
35 days	-	-	3.78	4.12	-			-
43 days	-	3.48	-	-	-			-
44 jours	-	3.59	-	-	-			-
45 jours	-	-	3.97	-	-			-
13 weeks	3.21	3.31	3.4	3.93	3.94	3.5	3.48	3.33
26 weeks	3.39	3.42	3.57	4.07	4.11	3.82	3.74	3.5
52 weeks	3.53	3.74	3.84	4.2	4.23	4.11	4.13	3.73
2 years	3.71	3.93	4.24	4.57	4.68	4.61	4.69	4.17
5 years	4	4.32	4.52	4.75	-	4.93	5.08	4.76
10 years	4.29	4.51	4.84	-	-	5.42	5.6	5.59
15 years	4.52	4.74	5.08	5.52	5.69	5.71	5.85	5.93
20 years	-	5.01	-	-	-			-

** Observation of the first quarter 2014 corresponds to the arithmetic average of data for the first two months of 2014.*

basis points in one-year deposit rate and a decrease of one basis point in 6-month deposit rate.

BAM's lending rates survey among banks for the fourth quarter of 2013 indicates an hike of 22 basis points to 6.52 percent in the weighted average rate of bank loans. However, this increase only concerned the rates on cash advances, which moved up from 6.28 percent to 6.62 percent. In contrast, rates on equipment loans and consumer loans were down 63 and 3 basis points, respectively, to 5.49 percent and 7.34 percent, while rates on real estate loans almost stagnated at 6.03 percent.

Chart 4.2: Term structure of TB interest rates in the Treasury securities market



**Observation of the first quarter of 2014 corresponds to the daily average of data from january 1st to february 28, 2014.*
Source : BAM.

4.1.2 Money. credit and liquid investments

M3 growth

January and February 2014 data show a continued moderation of monetary creation. Consequently, the monetary gap remained negative, indicating the absence

Table 4.2: Deposits rates

	2012			2013				Jan. 14
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
6 -month deposits	3.43	3.49	3.55	3.52	3.56	3.55	3.59	3.58
12- month deposits	3.83	3.83	3.84	4.02	3.89	3.83	3.92	4.00
Weighted average	3.69	3.71	3.73	3.85	3.76	3.73	3.79	3.83

Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

During the fourth quarter of 2013, bank liquidity improved by 4.6 billion dirhams, mainly due to Treasury operations.

Indeed, Treasury operations caused a liquidity injection of 13.5 billion dirhams: repayments of domestic debt to the banking system (36.8 billion dirhams), the settlement of subsidy costs (10.5 billion dirhams) and the payment of civil service salaries (15.6 billion dirhams), plus a liquidity injection of 9.6 billion dirhams from Treasury interventions in the money market, which were only partially offset by bank subscriptions to T-bond auctions (42 billion dirhams) and the collection of tax revenues, including the fourth installment of the corporate tax.

In contrast, foreign assets operations had a restrictive impact of 6.8 billion dirhams on banks' liquidity. Indeed, the accelerated pace of foreign exchange purchases by commercial banks (11.3 billion dirhams) largely offset the sales of foreign banknotes, which reached 6.3 billion dirhams. Similarly, currency in circulation was up 2.5 billion dirhams, owing to major withdrawals related to Eid Al-Adha.

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

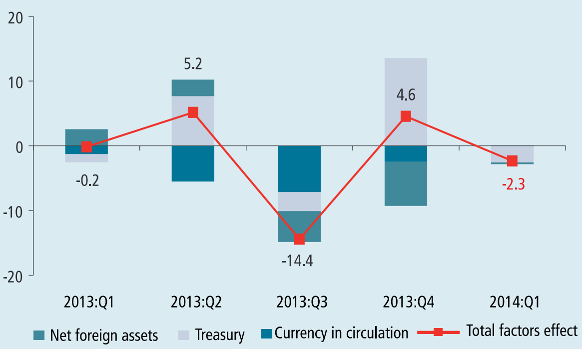


Chart B 4.1.2: Monthly change in the impact of autonomous liquidity factors (in billion dirhams)

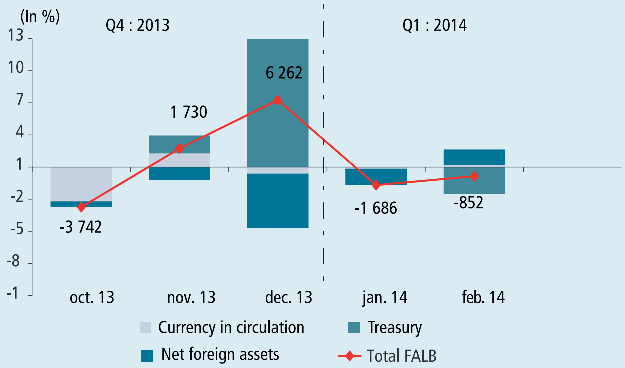


Chart B 4.1.3: Change in reserve requirements

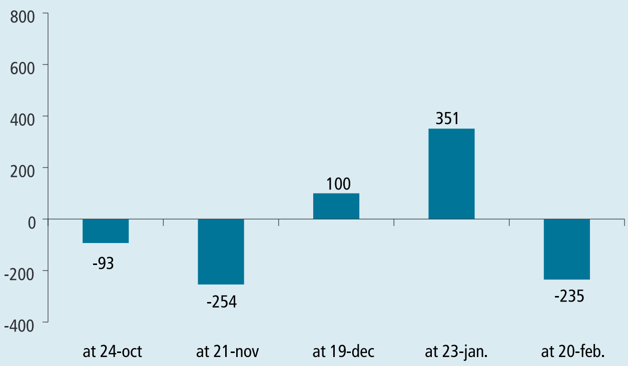
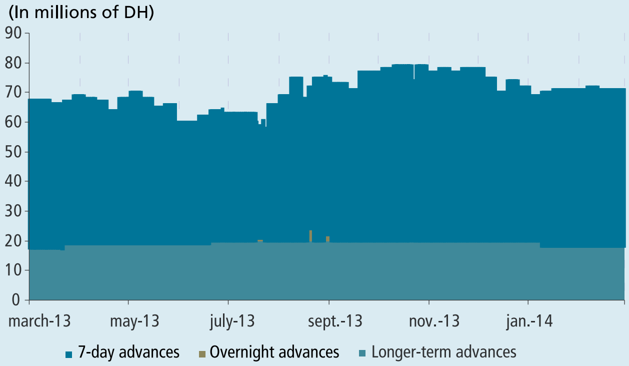


Chart B 4.1.4: BAM interventions on the money market



During the first quarter of 2014 (1), banks' liquidity deficit widened further to 80.4 billion. In the first quarter of 2014, the autonomous factors had a negative impact of 2.3 billion dirhams on banks' liquidity, mainly due to Treasury operations. The latter caused a liquidity drain of 2.6 billion dirhams owing to the difference between:

On the one hand, bank subscriptions to T-bond auctions (24.9 billion dirhams) and the collection of tax revenues and customs duties,

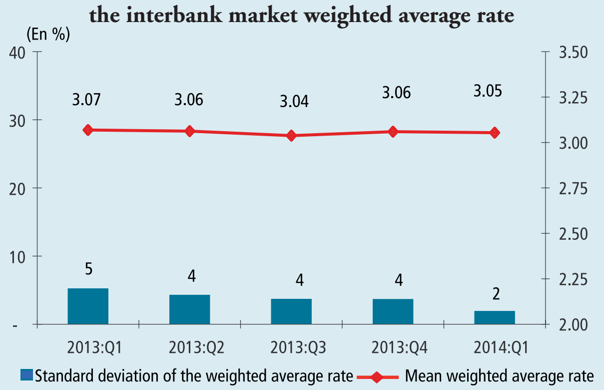
On the other hand, the repayments of domestic debt to the banking system (17.8 billion dirhams), the payment of civil service salaries (11.4 billion dirhams) and the settlement of subsidy costs (3.6 billion dirhams), plus a liquidity injection of 1.4 billion from Treasury interventions in the money market.

Meanwhile, cash transactions had no impact on bank liquidity (+58 million dirhams). Similarly, foreign assets operations had no significant impact on liquidity: foreign currency purchases by commercial banks (3.3 billion dirhams) were offset by foreign banknotes sales, amounting to 3.2 billion dirhams. Due to the improvement in its liquidity, the stock of Treasury investments in the money market stood at 12.8 billion dirhams on daily average, as against 5.3 billion dirhams in the previous quarter.

To fill the shortage in banks' liquidity, Bank Al-Maghrib intervened mainly through 7-day advances, with an average daily amount of 52.5 billion dirhams, down 3.9 billion dirhams compared to the average amount injected in the previous quarter.

To support the financing for very small, small and medium enterprises, Bank Al-Maghrib implemented during this quarter its new secured loans program over a one-year period for 8 billion, bringing the total outstanding amount of longer-term operations to 18 billion dirhams as against 20 billion dirhams in the previous quarter.

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



1 The period from January 1 to February 28, 2014.

of monetary inflationary pressures in the medium term.

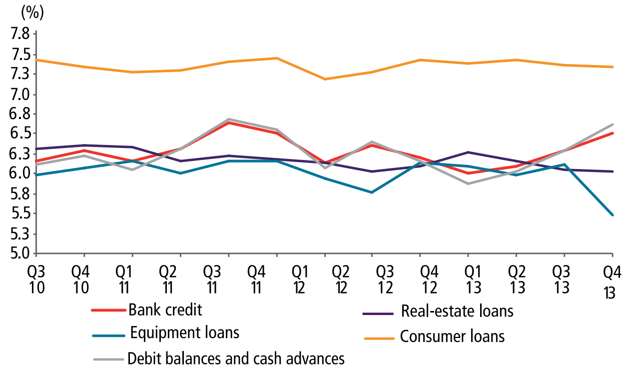
Indeed, the M3 annual growth decelerated from 4.2 percent in the fourth quarter to 3.2 percent on average in January and February 2014, mainly due to slower growth in net claims on central government. In contrast, the increase in net international reserves accelerated and bank credit improved slightly compared to the fourth quarter.

Divergent trends were registered in the main components of M3 between the first two months of the year and the fourth quarter.

After having registered an annual increase of 4.3 percent, time deposits dropped by 2.5 percent on average in January and February, mainly due to a 8.8 percent decrease in deposits held by private nonfinancial corporations after an increase of 27 percent. Meanwhile, the growth of demand deposits slowed down slightly from 8.7 percent to 7.9 percent. In contrast, bank money was up by 3.8 percent from 3.4 percent in the previous quarter, due to slower decline in demand deposits with the Treasury, while the growth of those held with banks registered a downturn. Regarding the other components of M3, the outstanding amount of money market shares/units rose by 2.9 percent, year on year, after a 2.9 percent decrease in the fourth quarter of 2013. The growth of currency in circulation did not change significantly compared to the fourth quarter, standing at 4.9 percent.

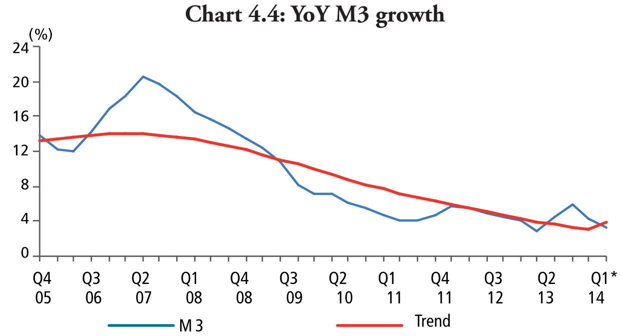
Slower growth of deposits was reflected in those of all institutional sectors. Thus, deposits of private nonfinancial corporations rose 2.1 percent over the first two months of 2014 as against 11.7 percent in the fourth quarter. This trend could be particularly attributed to

Chart 4.3 : Change in lending rates*



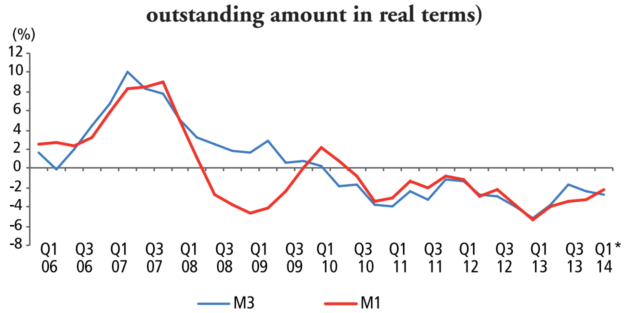
** As from Q3-2010. the survey sample was expanded to 80 percent of loans granted to nonfinancial customers (see the Methodological Note published on Bank Al-Maghrib website).*

Chart 4.4: YoY M3 growth



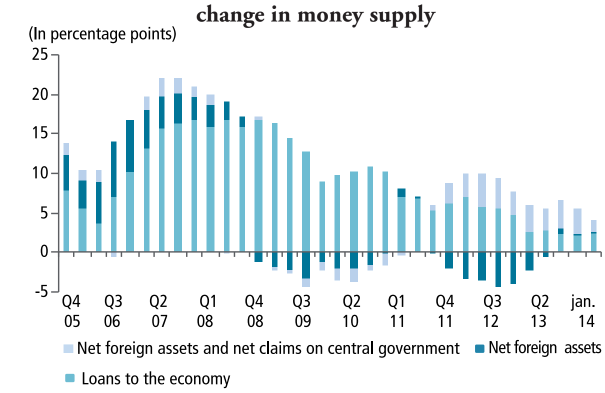
** Average between January and provisional figures for February 2014.*
Source : BAM.

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



1. Money gap is the difference between the money stock recorded and its balance level. The latter. defined based on the quantity equation of money. corresponds to the change rate of the potential economic activity in real terms. minus the average rythm of money circulation velocity decrease.
** Average between January and provisional figures for February 2014.*
Source : BAM.

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



**Average between January and provisional figures for February 2014.*
Source : BAM.

the effect of a potential repayment of cash advances by some companies. The annual growth of households' deposits and that of deposits of financial corporations slowed down from 5.4 percent to 5.1 percent and from 11.2 percent to 4.3 percent, respectively. Public sector deposits continued their downward trend observed since March 2013.

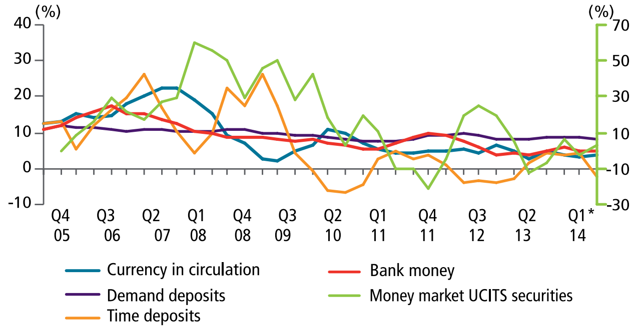
Credit

Data for the first two months of 2014 show a moderate increase of 3.2 percent in bank lending, with yet a slight rise compared to 3 percent in the fourth quarter of 2013.

The breakdown of bank credit by economic purpose indicates divergent trends. Indeed, the annual growth of real estate loans slowed down from 4.8 percent to 3.7 percent, reflecting a 1.4 percent contraction of loans to developers, after a decline of 0.7 percent and a deceleration from 7 percent to 5.7 percent in housing loans. The annual growth of equipment and consumer loans decelerated, respectively, from 1.9 percent and 2 percent in the fourth quarter to 1.7 percent and 1.5 percent. Meanwhile, cash advances continued to contract to 2.6 percent on average over the first two months of the year, after a decline of 2.5 percent a quarter earlier. Outstanding nonperforming loans were up 23.5 percent as against 18.2 percent, bringing their ratio to bank credit from 5.8 percent to 6.2 percent.

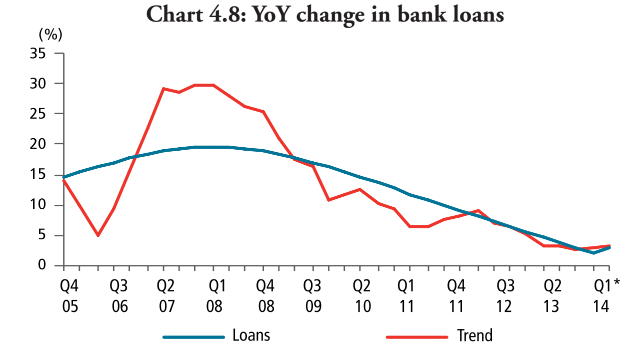
The analysis of bank loans by institutional sector shows a faster annual growth in loans to other financial corporations, stagnant growth in loans to the private sector and contraction in the growth of credit to the public sector after an increase in the previous quarter. Indeed, loans to other financial corporations

Chart 4.7: YoY change in the major M3 components



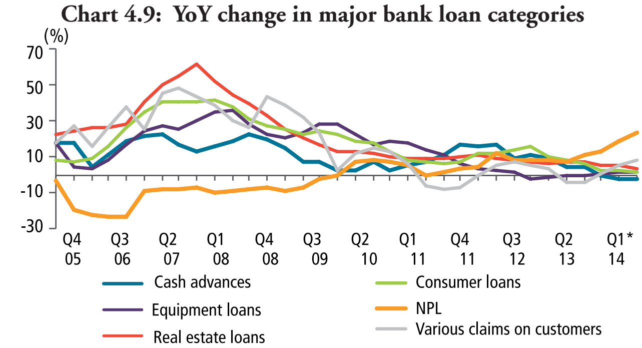
*Average between January and provisional figures for February 2014.
Source : BAM.

Chart 4.8: YoY change in bank loans



*Average between January and provisional figures for February 2014.
Source : BAM.

Chart 4.9: YoY change in major bank loan categories



*Average between January and provisional figures for February 2014.
Source : BAM.

recorded during the first two months of 2014 an increase of 13.2 percent, as opposed to 7.1 percent in the fourth quarter of 2013, thus bringing their contribution to bank credit growth from 0.9 to 1.5 percentage point. In contrast, the annual growth of loans to the private sector stagnated at 2.4 percent, thus keeping their contribution to the bank lending growth unchanged at 2 percentage points. This trend reflects acceleration from 5.8 percent to 7.4 percent in loans to households and a decrease of 0.8 percent in credit to nonfinancial corporations, after rising 0.3 percent in the past quarter. Loans to the public sector showed a decrease of 2.7 percent as against 2.9 percent increase in the fourth quarter of 2013. Thus, their contribution to credit growth turned negative at 0.2 percentage point as against 0.2 point in the fourth quarter.

Other sources of money creation

Regarding the other sources of money creation, net international reserves (NIR) moved up 4.7 percent on average over the first two months of the year, as against 4.1 percent in the fourth quarter of 2013.

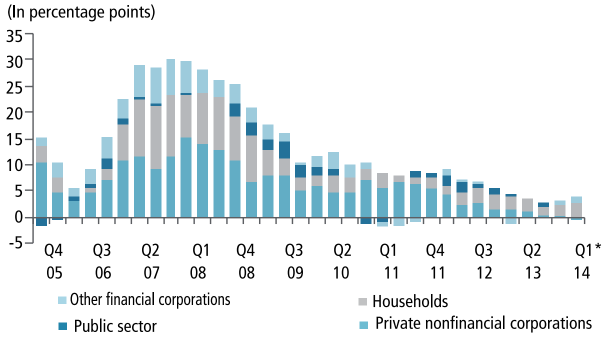
The annual growth of net claims on central government slowed down to 9.2 percent from 23 percent a quarter earlier. This trend reflects mainly deceleration from 23.7 percent to 11.3 percent in the growth rate of Treasury bills held by other depository corporations.

Liquid investments

During the first two months of 2014, liquid investment aggregates rose by 12 percent from 4.6 percent in the fourth quarter, primarily due to faster growth in the LI1 aggregate.

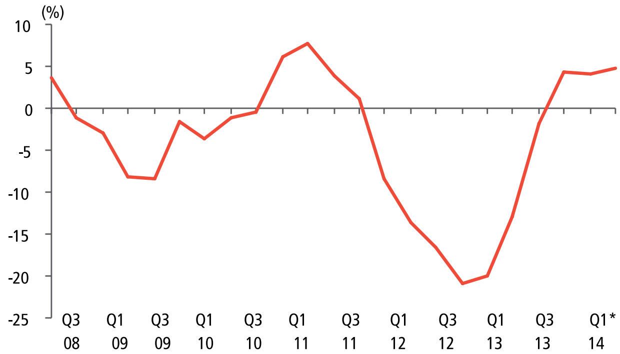
Securities included in this aggregate grew by 15.8 percent from 5.4 percent

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



Source : BAM.

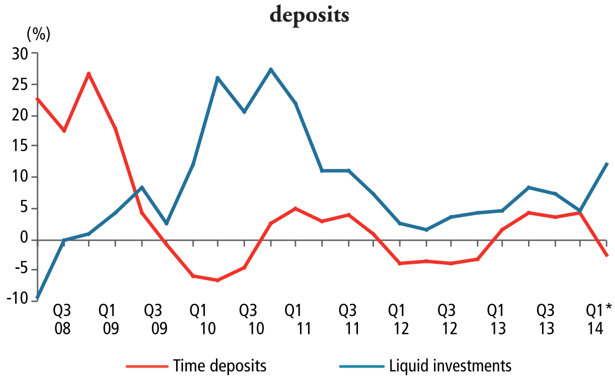
Chart 4.11: Annual growth of net internationales reserves



**Average between January and provisional figures for February 2014.*

Source : BAM.

Chart 4.12: YoY change in liquid investments and time deposits



**Average between January and provisional figures for February 2014.*
Source : BAM.

a quarter earlier, particularly owing to acceleration from 6.8 percent to 18 percent in negotiable Treasury bonds.

Similarly, bond fund shares/units included in the LI2 aggregate were up 5.8 percent, as against 4.2 percent in the previous quarter.

In contrast, equity and diversified fund shares/units, which compose the LI3 aggregate, declined by 3 percent during the first two months of 2014, as against 1 percent on average during the last three months of 2013.

Under these conditions, global liquidity of economy, as measured by the sum of M3 and liquid investments (LI), grew by 5.7 percent on average over the first two months of 2014 as opposed to 4.3 percent in the fourth quarter of 2013.

Exchange rate

During the first two months of 2014, the dirham appreciated slightly by an average of 0.03 percent versus the euro and increased by 3.21 percent against the Japanese yen. However, it depreciated by 0.15 percent and 2.15 percent against the U.S. dollar and the pound sterling, respectively.

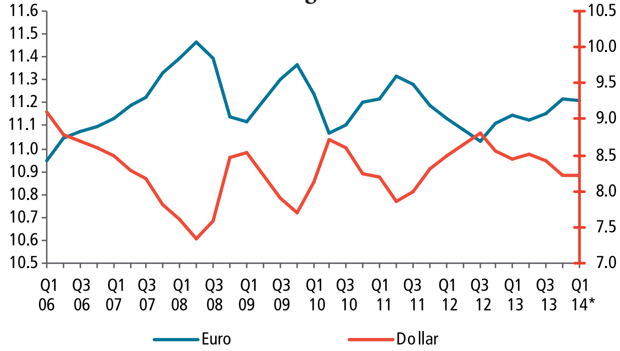
The dirham's effective exchange rate, calculated on the basis of bilateral exchange rates with Morocco's major trading partners and competitors, appreciated by 0.45 percent in nominal terms in January 2014, while it remained almost unchanged in real terms compared to the fourth quarter of 2013, taking into account an inflation rate of Morocco broadly lower than that of the main partners and competitors.

4.2. Asset prices

4.2.1 Real estate assets

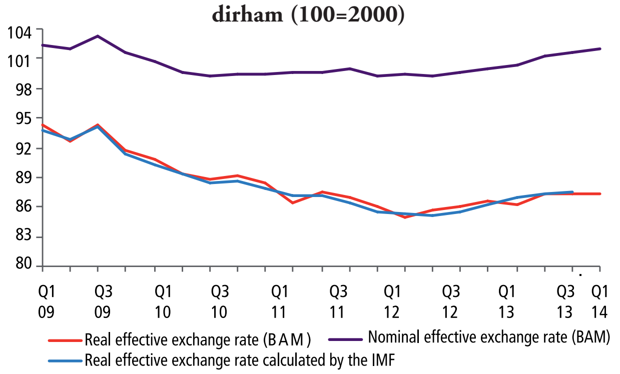
At the end of the fourth quarter of 2013, the real estate price index (REPI) declined by 0.4 percent, quarter on quarter. This

Chart 4.13: Exchange rate of the dirham



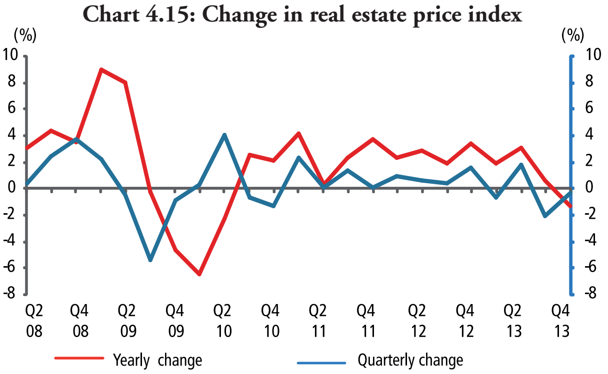
** Observation of the first quarter 2014 corresponds to the arithmetic average of data for the first two months of 2014.*
Source : BAM.

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



Sources: IMF and BAM calculations.

Chart 4.15: Change in real estate price index



change covers respective decreases of 1.4 percent and 1.1 percent in residential property prices and commercial ones, and a 1.5 percent increase in land prices. Meanwhile, the number of transactions rose by 4.4 percent from one quarter to another, reflecting an increase in residential and land property sales.

Year on year, the rate of change in the REPI slowed down from 0.6 percent to -1.4 percent, mainly due to a 1.7 percent decrease in residential property prices, after a 1 percent increase. Meanwhile, commercial property prices edged up 0.2 percent as against 0.8 percent, while land prices remained unchanged, after rising 0.5 percent. The number of transactions contracted by 5.2 percent, reflecting respective declines of 1.4 percent, 14.5 percent and 9.5 percent in residential, land and commercial properties.

Meanwhile, housing loans moved up 6.3 percent, year on year, as against 8.1 percent a quarter earlier. The decline in loans to developers went up from 0.4 percent to 0.7 percent.

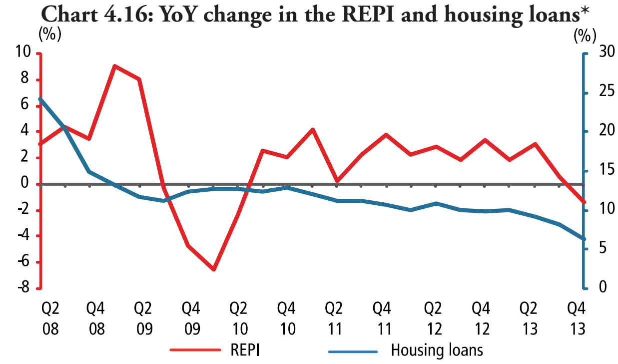
4.2.2 Financial assets

4.2.2.1 Shares

In the fourth quarter of 2013, the MASI appreciated 5.1 percent, bringing its underperformance in 2013 to 2.6 percent. This change is due to respective increases of 24.7 percent and 23.3 percent in the construction and building materials sector index and the real estate one.

During the first two months of 2014, the MASI rose by 3.6 percent, mainly due to appreciations of 1 percent for the banking index, 2.1 percent for the real estate index, 6.2 percent for telecommunications, and 8.2 percent for construction and building materials. However, decreases were registered, ranging from 1.2 percent for

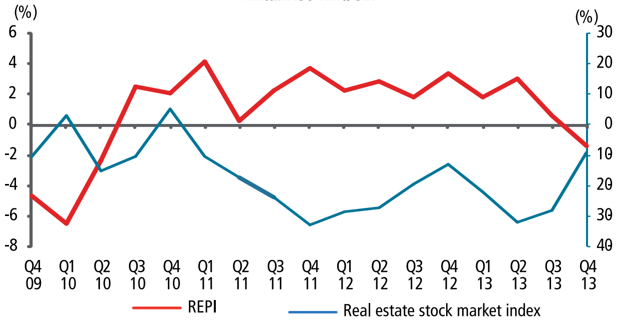
Chart 4.16: YoY change in the REPI and housing loans*



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

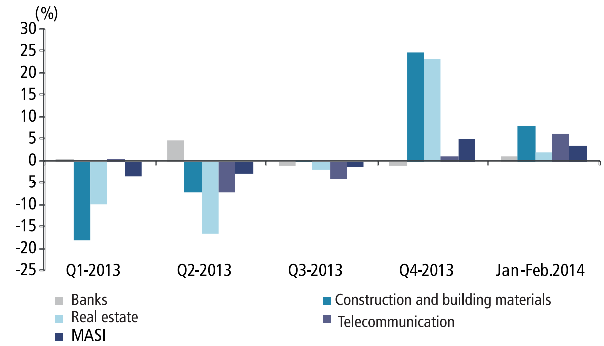
Sources: BAM and ANCFCC.

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



Sources: BAM, ANCFCC and Casablanca Stock Exchange.

Chart 4.18: Change in stock market indexes



Source: Casablanca Stock Exchange.

the electricity sector to 3.2 percent for beverages.

Market capitalization amounted to 451.1 billion dirhams at the end of the fourth quarter of 2014, up 7.5 percent from the previous quarter. In addition to price appreciation, this trend reflects the listing of Jorf Lasfar Energy Company (JLEC), valued at 10.7 billion dirhams. During the first two months of the year, capitalization increased by 3.6 percent. This change is due to a higher capitalization of the sectors of telecommunications and building and construction materials.

Transactions reached a monthly average of 8.9 billion dirhams in the fourth quarter of 2013 from 7.9 billion a year earlier. This trend is mainly due to the momentum of trade in the equity block market, which increased by 2.3 billion to 3.8 billion dirhams. Trade concerned mainly the JLEC shares, with a total of 9.3 billion.

During the first two months of 2014, the average monthly volume stood at 2.7 billion dirhams as opposed to 6.1 billion a year earlier, mainly reflecting lower trade in the equity block market.

Regarding the valuation indicators of the Casablanca stock market, the Price Earnings Ratio1 grew by 0.8 point to 15.7 in the fourth quarter of 2013, while the Price to Book Ratio2 stood at 2.17 from 2.09. In late February, these indicators moved up to 16.2 and 2.26, respectively.

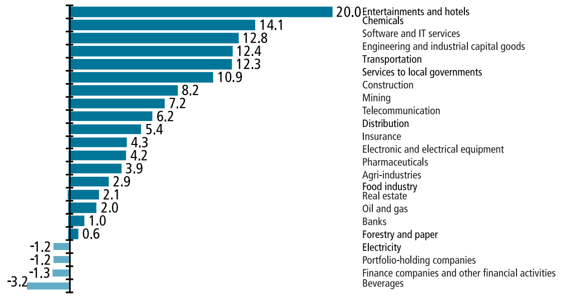
4.2.2.2 Treasury bonds

Although the budget deficit worsened by 6.3 billion in the third quarter 2013 to 11.5 billion in the fourth quarter, Treasury bond issues recorded a quarterly decline

1 PER is the ratio of a company's share price and its per-share earnings.

2 The price to book ratio is calculated through dividing companies' equity market value (market capitalization) by their book value.

Chart 4.19: Year-to-date performance of sectoral indexes, in %



Source: Casablanca Stock Exchange.

Table 4.3: Equity market valuation

PER	Q2:12	Q3:12	Q4:12	Q1 : 13	Q2 : 13	Q3 : 13	Q4 : 13	feb.-14
				PER				
Argentina	6.8	7.3	8.2	10	2.1	3.3	4.2	13.9
Jordan	12.7	13.3	13.6	14.6	14.4	13.5	15.2	15.2
Morocco	**15.4**	**15.2**	**15.1**	**15.2**	**15.2**	**14.9**	**15.7**	**16.2**
Kuwait	15.5	16.9	16.7	16.6	16.5	17.9	18.3	18.8
Nigeria	10.3	10.2	12.8	15.2	12.4	12.3	13.6	12.9
Qatar	10.9	11.4	11.3	12.2	12.9	12.9	14	15.6
				P/B				
Argentina	0.98	0.95	1.09	1.05	0.93	1.47	1.87	1.9
Jordan	1.29	1.33	1.35	1.37	1.28	1.14	1.27	1.32
Morocco	2.38	2.23	2.22	2.16	2.12	2.09	2.17	2.26
Kuwait	1.49	1.54	1.54	1.55	1.55	1.64	1.6	1.62
Nigeria	1.69	1.95	2.01	2.41	2.56	2.6	2.94	2.8
Qatar	1.65	1.71	1.68	1.62	1.75	1.79	1.9	2.13

Sources : Datastream, CFG.

of 25.7 percent to 33.6 billion dirhams. Taking into account repayments of 27.7 billion dirhams, outstanding treasury bills reached 412.9 billion.

In January 2014, the amounts raised by the Treasury totaled 9 billion from 12 billion in December 2013, under a context of improved fiscal balance at 2.7 billion from 2.4 billion in December. Repayments amounted to 6.6 billion dirhams from 11.7 billion in the previous month. Thus, the outstanding amount reached 415.3 billion at end-January, up 14 percent compared to the same period of the previous year.

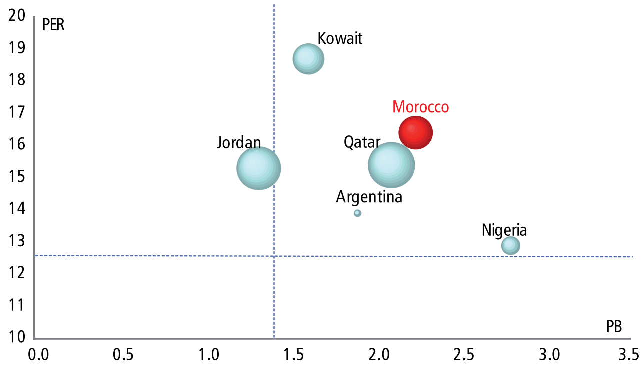
4.2.2.3 Negotiable debt securities

Issues of negotiable debt securities showed a quarterly increase of 48 percent to 20.5 billion dirhams, including 17.8 billion as certificates of deposit and 2.6 billion as commercial papers. Taking into account repayments totaling 23.9 billion, the outstanding amount stood at 75.2 billion. In January 2014, subscriptions reached 4.1 billion as against 1.6 billion recorded during the same month of the previous year.

4.2.2.4 Mutual funds

The net assets of mutual funds, valued at end-December, rose by 5.1 percent from one quarter to another, to 245.5 billion dirhams. This change is mainly due to increases of 4.2 percent in medium and long-term bond funds and 10 percent in money market funds, due to a trend in net inflows of 4 billion and 5.6 billion, respectively. However, data as at February 21, 2014, show a 1.8 percent decline in the net assets of fund shares/units, mainly in connection with a 9.6 percent fall in money market funds.

Chart 4.20: Stock market valuation in Morocco and in some emerging and frontier markets* in Q4 2013



(*) The size of bubbles depends on the market capitalization/ GDP ratio.

Sources: Datastream, CFG, and BAM calculations.

Chart 4.21: Change in Treasury bonds outstanding

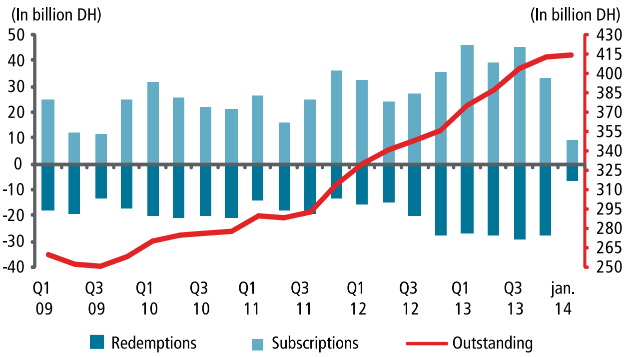
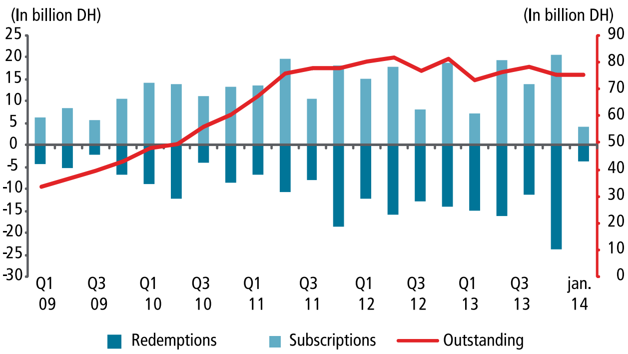


Chart 4.22: Change in debt securities outstanding



5. RECENT INFLATION TRENDS

Inflation, measured by the change in the consumer price index, is still low for the third consecutive month, standing at 0.4 percent in February, as against 0.5 percent in January, while it stood at 1 percent in the fourth quarter of 2013, and 1.9 percent throughout 2013. Excluding volatile food and administered products, core inflation (CPIX) remained unchanged at 1.3 percent between January and February, from 1.4 percent in December and 1.5 percent on average in the fourth quarter of 2013. The core inflation trend over these two months was due to 1.0 percent stagnation in nontradables inflation (CPIXNT), while that of tradables (CPIXT) accelerated very slightly from 1.4 percent in January to 1.5 percent in February. Also, in a context of continued decline in global commodity prices, industrial producer prices continued to drop since the beginning of the previous year, thus declining by 2.4 percent in January after 1.9 percent in December.

5.1 Inflation trends

In a context marked by disinflationary pressures in Morocco's key partner countries, inflation remained moderate, in line with the price stability objective. Indeed, after standing at 0.4 percent in December and 0.5 percent in January, it slowed down to 0.4 percent in February. This change is mainly due to a further decline in volatile food prices by 4.1 percent in January and 5.7 percent in February. More particularly, prices of fruits and "poultry and rabbit" fell by 6.1 percent and 11.5 percent respectively, which made their contribution to inflation stand at -0.4 percentage point, from -0.2 point a month earlier.

The price change of "fuels and lubricants" moved up from 1.5 percent in December and January to 7.1 percent in February. The price increase in other administered products slightly decelerated from 1.5 percent to 1.4 percent, mainly in connection with the slower rise of "medical services" prices from 4.2 percent to 3.4 percent.

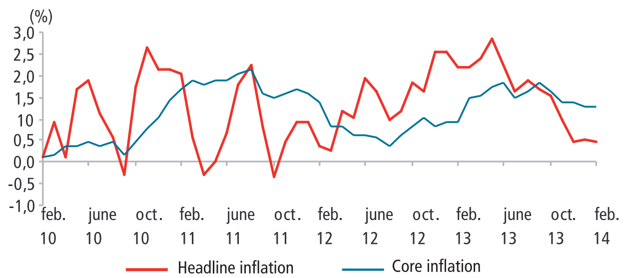
Excluding volatile food and administered products, core inflation remained stable at 1.3 percent between January and February. This stability was registered in all core inflation components, and reached 1.1 percent for foodstuff, 2.5 percent for "housing, water, gas, electricity and other fuels" and 1 percent for transportation.

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	dec. 13	jan. 14	feb. 14	dec. 13	jan. 14	feb. 14
Headline inflation	**-0.1**	**0.3**	**-0.2**	**0.4**	**0.5**	**0.4**
Including: - Volatile price food products	-1.9	1.9	-2.3	-5.9	-4.1	-5.7
- Fuels and lubricants	0.0	0.0	5.6	1.5	1.5	7.1
- Administered goods excluding fuels and lubricants	0.1	0.3	-0.1	1.3	1.5	1.4
Core inflation	**0.1**	**0.1**	**0.0**	**1.4**	**1.3**	**1.3**
- Food products	0.2	-0.1	0.0	1.4	1.1	1.1
- Clothing and footwear	0.4	0.3	0.0	2.2	2.3	2.6
- Housing. water. gas. electricity and other fuels*	0.0	0.2	0.0	2.8	2.5	2.5
- Furniture. household appliances and common house maintenance	0.2	0.0	0.2	0.7	0.4	0.6
- Health*	0.0	0.1	0.6	2.3	2.5	3.1
- Transportation*	0.2	0.1	0.0	1.6	1.0	1.0
- Communication	0.0	0.0	0.0	-9.3	-9.2	-9.0
- Entertainment and culture	-0.6	0.0	-0.4	-0.6	-0.5	-1.0
- Education	0.0	0.0	0.0	3.5	3.5	3.5
- Restaurants and hotels	0.2	0.2	0.0	3.3	3.3	3.3
- Miscellaneous goods and services	0.5	0.0	0.0	1.9	1.7	1.6

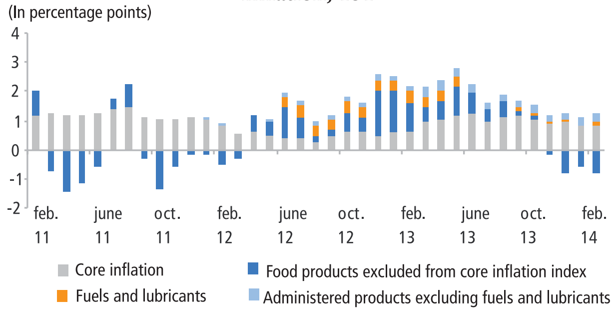
** Excluding administered goods.*
Sources: HCP. and BAM calculations.

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

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



Sources: HCP, and BAM calculations.

Table 5.2: Domestic oil selling prices

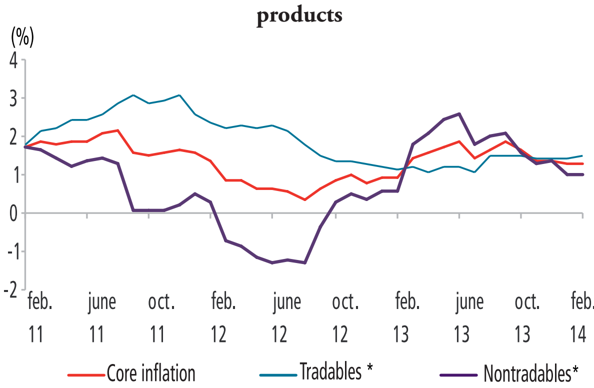
	As from					
Products (DH/ Liter)	1 Jan. 14	16 Jan. 14	1 Feb. 14.	16 Feb. 14	1 March 14	16 March 14
Premium gasoline	12.02	12.02	12.75	12.87	13.04	12.91
Diesel 50	8.54	8.54	8.54	8.88	8.88	8.88
Industrial fuel (Dh/ Tonne)	5 076.6	4 944.4	5 742.0	5 864.8	5 936.8	5 846.5

Source : Ministry of Energy and Mining.

5.2 Tradable and nontradable goods

Prices analysis by tradable and nontradable goods indicates that core inflation trend results from a virtual stabilization of both tradables (CPIXT) and nontradables (CPIXNT) inflation.

Chart 5.3: YoY change in the prices of tradables*, nontradables*, volatile food products and administered products



** Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

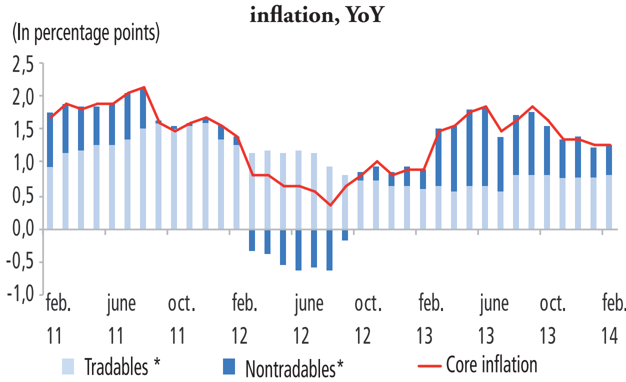
Table 5.3: Change in the price indexes of tradables* and nontradables* included in the CPIX

	Monthly change (%)			YoY change (%)		
	dec. 13	jan. 14	feb. 14	dec. 13	jan. 14	feb. 14
Tradables*	0.2	0.2	0.1	1.4	1.4	1.5
Nontradables*	0.1	-0.2	0.0	1.4	1.0	1.0

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

Indeed, the price increase in nontradable goods remained almost unchanged at 1 percent, year on year, between January and February, thus contributing 0.5 percentage point to core inflation. This trend was mainly due to a virtually unchanged growth rate of all its components, particularly "fresh meat", "renting" and "transportation".

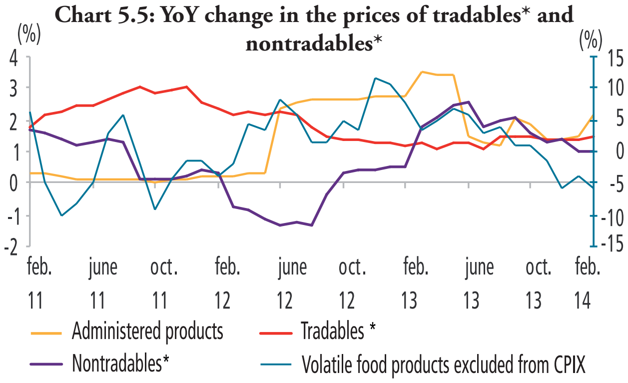
Chart 5.4: Contribution of tradables* and nontradables* to core inflation, YoY



** Excluding volatile food products and administered goods.*

Sources: HCP, and BAM calculations.

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

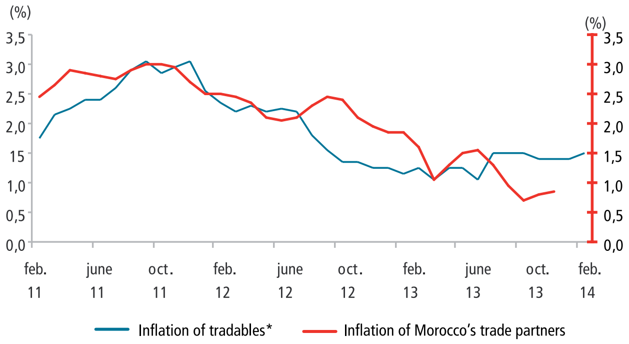


** Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

In a context of continued disinflationary trend in Morocco's key trading partners, prices of tradables maintained their growth pace of last August, namely 1.5 percent. Their contribution to core inflation remained constant at 0.8 percentage point.

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 nontradables excluding volatile food and administered products

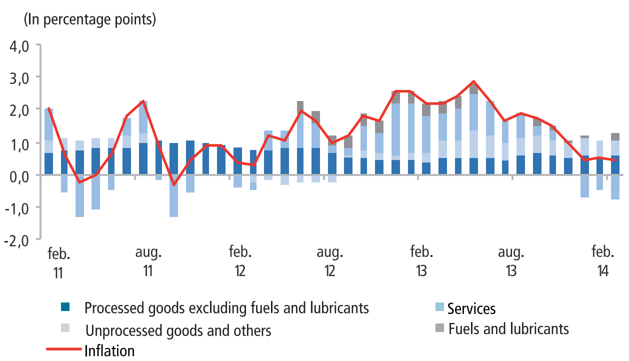
	Monthly contribution to inflation		Yoy contribution to inflation	
	jan. 14	feb. 14	jan. 14	feb. 14
Products excluded from core inflation index	**0.3**	**-0.2**	**-0.3**	**-0.4**
Including:				
Administered products	0.2	-0.3	-0.6	-0.8
Volatile food products	0.0	0.1	0.3	0.4
Tradables*	**0.1**	**0.0**	**0.5**	**0.5**
Nontradables*	**-0.1**	**0.0**	**0.3**	**0.3**

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

5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that the slightly slow inflation primarily reflects further decrease in prices of unprocessed goods from 2.2 percent to 3.4 percent, which more than offset acceleration from 1.5 percent to 7.1 percent in inflation of fuels and lubricants. Prices of processed goods and services showed a stable growth at 1.3 percent and 1.5 percent, respectively. These two components contributed to inflation by 1.1 percentage point as against one percentage point a month ago.

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



Sources: HCP, and BAM calculations.

Table 5.5: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	dec. 13	jan. 14	feb. 14	dec. 13	jan. 14	feb. 14
Processed goods*	0.2	0.2	0.0	1.3	1.3	1.3
Unprocessed goods and others	-1.2	0.8	-1.3	-3.1	-2.2	-3.4
Services	0.2	0.1	0.0	1.6	1.5	1.5
Fuels and lubricants	0.0	0.0	5.6	1.5	1.5	7.1

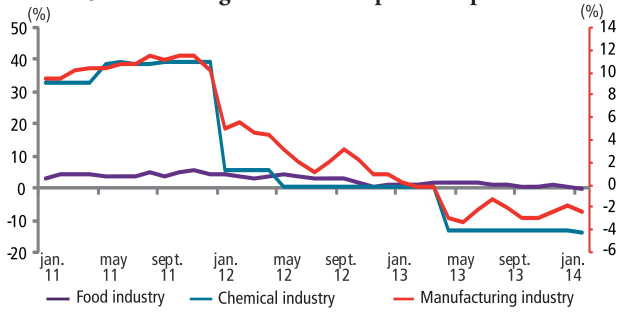
** Excluding fuels and lubricants.*
Sources: HCP, and BAM calculations.

5.4 Industrial producer price index

Industrial producer price index recorded a monthly decline of 0.5 percent in January 2014, after rising 0.3 percent a month earlier. This change is mainly due to drops of 1.5 percent in "coke and oil refining" prices, 0.6 percent in prices of "food industries" and to a lesser extent, to the 2.3 percent fall in prices of "clothing industries". These prices more than offset the price rise in the "tobacco products industry".

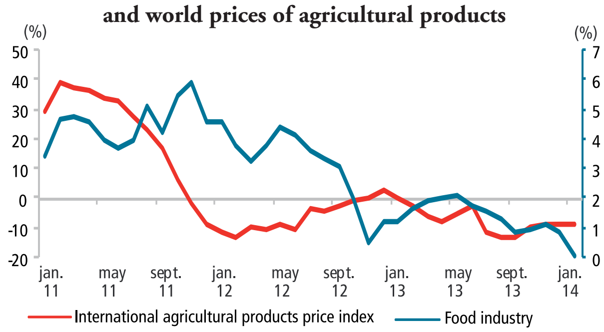
Year on year, producer prices continued their downward trend that began in February 2013, with a rate of 2.4 percent in January 2014 after a 1.9 percent fall in December, in conjunction with decreases of 3.9 percent and 13.6 percent in producer prices of "coke and refining" and "chemical industry", respectively. At the same time, prices increased by 8.6 percent for the "tobacco products industry" and 3.3 percent for the "paper and cardboard industry".

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

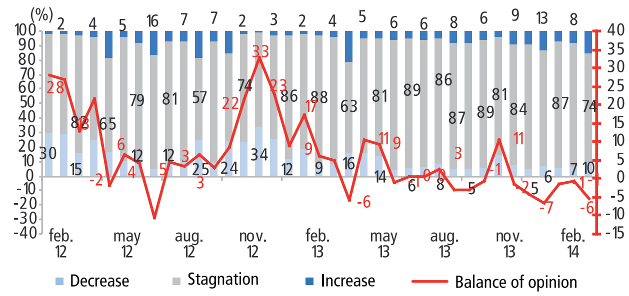


Sources: World Bank, HCP, and BAM calculations.

5.5 Inflation expectations

The findings of BAM's business survey for February 2014 indicate that industrial products' prices should not change significantly over the next three months. Indeed, 74 percent of corporate managers expect a stagnation of prices, while 16 percent forecast a decrease and 10 percent project an increase (Chart 5.10).

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

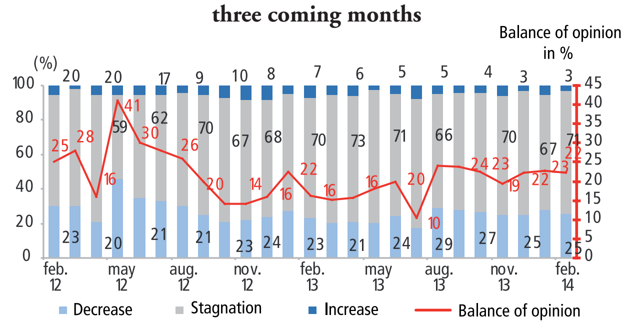


Source: BAM monthly business survey.

The same survey shows further moderation in inflation in the next three months. Thus, in February, 71 percent of corporate managers forecast a stagnation of inflation, while 25 percent expect an acceleration of the general price level over the same period (Chart 5.11).

Moreover, according to the findings of the quarterly survey of Bank Al-Maghrib on inflation expectations for the first quarter of 2014, experts of the financial sector expect a moderate increase in inflation over six quarters from 2.3 percent to 2.4 percent.

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 recent government decision to partially index some oil prices, as provided for by decrees No. 3-01-14 and 31-14. Assuming the non-realization of the major risk factors identified, the inflation trend over the next six quarters remains consistent with the price stability objective, with an average forecast of about 2 percent, slightly below the average rate predicted in the previous MPR (2.3 percent). In 2014, inflation should hover around 1.8 percent. In the first half of 2015, it should average about 2.4 percent. In this forecasting exercise, the balance of risks is broadly neutral, due to uncertainties surrounding foreign demand for Morocco and international energy commodity prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

In the fourth quarter of 2013, the global economy continued to get stronger and the first signs of a more resilient recovery began to emerge. Indeed, thanks to a strong domestic demand and the dissipation of budget dithering, economic growth accelerated in the United States. The euro area now shows positive growth rates, reflecting the progress made in restoring fiscal sustainability and strengthening confidence in financial markets. Furthermore, despite a slow growth in emerging economies, the momentum of public investment in China and the good crop year in India helped maintain production at a favorable level.

However, the economic upturn remains uneven in connection with the persistence of some constraints and vulnerabilities. Indeed, troubled European economies are still hampered by high debt levels which continue to significantly limit governments' room for maneuver and impose austerity policies. The Fed's tapering increased caused financial conditions in some emerging countries to tighten further. Thus, although capital flows to these countries held up well, stock prices did not fully recover, sovereign bond yields trended upward and foreign exchange markets were under stress.

Detailed analysis indicates that following several quarters of recession, the euro area showed in the fourth quarter of 2013 a growth rate of 0.5 percent after a decline of -0.3 percent in the third quarter of the same year. This renewed strength reflects primarily a faster growth in Germany (1.4 percent in the fourth quarter 2013 as against 0.6 percent in third quarter), a more positive economic activity in France (0.8 percent from 0.3 percent) and an easing recession in Spain (-0.2 percent from -1.1 percent) and Italy (-0.8 percent after -1.9 percent).

The positive profile of economic growth in the euro area reflects renewed confidence fostered particularly by a very accommodative monetary policy, stronger household income thanks to moderate growth in energy prices, and stable financial markets. Indeed, private consumption indicators remained somewhat positive in the fourth quarter of 2013 and new passenger car registrations increased significantly (5.1 percent). Similarly, the industrial production of capital goods excluding construction (advanced investment indicator) was up in the fourth quarter of 2013, after a slight improvement in the previous quarter. This trend confirms the findings of recent surveys by the European Commission, which highlighted better capacity utilization rates. However, the sluggishness of the construction sector persists, reflecting lower confidence of market participants and a slack labor market.

Despite progress in economic growth, unemployment rate in the euro area in last year's fourth quarter remained elevated at 12 percent, concealing large disparities across countries. Indeed, the unemployment rate remained low in Germany, reaching about 5 percent between September and January. In France, it stagnated at around 10.9 percent over the same period, while it declined in Spain (from 26.4 to 25.8 percent) and rose slightly in Italy (from 12.5 to 12.9 percent).

The decline seen in euro area's inflation in the fourth quarter of 2013 continued during the first quarter of 2014, as its rate fell from 1.1 percent in September to 0.8 percent in February. This trend mainly reflects lower energy prices, moderating food prices and stagnant non-energy and services prices.

Despite uncertainties fueled by negotiations on raising the public debt ceiling, the U.S. economy grew at a faster rate in the fourth quarter of 2013, by 2.7 percent from 2 percent in the previous quarter. This performance primarily results from continued momentum in inventory investment for the fourth consecutive quarter, higher private consumption and strong exports. However, after the positive developments in the property market, residential investment fell in the fourth quarter of 2013, making a negative contribution to growth.

The U.S. favorable economic situation positively impacted the labor market, as the unemployment rate further decreased from 7.2 percent in September to 6.7 percent in February. The Fed's latest Monetary Policy Report attributes this decline also to the contraction of the labor force in connection with the post-financial crisis tightening of labor market conditions.

Regarding prices, inflation increased in the United States from 1.2 percent in September to 1.6 percent in January. Unlike the euro area, the increase in inflation was driven by the rebound in energy prices and the rise in food prices, albeit moderate.

Taking into account all these developments, the IMF in its update of January forecasts a growth in the euro area of around 1 percent in 2014 and 1.4 percent in 2015. For the United States, it projects a growth rate of 2.8 percent and 3 percent in 2014 and 2015, respectively. Compared with last December MPR projections, the growth forecasts of 2014 were kept unchanged for the euro area and slightly revised upward for the U.S. economy (a rate of 2.7 percent had been expected).

The uptrend of the U.S. economy and the first signs of a more dynamic recovery in the euro area significantly contributed to restoring confidence in the various markets. However, some vulnerabilities have emerged suggesting downside risks to the growth outlook. In fact, low inflation in developed countries, particularly in the euro area, raises concerns about the long-term decline in inflation expected by institutional sectors. The confirmation of this trend could produce a premature rise in real interest rates and increase risks of deflation in case of economic shock. In terms of financial stability, higher interest rates could weaken corporations whose debt has significantly increased and weigh on financial markets, especially in emerging countries that are already under pressure because of the Fed's tapering. Finally, exacerbated geopolitical tensions in the oil-exporting regions would result in surging energy prices, which may compromise the prospects for stronger global growth.

Under these conditions, the weighted average growth rates of Morocco's major trading partners (France, Germany, Italy, Spain and the United Kingdom) assumed in this forecasting exercise stand at 0.9 percent in 2014 and 1.2 percent in 2015. Compared to December MPR projections (0.7 percent in 2014 and 1.1 percent in 2015) and in line with recent developments, the growth forecast of Morocco's key partners was revised slightly upward. 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 January anticipates inflation to range between 1.4 and 1.6 percent in 2014, and between 1.5 and 2 percent in 2015. The ECB, in its bulletin of February, expects inflation at 1.1 percent in 2014 and 1.4 percent in 2015, down from the previously reported levels. In the medium term, risks to inflation in the euro area remain broadly balanced. The rise in commodity prices and the possible increase in administered prices and indirect taxes would be offset by a weaker-than-expected economic growth.

Under these conditions, projections of non-energy import prices, included in the forecasting models developed by Bank Al-Maghrib, expect a decline in 2014 given the favorable starting conditions of the crop year in the major food-exporting countries and the mixed prospects for demand from emerging countries. In 2015, the indicators point to a stagnation of import prices.

6.1.2 National environment

Domestic growth prospects for 2014 remain mixed, in connection with uncertainties surrounding the consolidation of economic recovery in the euro area and the domestic demand trend. After having pushed up national growth in 2013, the agricultural sector would show modest results, therefore contributing negatively to growth in 2014.

Indeed, despite the rains registered since the beginning of 2014, which brought the farm-dam reservoirs to 70.3 percent as at March 1, 2014, representing a water deficit of 7.8 percentage points compared to the same period of the previous year, the delayed rains in the beginning of the crop year continue to constrain the performance of grain farming. Under these conditions, BAM still forecasts a cereal production of 70 million quintals for the 2013-2014 crop year. For 2015 it assumes an average cereal production, given the lack of visibility.

In contrast, nonagricultural activities would improve slightly, albeit weakened by the mixed trend in domestic demand. After several quarters of recession, the return to growth in partner countries should support national non-phosphate exports. Nevertheless, household consumption in the coming quarters would hinge on the momentum in consumer loans and remittances from Moroccans living abroad. Private investment remains surrounded by uncertainties, fueled particularly by slower equipment loans and lower imports of capital goods at end-January.

Under these conditions, the nonagricultural value added should be around 4 percent in 2014. Overall growth would be at 3 percent, constrained mainly by the contraction of the agricultural value added. It should be noted that these prospects did not change from those announced in the MPR of December 2013. Nevertheless, they are subject to a number of risks linked mainly to the scale of recovery in foreign demand and commodity price developments in international markets.

Recent labor market data for the fourth quarter of 2013 show a 0.8 percent year-on-year increase in the unemployment rate to 9.5 percent, up from 8.7 percent a year earlier. This change reflects higher unemployment in both urban and rural areas. Indeed, the urban unemployment rate deteriorated by 1.2 percent, from 13.2 percent to 14.4 percent. In rural areas, it rose from 3.6 percent to 4 percent, up 0.4 percent.

Despite job creations in agriculture (128,000 jobs) and services (98,000), job losses were still recorded in the construction sector (-66,000) and industry (-37,000).

However, according to BAM's quarterly business survey, manufacturers broadly anticipate virtual stagnation of workforce in the current quarter, covering virtual stagnation in chemicals and related industries, agri-food sector and textile industries, as well as a slight decline in employment in the mechanical and electronics sectors. These prospects should not weigh on future wages level and no increase in the minimum wage is expected in the baseline scenario. Therefore, a minimum wage of 12.24 dirham/hour is assumed over the forecast horizon.

Finally, in connection with improved supply conditions and an expected slowdown of growth in emerging markets, the World Bank, in its January edition, revised downward its forecasts for oil price to \$103.5 and \$99.8 a barrel in 2014 and 2015 from \$105 and \$102 a barrel reported earlier. The IMF, in its update of January, revised upward its oil price forecasts, which should rise from \$101.35 to \$103.8 in 2014 and from \$95.33 to \$98.47 next year. This change is mainly attributed to persistent geopolitical risks in the Middle East.

Against this backdrop, taking into account the new provisions of the indexation system, as provided for in the Head of Government's decree No. 3.01.14 of January 16, 2014, the diesel price at the pump should increase gradually in 2014.

6.2 Inflation outlook and balance of risks

Assuming the non-materialization of the major risks described below, the central forecast for the next six quarters is expected to stand at 2 percent, slightly below the average rate projected in the last MPR (2.3 percent). Similarly, inflation forecast for 2014 shows an average rate of 1.8 percent, lower than the rate reported in the previous MPR of December (2.5 percent). In the first quarter of 2015, inflation is expected at about 2.6 percent, which is higher than the rate reported in the previous MPR (2 percent). In the second quarter of 2015, inflation should finally stand at 2.3 percent.

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 neutral. This trend arises from uncertainties surrounding commodity prices and foreign demand for Morocco. The materialization of one or more of these risks could cause the inflation rate to deviate from the central forecast, at a value included in the forecast range represented on the fan chart (with a probability 90 percent).

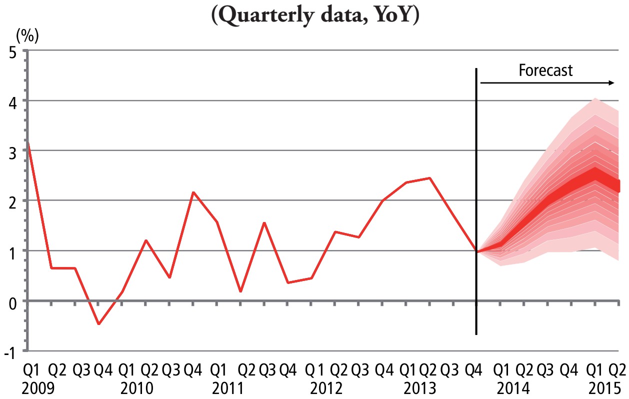
Table 6.1: Inflation outlook for 2014 Q1 –2015 Q2

	2014				2015		Average		FH*
	Q1	Q2	Q3	Q4	Q1	Q2	2014		
Central forecast (%)	1.1	1.6	2.0	2.3	2.6	2.3	1.8	2.0	2.3

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2014 Q1 – 2015 Q2 (Quarterly data, YoY)



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

بنك المغرب

بنك المغرب

Legal deposit: 2007/0033

BANK AL-MAGHRIB

Central Administration
277. Avenue Mohammed V - B.P. 445 - Rabat

Phone: (212) 5 37 57 41 04 /05 37 57 41 05
Fax: (212) 5 37 57 41 11
E mail: deri@bkam.ma

www.bkam.ma