BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 28 / 2013

Document prepared for
the Bank Board
September 24, 2013

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بنك المغرب

LIST OF ABBREVIATIONS

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

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 24, 2013

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, September 24, 2013.

2. During this meeting, the Board examined recent economic, monetary and financial developments and inflation forecasts up to the fourth quarter of 2014.

3. The Board noted that the global economic environment in the second quarter of 2013 witnessed an incipient recovery in the euro area, after six consecutive quarters of contraction. Similarly, growth continued to improve in the United States, the United Kingdom and Japan. This recovery, which remains fragile, should continue in the second half of 2013, as suggested by the recent infra-annual indicators. However, growth slowdown persists, at varying paces, in the major emerging countries and could worsen, mostly because of uncertainties surrounding the timing of exit from quantitative easing in the United States. These uncertainties are reflected in particular in higher bond yields, capital outflow to the advanced economies and currency depreciation in some emerging countries. Labor market situation has not improved in the euro area, where unemployment rate remained at 12.1 percent in July, while the jobless rate in the United States continued to decline, reaching 7.3 percent in August, though labor force participation rate fell 0.2 point to 63.2 percent. Credit in the euro area shrank by 1.9 percent in July, its 15th consecutive monthly decline, and continued to slow in the United States, growing by 2 percent in August after 2.7 percent the previous month. These developments contributed to keeping inflation at moderate levels, particularly in partner countries, despite the rise in energy prices over the last three months, suggesting the absence of significant external inflationary pressures in Morocco during the coming quarters.

4. Domestically, nonagricultural growth slowed down markedly in the first quarter of 2013 to 1.9 percent, after 4.1 percent in the fourth quarter of 2012, dragged down by continuing sluggish foreign demand and weaker domestic demand. However, agricultural value added expanded by 17.7 percent, helping the national economy to grow by 3.8 percent, up from 2.3 percent in the fourth quarter of 2012. For the full year 2013, GDP growth would stand between 4.5 and 5 percent. Labor market data for the second quarter of 2013 show a rise in unemployment to 8.8 percent, as against 8.1 percent in the same quarter of 2012, with a slight increase in labor force participation rate by 0.2 point to 49.2 percent. Moreover, the results of Bank Al-Maghrib's survey in industry for August point to a significant decline in the capacity utilization rate to 63 percent. Under these conditions, nonagricultural output gap would remain below zero in the short term, indicating the absence of demand-driven inflationary pressures.

5. As regards public finance, data as at the end of August 2013 show an increase of 0.4 percent in ordinary revenues, covering an 18.5 percent rise in non-tax income and a 1.6 percent decrease in tax receipts. At the same time, overall spending grew by 1.2 percent, despite the decline of 19 percent in subsidy costs. As a result, the budget deficit stood at 39.4 billion dirhams, as against 34.2 billion a year earlier. If this trend continues, fiscal deficit would be around 5.5 percent of GDP at end-December 2013.

6. External accounts data as at the end of August show a decrease of 2.4 percent in imports and 1.5 percent in exports, leading the trade deficit to narrow by 3.1 percent compared to the same period of last year. Meanwhile, travel receipts rose by 2.1 percent, transfers of Moroccan expatriates grew by 1 percent and revenues from foreign direct investment reached 26.6 billion dirhams, up 22 percent from the same period of 2012. Given the other elements of the capital account, the outstanding net international reserves expanded by 4.3 percent to 150.2 billion dirhams, representing 4 months and 4 days of goods and services' imports. Based on these developments, the current account deficit is expected at about 8 percent of GDP in 2013, and the stock of net international reserves would equal approximately the equivalent of 4 months of goods and services' imports.

7. On the monetary side, recent developments suggest the absence of inflationary pressures, with a continued negative monetary gap. The annual growth of M3 stood at 6.5 percent in August, up from 5.8 percent in July and 4.5 percent in the second quarter, and that of bank credit posted a rate of 2.6 percent, after 2.2 percent and 3.2 percent respectively. At the same time, demand deposits continued to improve, growing by 5.8 percent up from 4.1 percent in July and an average of 3.6 percent in the first six months. The latest available data, both on supply and demand, indicate that credit would grow by around 4 percent in 2013. The results of Bank Al-Maghrib's survey on lending rates show that the latter were up 8 basis points to 6.09 percent in the second quarter, due mainly to higher interest rates on cash loans. The effective exchange rate of the dirham appreciated by 0.33 percent in nominal terms and depreciated by 0.42 percent in real terms on a quarterly basis. The real estate price index fell by 0.2 percent year on year.

8. Under these circumstances, inflation remained broadly in line with forecasts published in the Monetary Policy Report of June 2013. It reached 1.9 percent in August, after 1.6 percent in July and an average of 2.4 percent in the first half-year. Core inflation rose somewhat to 1.6 percent, from 1.5 percent in July, as the growth rate of nontradable goods' prices accelerated from 1.1 to 1.5 percent and that of tradable goods from 1.8 to 2 percent. Due to the rebound in global energy prices since June, the decrease in industrial producer prices eased from 2.4 percent in June to 0.2 percent in July.

9. After analyzing the impact of the new price indexation system of certain petroleum products and the announced accompanying measures, the Board took note of inflation projections which show a rate of 2.2 percent in 2013, 1.7 percent in 2014, 1.5 percent in the fourth quarter of 2014, and an average of 1.8 percent over the forecast horizon. These forecasts remain therefore broadly in line with the price stability objective in the medium term.

10. In this context where the balance of risks is slightly tilted to the upside and the central inflation forecast remains consistent with the medium-term price stability objective, the Board decided to keep the key rate unchanged at 3 percent, while continuing to closely monitor all these developments.

OVERVIEW

In the second quarter of 2013, the international economic environment witnessed an incipient recovery in the euro area, with a positive quarterly growth after six consecutive quarters of contraction. Year on year, the euro area GDP declined by 0.5 percent as against 1 percent in the first quarter, as growth improved in Germany from -0.3 percent to 0.5 percent, and to a lesser extent in France, where it reached 0.3 percent as opposed to a 0.5 percent contraction in the first quarter. Similarly, economic activity continued to strengthen in the United States, from 1.3 percent to 1.6 percent, and improved significantly in the United Kingdom from 0.3 percent to 1.5 percent. In Japan, GDP growth stood at 0.9 percent from 0.1 percent in the first quarter, led by an expansionary economic and monetary policy which helped enhance household and corporate confidence. In the second half of 2013, recovery in advanced economies should continue overall, as suggests the positive change in several high-frequency indicators. In contrast, growth in the major emerging countries continued to slow down, particularly in China where it moved down from 7.7 percent to 7.5 percent, from one quarter to the next. This deceleration is likely to be heightened by uncertainties about the timing of exit from quantitative easing in the United States, which have resulted in a rise in bond yields, capital outflow to the developed countries and currency depreciation in the emerging countries. The Indian rupee and the Brazilian real, in particular, lost 15 percent and 10 percent respectively against the dollar between early June and early September.

Credit in the euro area continued the downward trend that began in May 2012, contracting by 1.9 percent year on year as against 1.6 percent in June, its 15th consecutive monthly decline. In the United States, credit growth continued the slowdown that started in January 2013, reaching 2 percent in August from 2.7 percent in the previous month.

Labor market situation has not improved in the euro area, as unemployment rate remained at 12.1 percent in July. In the United States, unemployment continued to decline, reaching 7.3 percent in August, a record low since December 2008. This positive change, which resulted in a net creation of 169,000 jobs, was coupled with a 0.2 percentage point decline in the labor force participation rate.

Concerning commodities, the mounting geopolitical risks caused in particular by the situation in Egypt and Syria have led to an upward pressure on oil prices since June. On the opposite, non-energy commodity prices are still tilted to the downside, year on year, thus contributing to mitigating international inflationary pressures.

Internally, persistent sluggish foreign demand for several quarters and weaker domestic demand contributed to a marked slowdown in nonagricultural growth in the first quarter of 2013, standing at 1.9 percent as against 4.4 percent a year earlier. However, the value added of agricultural activities grew by 17.7 percent, bringing the national growth to 3.8 percent, as against 2.3 percent in the fourth quarter of 2012. For the second and third quarters, available infra-annual indicators show a further slowdown in nonagricultural activities, as evidenced particularly by the respective declines of 10.2 percent and 1.1 percent in cement sales at end-August and electricity ones at end-July, while industrial production recovered slightly in the second quarter, up 0.2 percent as opposed to a 0.7 percent contraction in the previous quarter. Nonagricultural GDP growth should average 2.6 percent while overall GDP growth would hover around 5 percent, due to an expected improvement in agricultural activity.

Under these circumstances and despite signs of economic recovery in the euro area, Bank Al Maghrib estimates that the nonagricultural output gap, which is more relevant for the assessment of internal inflationary pressures, would remain below zero. This result was confirmed by the monthly business survey in industry, which shows a 69 percent decline in capacity utilization rate in July. For the full year, overall GDP, driven by a strong improvement in agricultural activity, would expand within a range of 4.5 to 5 percent, with a greater slowdown in the nonagricultural sector.

Regarding public finance, budget execution at end-July 2013 revealed that fiscal deficit worsened to 33.7 billion dirhams from 24.9 billion a year earlier. Current revenues fell by 2.2 percent, reflecting a 2.7 billion reduction in tax receipts, including an 11.7 percent decrease in corporate tax revenues. At the same time, despite a 24.6 percent decline in subsidy costs, overall expenses rose 2 percent, with a 10.1 percent increase in goods and services expenditure.

External accounts data available at end-August show that trade deficit narrowed by 3.1 percent, as imports declined more markedly than exports. Indeed, imports fell by 2.4 percent, mainly in connection with respective declines of 4.3 percent and 21.1 percent in purchases of energy commodities and raw products. Exports were down 1.5 percent, covering an 18.7 percent decline in sales of phosphates and derivatives and a 4.7 percent increase in other exports. Meanwhile, travel receipts and transfers of Moroccan expatriates increased by 2.1 percent and 1 percent, respectively. Taking into account the other capital account elements, the stock of net international reserves was up 4.3 percent compared to the same period of last year, reaching 150.2 billion dirhams, representing four months and four days of goods and services' imports.

On the monetary side, data for July 2013 show that the M3 annual growth accelerated slightly to 5.8 percent from 4.5 percent in the second quarter, while the monetary gap remained below zero. At the same time, the growth of bank credit slowed down from 3.2 percent to 2.2 percent, reflecting a deceleration of its various components, with the exception of equipment loans. Bank liquidity deficit reached 76.6 billion dirhams on average between July and August 2013, widening by 17.2 billion from the previous quarter. Bank Al-Maghrib intervened through 7-day and overnight advances, and increased the outstanding amount of 3-month refinancing operations to 20 billion dirhams, of which 6 billion as loans secured by private bills representing claims on SMEs and VSEs. As to lending rates, the BAM's survey for the second quarter of 2013 shows an 8 basis points increase in the weighted average rate to 6.09 percent, driven mainly by higher interest rates on cash advances and, to a lesser extent, consumer loans. The dirham's effective exchange rate appreciated by 0.33 percent in the second quarter in nominal terms compared to the previous quarter and depreciated by 0.42 percent in real terms, due to an inflation differential in favor of Morocco vis-à-vis its main partners and competitors.

The real estate price index was down 0.2 percent year on year, covering respective declines of 3.7 percent and 0.8 percent in prices for commercial property and urban land, and a 0.4 percent increase in residential property prices.

Under these conditions, inflation remained broadly in line with forecasts published in the Monetary Policy Report (MPR) of June 2013. It stood at 1.9 percent in August, as against 1.6 percent in July and 2.4 percent on average in the first half. Core inflation rose slightly in August to 1.6 percent from 1.5 percent in July, due to an accelerated growth in prices of nontradables, from 1.1 percent to 1.5 percent, and prices of tradables from 1.8 percent to 2 percent. Moreover, due to rising global energy prices since June, the decrease in industrial producer prices decelerated from 2.4 percent in June to 0.2 percent in July.

The future trend in price will be affected by the implementation of the new price indexation system applied to some petroleum products, namely diesel, gasoline and industrial fuel. Oil pump prices will now be calculated on the basis of international prices and unit subsidies determined annually by the government.

Based on all these factors, the future development of inflation is broadly consistent with the price stability objective. The average forecast was revised slightly upward to 2.2 percent in 2013 and should stand at 1.7 percent in 2014, 1.5 percent at the end of the forecast horizon, i.e. the fourth quarter of 2014, and 1.8 percent on average over the same horizon. Core inflation should remain moderate, not exceeding 2 percent at the end of the forecast horizon.

1. AGGREGATE SUPPLY AND DEMAND

In the first quarter of 2013, national growth stood at 3.8 percent, as against 2.3 percent in the fourth quarter of 2012, driven by an improvement of 17.7 percent in the agricultural value added, while nonagricultural growth decelerated sharply to 1.9 percent. For the second and third quarters, GDP growth should stand at 4.9 percent and 5 percent, respectively, reflecting 22 percent and 19.9 percent increases in agricultural activities. The nonagricultural sector was affected in recent quarters by the persistently sluggish economy in the euro area and the wait-and-see attitude of economic operators. Regarding domestic demand, this trend resulted in a lower investment for the second consecutive quarter, a trend expected to persist in the short term. Albeit under deceleration, household consumption should benefit mainly from improved rural incomes. Throughout the year, GDP growth would be between 4.5 percent and 5 percent, thanks mainly to an expansion of the agricultural value added. In sum, the analysis elements of supply and demand suggest that pressures on prices remain subdued.

1.1 Output

In the first quarter of 2013, national growth stood at 3.8 percent from 2.3 percent in the fourth quarter of 2012 and 2.7 percent throughout 2012. This change reflects a sharp slowdown to 1.9 percent in nonagricultural growth and an improvement of 17.7 percent in agricultural activities. According to forecasts by Bank Al -Maghrib, national growth would have stood at 4.9 percent in the second quarter of 2013, reflecting respective increases of 2.3 percent and 22 percent in nonagricultural GDP and the agricultural value added.

Indeed, final data from the Ministry of Agriculture show a 91 percent increase in cereal production compared to the previous year, thus amounting to 97 million quintals, with an improvement of 84 percent in the average yield to 18.6 quintals per hectare.

Growth of nonagricultural activities should slow down in one year from 4.6 percent and 4.7 percent to 2.3 percent and 2.8 percent in the second and third quarters, respectively. The mining value added was up 0.5 percent in the second quarter of 2013, as against a 3.6 percent decline a quarter earlier. The marketable production of crude phosphate increased slightly by 0.1 percent, year on year, in the second quarter of 2013, after falling 1 percent in the previous quarter. In contrast, exports of phosphate and derivatives, down 18.7 percent at end-August 2013,

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

Activity sectors	2011			2012				2013		
	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII_F	$TIII_F$
Agriculture	6,1	6,0	4,3	-8,3	-9,5	-8,5	-9,1	17,7	22,0	19,9
Nonagricultural VA	**4,7**	**5,0**	**5,1**	**4,4**	**4,5**	**4,7**	**4,0**	**1,9**	**2,5**	**3,0**
Extractive industry	3,0	0,8	9,5	-5,0	-5,0	4,7	-3,7	-3,6	0,5	0,5
Processing industry	0,8	3,2	3,5	2,9	1,4	1,4	0,1	0,5	1,6	1,1
Electricity and water	5,9	4,2	12,1	11,2	9,0	9,9	-1,9	-4,2	-0,4	4,0
Construction	1,7	6,1	7,0	5,0	3,5	-0,5	0,7	-5,9	-4,7	-3,5
Trade	4,7	4,6	4,9	3,2	2,7	2,0	1,4	2,3	2,3	2,4
Hotels and restaurants	-3,9	-2,8	-6,8	-4,8	3,9	2,7	8,8	3,7	4,0	4,7
Transportation	6,5	5,9	3,9	2,8	4,2	2,5	5,3	0,2	1,5	2,2
Post and telecommunication	15,5	24,1	23,0	23,7	22,4	27,1	28,6	14,7	14,5	14,2
General government and social security	6,4	5,7	4,5	7,4	6,9	6,3	6,1	6,4	6,4	6,5
Other services*	6,3	5,6	4,4	5,1	5,5	5,4	5,8	2,6	3,3	3,4
Taxes on products net of subsidies	2,2	3,5	1,4	5,6	5,7	4,6	4,8	1,0	1,1	1,2
Nonagricultural GDP	**4,4**	**4,8**	**4,7**	**4,5**	**4,6**	**4,7**	**4,1**	**1,9**	**2,3**	**2,8**
Gross domestic product	**4,5**	**5,0**	**4,7**	**2,8**	**2,7**	**2,9**	**2,3**	**3,8**	**4,9**	**5,0**

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

Sources: HCP, and BAM forecasts

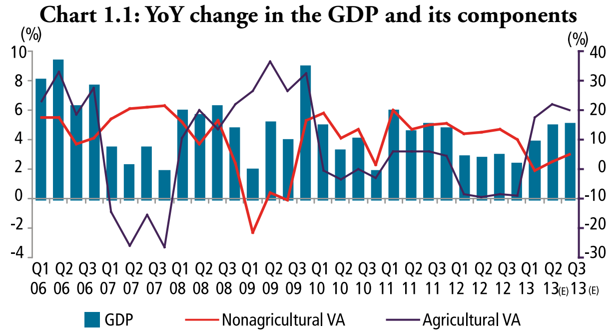
continue to suffer the effects of a weak foreign demand and the continued decline in phosphate prices, down 21.6 percent in August compared to the same period of last year, and 7.6 percent from one month to the next.

The value added of the processing industry would have improved relatively in the second quarter of 2013, with an increase of 1.6 percent, as opposed to 0.5 percent a quarter earlier, but it would decelerate to 1.1 percent in the third quarter. The manufacturing industrial producer index grew by 0.2 percent in the second quarter as against a 0.7 percent decline in the first quarter. Furthermore, the findings of BAM business survey of July indicate that the production would have declined from the previous year, according to 57 percent of manufacturers, thus bringing the output capacity utilization rate to 69 percent from 72 percent in June.

The value added of "electricity and water" sector would have fallen 0.4 percent in the second quarter of 2013, registering a significant slowdown compared to a 4.2 percent contraction in the first quarter, owing to a reduction limited to 0.9 percent in local net production of the National Electricity Office and a 2.5 percent increase in high and medium voltage sales. In the third quarter of 2013, it should recover by 4 percent.

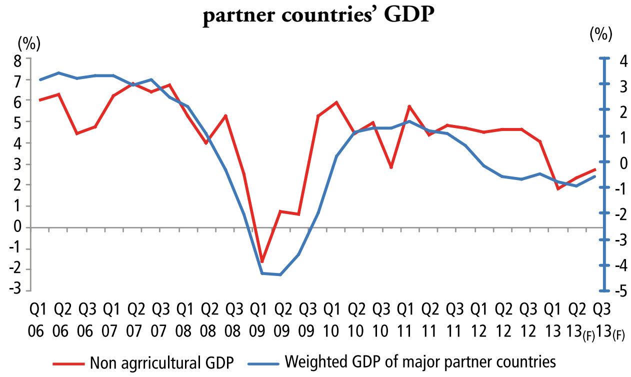
Recent data on the building and public works sector continue to point to lower activity. Indeed, cement sales were down 10.2 percent at end-August 2013, as against a 2.7 percent increase in the same period of last year. In addition, loans to property developers contracted by 2 percent at end-July 2013, after a 0.4 percent rise in the second quarter and a 0.5 percent decline in the first quarter, while the number of land property transactions dropped for the fourth consecutive quarter. Under these conditions, the value added of building and public works would have shrunk by 4.7 percent in the second quarter. This decline should mitigate to 3.5 percent in the third quarter.

Chart 1.1: YoY change in the GDP and its components



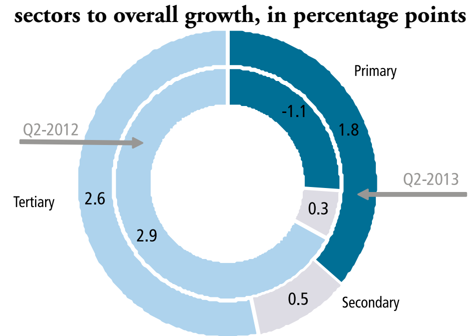
Sources: HCP, and BAM calculations and forecasts.

Chart 1.2: YoY change in domestic non agricultural GDP and in partner countries' GDP



Sources: HCP, IMF and BAM forecasts.

Chart 1.3: Contribution of the primary, secondary and tertiary sectors to overall growth, in percentage points



Sources: HCP, and BAM calculations and forecasts.

As to tertiary sector, the value added of posts and telecommunications should grow year on year by 14.5 percent and 14.2 percent in the second and third quarters of 2013, respectively. The latest available data for the second quarter of 2013 show an increase of 6.9 percent in the number of mobile phone subscribers and 30.3 percent in that of Internet subscribers, as against 7 percent and 60.3 percent, respectively, over the same period of 2012 .

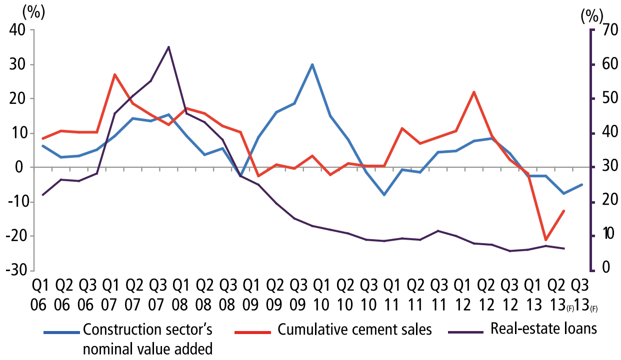
The tourism industry would have grown by 4 percent in the second quarter of 2013, from 3.7 percent a quarter earlier. Travel receipts increased by 2.1 percent at end-August. Tourism value added should accelerate to 4.7 percent in the third quarter of 2013, due to the recovery of the activity in August.

Throughout the year 2013, national growth forecasts should stand within a range of 4.5 percent to 5 percent, driven mainly by the expansion of the agricultural value added.

1.2 Consumption

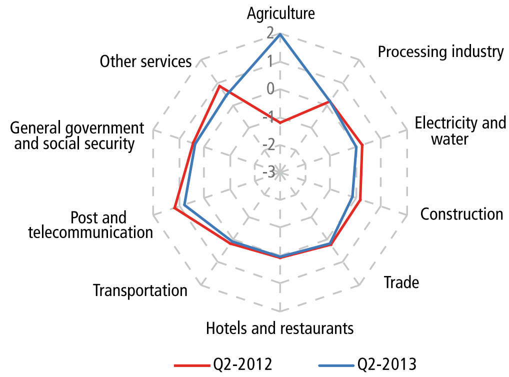
The growth of the national final consumption slowed down, in real terms, to 3.4 percent in the first quarter of 2013, from 6.2 percent a quarter earlier and 4.7 percent in the first quarter of 2012. This trend reflects a quarter-on-quarter slowdown in the growth of household final consumption expenditure from 5.4 percent to 3 percent, and that of the general government from 9.1 percent to 4.8 percent. For the rest of the year, household final consumption should show some improvement, particularly owing to higher revenues resulting from the good crop year. Foreign trade data indicate respective rises of 1 percent and 2.1 percent at end-August in remittances from Moroccan living abroad and travel receipts, compared to the same period of 2012. Imports of finished consumer goods fell by 5.4 percent, while semi-finished goods showed an increase of 3.1 percent.

Chart 1.4: YoY change in the construction sector's value added, cement cumulative sales and real-estate loans



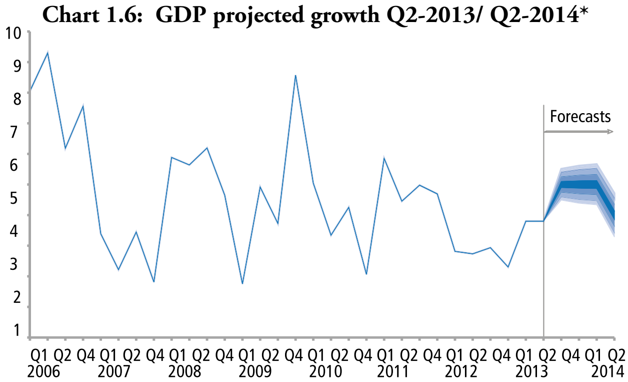
Sources: APC, BAM and BAM forecasts.

Chart 1.5: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations.

Chart 1.6: GDP projected growth Q2-2013/ Q2-2014*



(*) Fans depending on the standard deviation

Sources: HCP, and BAM forecasts

In parallel, consumer loans slowed down sharply in one year from 17.5 percent to 2.9 percent at end-July. Furthermore, the significant increase in the unemployment rate in the second quarter of 2013, or 8.8 percent from 8.1 percent a year earlier, should adversely affect consumption.

Although a slight slowdown is expected in the coming quarters, government consumption should remain high. Indeed, the latest available data show a 10.1 percent increase in operating expenses at end-July, as against 14.2 percent over the same period a year earlier, driven by respective increases of 5 percent and 22.9 percent in personnel costs, and spending on other goods and services.

1.3 Investment

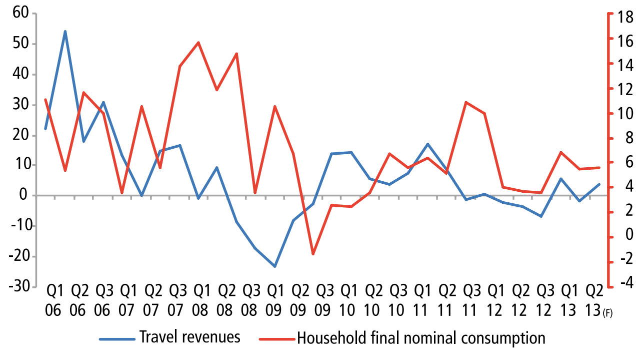
After several quarters of positive developments, the fourth quarter of 2012 recorded a 0.8 percent decline in investment. This trend continued in the first quarter of 2013, with a 2 percent decrease.

In the second quarter, the findings of BAM monthly business survey indicate that investment expenditures remained unchanged, according to 60 percent of manufacturers and were up, according to 23 percent of them, with a business climate deemed average.

Monetary data indicate a 1.2 percent improvement of equipment loans at end-July, after a 2.9 percent drop a year earlier, and a slowdown in real estate loans, from 7.9 percent to 5.2 percent.

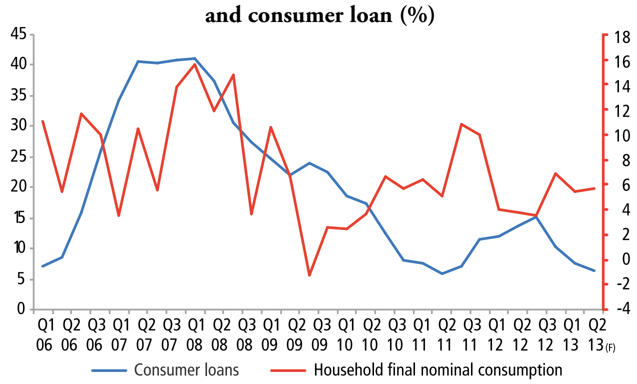
In addition, foreign trade indicators show a 5.8 percent increase in imports of equipment goods at end-August. In parallel, the real estate price index fell 0.2 percent in the second quarter of 2013. This change covers respective declines of 3.7 percent and 0.8 percent in commercial property prices and land ones, and a 0.4 percent increase in residential property prices.

Chart 1.7: YoY change in household final consumption and travel revenues (%)



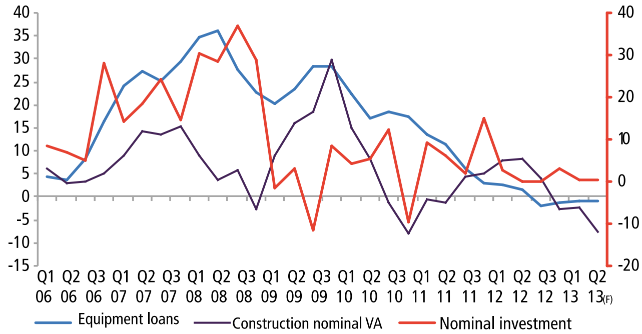
Sources: High Commission for Planning, Foreign Exchange Office and BAM forecast.

Chart 1.8: YoY quarterly change in household final consumption and consumer loan (%)



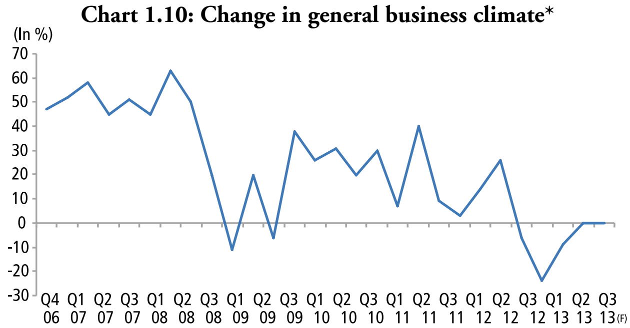
Sources: High Commission for Planning, Foreign Exchange Office and BAM forecast.

Chart 1.9: YoY change in investment, construction sector's value added and real-estate loans



Sources: High Commission for Planning, BAM forecasts and calculations

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.

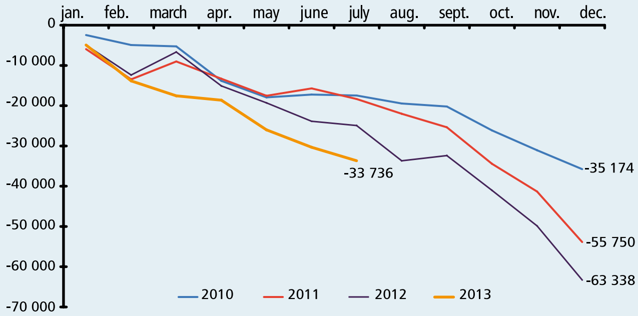
Box 1.1 : Public finances trends at end july 2013

At the end of July 2013, the budget execution revealed a deficit of 33.7 billion dirhams, compared to 24.9 billion a year earlier. This worsening is attributable to a 2.2 percent decrease in current revenues, owing to lower tax receipts, and a 2 percent .increase in overall expenses despite lower subsidy costs

The Treasury current revenues fell to 127.7 billion, due to a decline of 2.3 percent in tax receipts and 3 percent in non-tax revenues compared to end-July 2012. The change in tax revenues reflects lower receipts from corporate taxes, indirect taxes and customs duties, while proceeds from income tax and .registration and stamp fees grew

Indeed, proceeds from direct taxes declined by 3.1 percent to 44.1 billion, essentially covering an 11.7 percent decrease in revenues from corporate taxes to 22.6 billion and a 6 percent increase in proceeds from income taxes to 20.1 billion. Revenue from indirect taxes was down by 1.5 percent to 57.9 billion dirhams. The VAT revenue dropped by 1.3 percent to 45.3 billion, due to reductions of 1.7 percent and 0.5 percent in revenues from import VAT and domestic VAT, respectively. Similarly, domestic consumer tax generated 12.6 billion, down 2.3 percent. Revenues from customs duties, amounting to 4.4 billion, moved down 20 percent at end-July 2013, while .registration and stamp fees rose 9.7 percent to 7.9 billion

Chart B 1.1.1: Budget balance in millions of dirhams



Non-tax revenues moved down 3 percent, with a total of 12 billion dirhams, covering a 2 billion increase in miscellaneous receipts and a 2.4 billion decrease in receipts from monopoly and holdings. The latter dropped by 27.3 percent to 6.3 billion, mainly due to lower transfers from the OCP, with an amount of 2 billion, and from Maroc Telecom, with 539 million dirhams.

In parallel, overall expenditure amounted to 164 billion dirhams, up 2 percent. This trend reflects a 6 percent increase in investment spending to 24.7 billion and a 1.3 percent increase in current expenditure to 139.2 billion dirhams. Indeed, operating expenses grew by 10.1 percent to 86.8 billion, reflecting respective increases of 5 percent and 22.9 percent in staff costs and costs of other goods and services to 59 billion and 27.8 billion. Debt interest charges also rose 15.8 percent to 14.4 billion. Subsidization costs were down 24.6 percent to 24.5 billion compared to end-July 2012, including 3.5 billion in July alone, in line with the monthly average of the first six months of 2013.

Under these conditions, the current balance showed a deficit of 11.5 billion, from 6.8 billion at end-July 2012. Given the positive balance of Treasury special accounts, totaling 2.5 billion, and following the repayment of arrears, amounting to 10.5 billion, the stock of payment arrears fell to 9.9 billion from 20.5 billion in December 2012, and the cash deficit stood at 44.3 billion, as against 31.8 billion at the end of the same period a year earlier. The Treasury financed its requirements from domestic resources for an amount of 36.2 billion, of which 34.4 billion under a tender procedure, as well as from a positive external net flow, totaling 8.1 billion, as against a negative net flow of 2.6 billion at end-July 2012.

Moreover, according to data on Treasury expenses and revenues at end-July, investment expenditure rose 6 percent, partly due to the delayed implementation of the Finance Act 2012.

1.4 Foreign trade

The foreign trade data available to end-August confirm a further reduction of the trade deficit, due to significantly lower imports than exports.

Indeed, the trade balance posted a deficit of 131.7 billion dirhams, down 3.1 percent compared to the same period of last year, as against a worsening of 12.1 percent a year earlier. This trend is attributed to a decrease of 2.4 percent or 6.1 billion dirhams of imports, which amounted to 252.9 billion dirhams. Similarly, exports declined by 1.5 percent or 1.9 billion, standing at 121.2 billion dirhams. The import coverage stood at 47.9 percent as against 47.5 percent over the same period of last year.

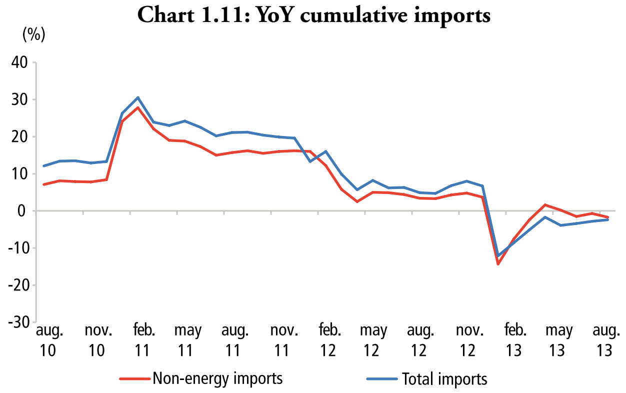
The decline in imports is mainly due to a 4.3 percent drop in oil purchases to 66.2 billion dirhams. This decrease is mainly attributed to an 8.9 percent decline in crude oil purchases to 21 billion dirhams. Non-energy purchases were down 1.7 percent to 186.7 billion dirhams. Imports of raw products, consumer goods and food items dropped by 21.1 percent, 5.4 percent and 7.2 percent to 12.4 billion, 42.3 billion and 25.1 billion, respectively. Supplies showed a decline of 27.1 percent for crude sulfur, 79.7 percent for barley and 27.6 percent for sugar, amounting respectively to 3.2 billion, 266 million and 2.7 billion dirhams. Meanwhile, purchases of ready-made garments and passenger cars registered declines of 24.6 percent and 14.5 percent. In contrast, imports of capital goods increased by 5.8 percent to 52.7 billion dirhams, in conjunction with a 72.5 percent increase in purchases of spare parts for industrial vehicles to 2.4 billion dirhams. Similarly, imports of semi-finished goods rose 3.1 percent to 54.2 billion dirhams, mainly

Table 1.2 : Change in the trade balance at end august 2013

(In millions of dirhams)	end august 2012	end august 2013*	Change Amount	Change %
Exports	**123 096**	**121 194**	**-1 902**	**-1.5**
Phosphates and derivatives' exportss	32 714	26 586	-6 128	-18.7
Exports excluding phosphates and derivatives'	90 382	94 608	4 226	4.7
Automobile	16 173	19 267	3 094	19.1
Aeronautics	4 173	5 080	907	21.7
Electronics	4 770	5 230	460	9.6
Agriculture and food industry	21 331	22 527	1 196	5.6
Textile and leather	22 736	22 154	-582	-2.6
Imports	**259 033**	**252 925**	**-6 108**	**-2.4**
Energy imports	69 187	66 227	-2 960	-4.3
Non-energy imports	189 846	186 698	-3 148	-1.7
Consumer goods	44 681	42 250	-2 431	-5.4
Food products	27 051	25 114	-1 937	-7.2
Unprocessed goods	15 732	12 420	-3 312	-21.1
Capital goods	49 764	52 657	2 893	5.8
Semi-finished goods	52 633	54 242	1 609	3.1
Trade deficit	**135 937**	**131 731**	**-4 206**	**-3.1**

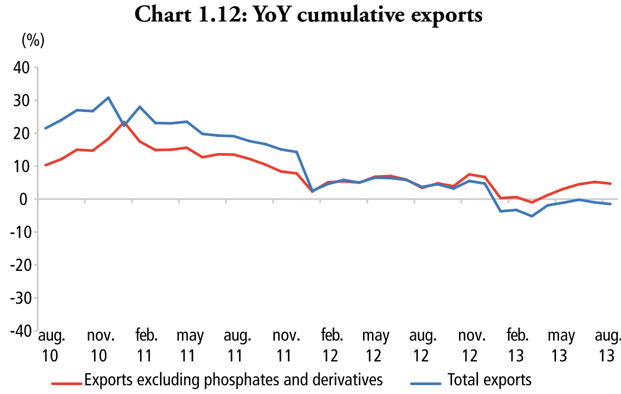
** Provisional data.*
Source: Foreign Exchange Office.

Chart 1.11: YoY cumulative imports



Source: Foreign Exchange Office.

Chart 1.12: YoY cumulative exports

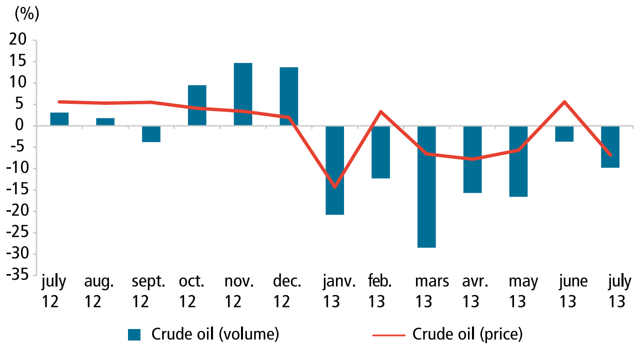


Source: Foreign Exchange Office.

due to a 48.3 percent increase in purchases of wires and cables to 3.5 billion dirhams.

Export trends cover an 18.7 percent decline in sales of phosphates and derivatives to 26.6 billion dirhams, and a 4.7 percent increase in other exports to 94.6 billion dirhams. Indeed, shipments of the automotive sector grew by 62.1 percent to 6.9 billion dirhams. The aeronautics sector sales rose 21.7 percent to 5.1 billion dirhams. Shipments of the agriculture sector also were up by 5.6 percent to 22.5 billion dirhams, covering a 13 percent increase in sales of the food industry and respective declines of 7.6 percent and 4.2 percent in exports of fisheries, and citrus and early vegetables. Meanwhile, exports of electronic components rose 9.6 percent to 5.2 billion dirhams. In contrast, sales of the textile and leather sector showed a decline of 2.6 percent to 22.2 billion dirhams.

Chart 1.13 : YoY change in volume and price of crude oil imports



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

In a context marked by signs of recovery in economic activity in the euro area and a further slowdown in domestic demand, nonagricultural output gap should remain below zero in the second and third quarters of 2013, according to estimates by Bank Al-Maghrib. The capacity utilization rate was down six points in August to 63 percent, a level still below its historical average of 71 percent.

As for the labor market, the unemployment rate rose by 0.7 percentage points to 8.8 percent in the second quarter. At the same time, the hourly minimum wage and private sector wages moved up 2.1 percent and 3.9 percent, respectively, in real terms.

Overall, the analysis of these various factors suggests the absence of significant pressures on prices in the coming quarters.

2.1 Pressures on output capacity

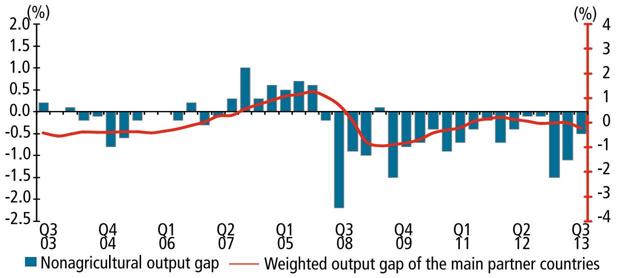
According to estimates by Bank Al -Maghrib, nonagricultural output gap should stand at -0.5 percent in the third quarter, as against -1.3 percent in the first half and -0.3 percent on average in 2012, which indicates continued moderate pressures of aggregate demand on prices.

After a decline of three points in July and as reported by Bank Al-Maghrib monthly industrial business survey, capacity utilization rate (CUR) fell from 69 percent to 63 percent in August, a level below its historical average of 71 percent observed since 2007 (Chart 2.2). This change reflects an improvement of the CUR in the agri-food sector and a decrease in other branches.

According to the same survey, the unit industrial production costs seemed to have stagnated overall in the second quarter of 2013, owing to a decrease in chemical and related industries and an increase in other branches (Chart 2.3). During this quarter, industrial producer price index moved down 3.2 percent compared to the first quarter, before dropping 0.6 percent in July, month on month.

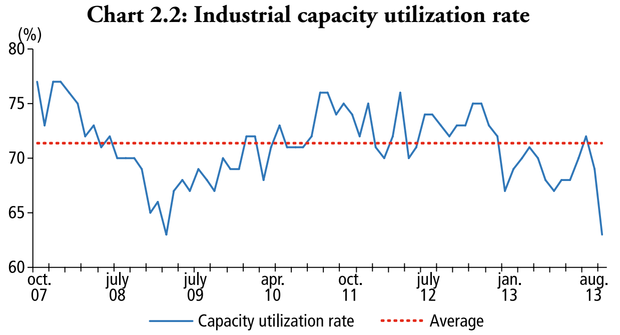
Apparent labor productivity index in nonagricultural activities was up

Chart 2.1: Nonagricultural output gap



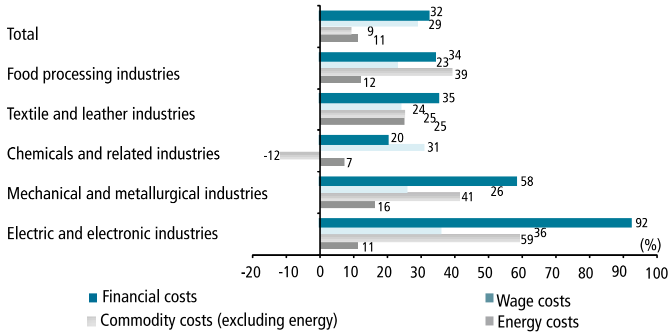
Sources: HCP, Eurostat and BAM estimates

Chart 2.2: Industrial capacity utilization rate



Source: BAM monthly business survey

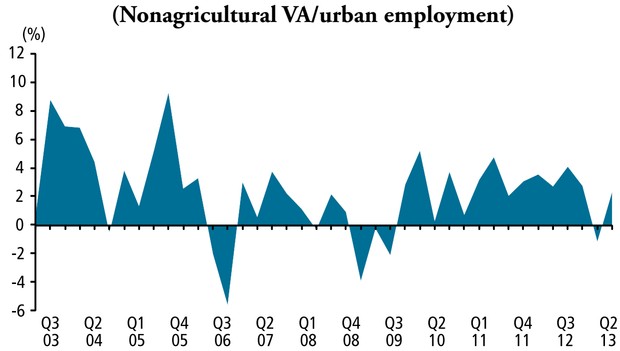
Chart 2.3: Balances of opinion* on the change in the components of the production unit cost per sector, in Q2-2013



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

2.4 percent in the second quarter, year on year, as against a 1.1 percent drop in the first quarter (Chart 2.4). This increase was due to a faster growth of nonagricultural value added (2.5 percent), compared to that of nonagricultural employment (0.1 percent), as estimated by BAM.

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



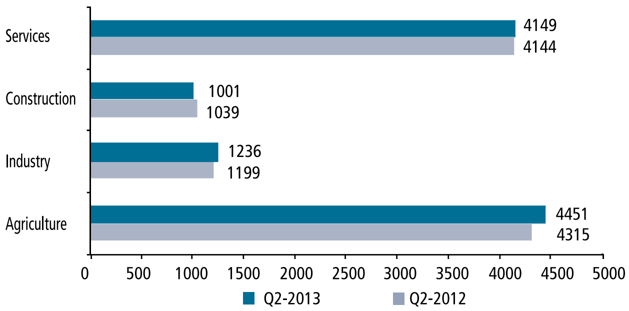
Sources : HCP, and BAM estimates

2.2 Pressures on the labor market

At the end of the second quarter, the labor force aged 15 and over rose by 2.1 percent to 11.9 million people, covering respective increases of 2.9 percent and 1.2 percent in urban areas and rural ones. This trend was accompanied by a rise in the participation rate from 49 percent to 49.2 percent.

A total of 144,000 jobs were created, as against 112,000 jobs over the same period of 2012. At the sectoral level, agriculture and industry provided 136,000 and 37,000 jobs, respectively. Services, the main job-providing sector in 2012, generated only 5,000 jobs, as against 110,000 a year earlier. However, construction lost 38,000 jobs (Chart 2.5).

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



Source: HCP

In total, employed labor force stood at 10.8 million, up 1.3 percent. The employment rate showed a slight decline from 45 percent to 44.9 percent.

Under these conditions, the unemployment rate rose 0.7 percentage point to 8.8 year on year, reflecting an increase of 1.5 points to 13.8 percent in urban areas and a decline of 0.3 percentage points to 3.2 percent in rural ones. By age group, unemployment among young people aged 15 to 24 years showed the largest increase from 17.1 percent to 18.4 percent (Table 2.1).

With regard to labor costs, the private sector wage index, based on CNSS data, recorded in the second quarter a year-on-year appreciation of nearly 6.5 percent

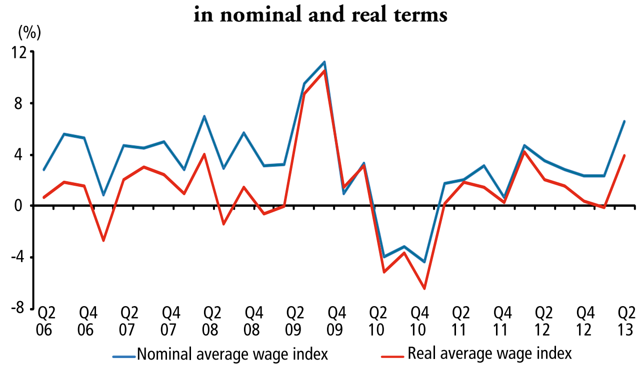
Table 2.1: Quarterly indicators of activity employment and unemployment indicators per place of residence

In million / in %	Q2 - 2012			Q2 - 2013		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force [1]	6.162	5.494	11.656	6.339	5.561	11.900
Labor force participation rate (%) [2]	43,0	58,0	49,0	43,3	58,3	49,2
Employed labor force	5,403	5,304	10,707	5,466	5,385	10,851
Employment rate (%) [3]	37,7	56,0	45,0	37,3	56,4	44,9
Unemployment						
Unemployed labor force	759	190	949	873	176	1,049
Unemployment rate (in %) [4]	12,3	3,5	8,1	13,8	3,2	8,8
By age						
.15 - 24 years	32,8	7,5	17,1	35,2	7,4	18,4
.25 - 34 years	18,4	4,1	12,3	20,2	3,7	13,2
.35 - 44 years	5,8	1,7	4,1	7,4	1,5	5,0
By degree						
. Non-graduates	6,4	1,8	3,5	8,2	1,9	4,3
. Graduates	16,7	10,9	15,4	17,9	8,6	15,8

(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.

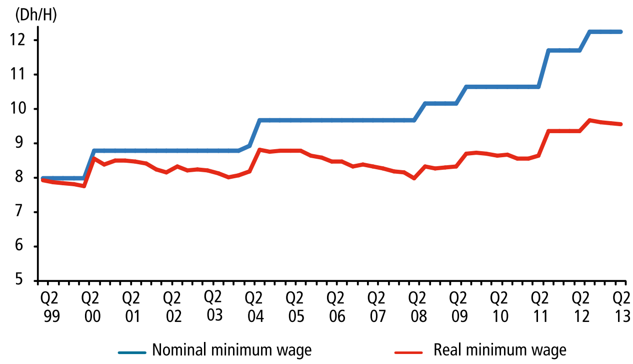
in nominal terms and 3.9 percent in real terms. The hourly minimum wage moved up by 2.1 percent in real terms in the second quarter of 2013.

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



Sources: CNSS, and BAM estimates.

Chart 2.7: Minimum wage in real and nominal terms



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

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The global economy showed in the second quarter some positive signs, particularly in developed countries. Indeed, economic activity relatively recovered in the euro area, driven mainly by growth in Germany and, to a lesser extent, in France, while it continues to gradually gain momentum in the United States. This trend should continue in the third quarter, as shown by the positive change in several high-frequency indicators. However, signs of recovery in the euro area were not reflected in the labor market. Unemployment remained high in the main countries, while in the United States, the unemployment rate continues to fall to 7.3 percent in August 2013, its lowest level since December 2008. In Japan, GDP increased significantly, impacted positively by the fiscal and monetary measures undertaken since the beginning of the year. In emerging and developing countries, growth continues to slow down overall, especially in China, thus contributing to the decline in non-energy commodity prices. This slowdown is likely to be exacerbated by the turmoil triggered by a possible quantitative easing reduction in the United States, which results in a rise in bond yields, decline in capitals to developed countries and a depreciation of emerging countries' currencies. Energy prices were tilted to the upside due to the signs of recovery from the euro area and the United States as well as the rising geopolitical tensions caused particularly by the unrest in Syria and Egypt. Regarding the outlook, the IMF projections for July show a downward revision of growth in 2013 and 2014, more marked in emerging and developing countries. Ultimately, all of these developments suggest a further moderation of external inflationary pressures on the Moroccan economy.

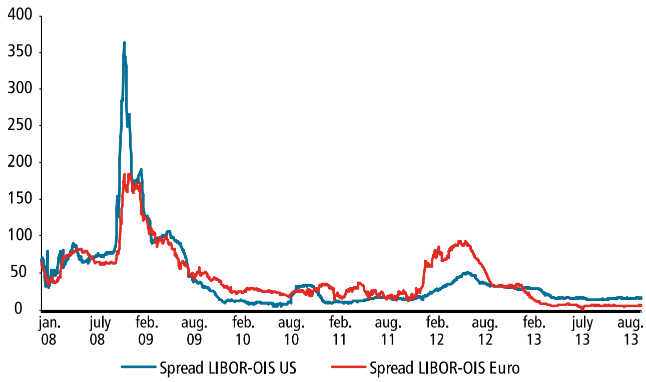
3.1 Global financial conditions and economic activity

3.1.1 Financial conditions

In bond markets, sovereign yields fell in eurozone peripheral countries and increases in the rest of advanced economies. Indeed, 10-year yields recorded declines between July and August 2013, from 10.6 percent to 9.9 percent in Greece, from 7 percent to 6.7 percent in Portugal, from 4.7 percent to 4.5 percent in Spain and from 4.4 percent to 4.3 percent in Italy. Conversely, French and German bond yields rose from 2.2 percent to 2.3 percent and from 1.6 percent to 1.8 percent, respectively. Yields in the United States rose to 2.7 percent in August from 2.6 percent in the previous month. Similarly, 10-year yields in major emerging economies were up, month on month, to 8.4 percent from 7.8 percent in India, to 11.4 percent from 10.6 percent in Brazil, to 9.2 percent from 8.7 percent in Turkey and to 3.9 percent from 3.6 percent in China. These increases were primarily due to the risk of changes in the U.S. Federal Reserve's quantitative easing policy in the coming months.

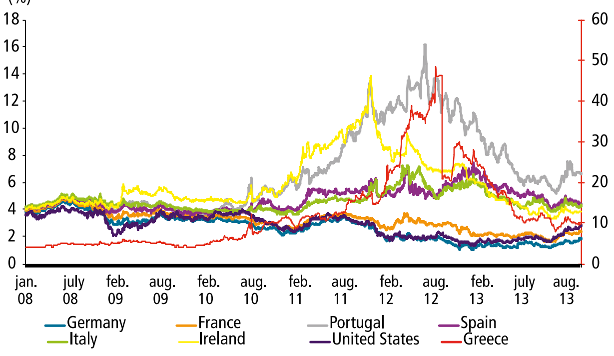
In money markets, interbank rates and spreads were broadly trending upward. Indeed, apart from the dollar 3-month Libor, which fell

Chart 3.1: 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

Chart 3.2: Change in the yield of ten-year euro area and U.S. government bonds



Source: Datastream

from 0.27 percent to 0.26 percent in August, the 3-month Euribor rose from 0.22 percent to 0.23 percent. The euro and dollar Libor-OIS spreads showed respective increases from 4.1 percent to 4.9 percent and from 16 percent to 16.4 percent.

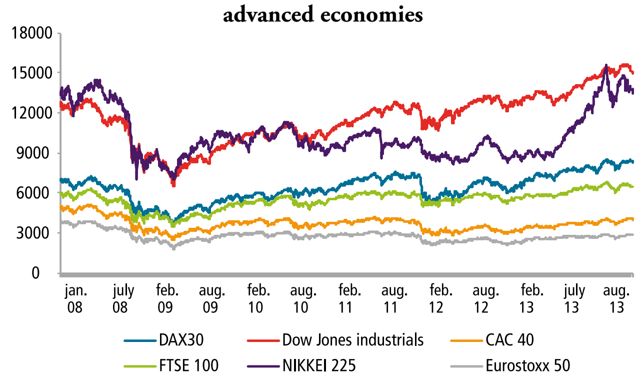
On the other hand, credit trend in the United States continued to slow down since January 2013, reaching 2.0 percent in August, year on year, from 2.7 percent in the previous month. In the euro area, the credit volume continued its decline that began in May 2012, contracting by 1.9 percent in July, from 1.6 percent, which is the 15th consecutive decline.

In stock markets, major indexes showed divergent trends across countries, with an overall decline in volatility. Indeed, in the European markets, the EUROSTOXX50 and the CAC40 rose in August by 4.9 percent each, and the DAX30 and the FTSE100 were up 2.4 percent and 0.5 percent, respectively. In contrast, the NIKKEI225 and Dow Jones declined 3.4 percent and 0.2 percent, respectively. In terms of volatility, VSTOXX dropped, month on month, from 19.4 basis points to 17.6 points, while VIX declined from 14.1 to 13.5 points. Continuing their trend over the previous month, indexes of emerging economies were tilted to the downside in August. The MSCI EM dropped by 0.1 percent, year on year, reflecting particularly declines of 9 percent in India and 5 percent in Turkey.

In foreign exchange markets, the euro traded at $1.33 on average in August as opposed to $1.29 in July, registering an appreciation of 2.9 percent compared to the previous month. However, the single currency depreciated 0.4 percent vis-à-vis both the pound sterling and the Japanese yen. The currencies of key emerging countries continue to suffer the effects of capital outflows due to a possible quantitative easing decline in the United States. Thus, from early June to early September, the Indian rupee and the Brazilian real depreciated 15 percent and 10 percent, respectively, vis-à-vis the dollar, while the Chinese yuan appreciated 0.2 percent.

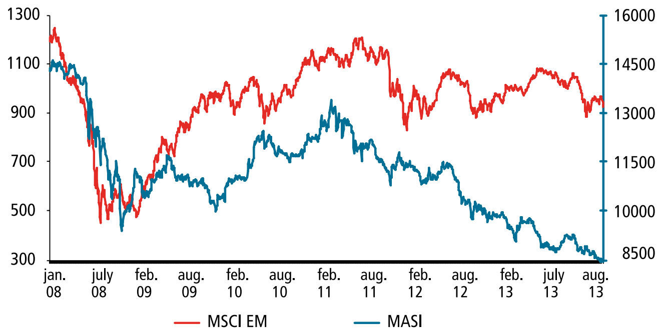
With regard to monetary policy decisions, the ECB and the Bank of England, at their last

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



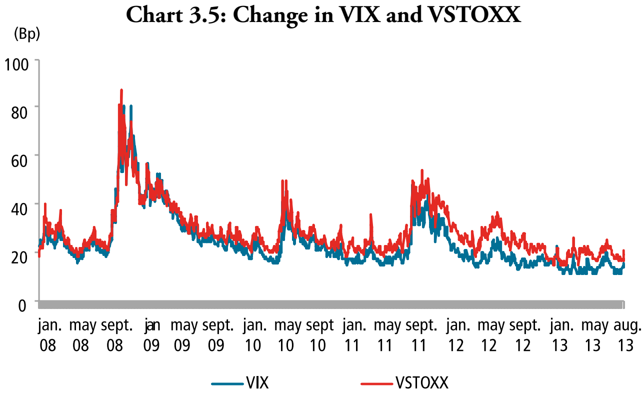
Source: Datastream

Chart 3.4: Change in the MSCI EM and MASI



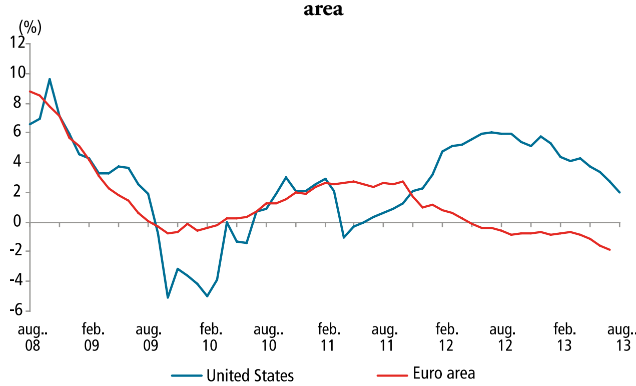
Source: Datastream

Chart 3.5: Change in VIX and VSTOXX



**Source: Datastream*

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



Source: Datastream

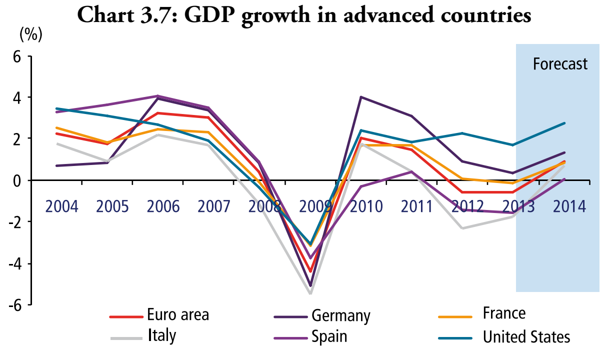
meetings, kept their key rates unchanged at 0.5 percent. Meanwhile, the Fed announced that it would continue to buy bonds at $85 billion monthly, contrary to market expectations which anticipated a reduction in these redemptions. Indeed, it found that a sustained "tightening of financial conditions could slow the pace of improvement in the economy and labor". In addition, it maintained its key rate within a range of 0 percent to 0.25 percent.

Table 3.1: YoY change in quarterly growth

	2011	2012				2013	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
United States	2.0	3.3	2.8	3.1	2.0	1.3	1.6
Euro area	0.7	-0.1	-0.5	-0.7	-0.9	-1.0	-0.5
France	1.5	0.4	0.1	0.0	-0.3	-0.5	0.3
Germany	2.2	1.3	1.1	0.9	0.3	-0.3	0.5
Italy	-0.6	-1.7	-2.4	-2.6	-2.8	-2.4	-2.1
Spain	0.0	-0.7	-1.4	-1.6	-1.9	-2.0	-1.6
United Kingdom	1.1	0.58	-0.02	0.12	0.0	0.3	1.5
Japan	0.0	3.3	3.9	0.4	0.3	0.1	0.9
China	8.9	8.1	7.6	7.4	7.9	7.7	7.5
India	6.0	5.1	5.4	5.2	4.7	4.8	4.4
Brazil	1.4	0.8	0.5	0.9	1.4	1.9	3.3

Source : Eurostat.

Chart 3.7: GDP growth in advanced countries

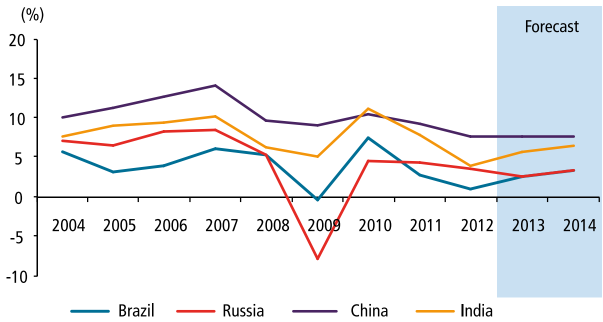


Source: IMF.

3.1.2 Global economic activity

Regarding the real sphere, the advanced countries' latest national accounts data for the second quarter indicate an overall improvement in economic activity. Indeed, the second estimate of growth for the second quarter in the United States reported a year-on-year GDP growth of 1.6 percent compared to 1.3 percent in the previous quarter, due to higher exports and consumer spending. Meanwhile, growth improved significantly in the United Kingdom from 0.3 percent in the first quarter to 1.5 percent in the second quarter, particularly in connection with higher exports. In Japan, the economic policy pursued since the beginning of the year, continues to strengthen household and corporate confidence, and therefore GDP growth was 0.9 percent from 0.1 percent in the previous quarter.

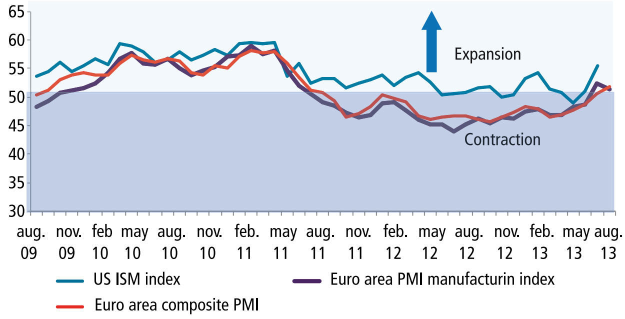
Chart 3.8: GDP growth in emerging countries



Source: IMF.

In the euro area, GDP year-on-year contraction was significantly mitigated in the second quarter, from 1 percent to 0.5 percent, owing to the uptrend of the German and French economies, whose growth stood at 0.5 percent and 0.3 percent, after respective contractions of 0.3 percent and 0.5 percent in the first quarter. Moreover, the decline in GDP was attenuated in the second quarter from 2.4 percent to 2.1 percent in Italy, and from 2 percent to 1.6 percent in Spain.

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



Source: Datastream .

In emerging countries, growth in China fell for the second consecutive quarter, to 7.5 percent from 7.7 percent in the first quarter, due to weaker external demand. Similarly, growth in India slowed down from 4.8 percent to 4.4 percent, while in Brazil, GDP grew, year on year, by 3.3 percent from 1.9 percent in the previous quarter.

In advanced economies, the recovery in the second quarter should continue, as evidenced by high-frequency indicators trends for July and August. Indeed, the ISM manufacturing index of the United States rose by 11.4 percent in August to 55.7 points. In the euro area, the composite PMI and manufacturing PMI ranked above the level of 50 points for the second consecutive month to 51.5 basis points and 53.5 points in August, respectively.

In the same vein, in its latest Interim Economic Assessment dated September 3, 2013, the OECD forecasts that growth in advanced economies in the second half of 2013 would trend similarly as in the second quarter.

The IMF economic outlook of last July revealed a downward revision of growth forecasts for 2013 and 2014, mainly in emerging and developing countries. Thus, global growth should be limited to 3.1 percent and 3.8 percent, respectively, in 2013 and 2014, as against 3.3 percent and 4 percent in April. In advanced economies, growth would stand at 1.2 percent in 2013 and 2.1 percent in 2014, while in emerging and developing countries, it should be limited to 5 percent and 5.4 percent over the same period.

By country, growth forecast in the United States was revised downward to 1.7 percent and 2.7 percent in 2013 and 2014, respectively, while in the euro area, growth should be -0.6 percent in 2013 and 0.9 percent in 2014. In Morocco's European main partner countries, the IMF expects a GDP growth of 0.3 percent and 1.3 percent in Germany and -0.2 percent and 0.8 percent in France in 2013 and 2014. In addition, the IMF predicts that GDP in Italy would stand at -1.8 percent in 2013 and 0.7 percent in 2014, while in Spain, it would be -1.6 percent and 0 percent over the same period. In key emerging countries, growth should reach 7.8 percent and 7.7 percent in China, 5.6 percent and 6.3 percent in India and 2.5 percent and 3.2 percent in Brazil.

Table 3.2: Global growth outlook

	Forecasts (%)					
	European commission		IMF*		OECD	
	2013	2014	2013	2014	2013	2014
Global GDP	3.1	3.8	3.1	3.8	3.1	4.0
United States	1.9	2.6	1.7	2.7	1.9	2.8
Euro area	-0.4	1.2	-0.6	0.9	-0.6	1.1
Germany	0.4	1.8	0.3	1.3	0.4	1.9
France	-0.1	1.1	-0.2	0.8	-0.3	0.8
Italy	-1.3	0.7	-1.8	0.7	-1.8	0.4
Spain	-1.5	0.9	-1.6	0.0	-1.7	0.4
United Kingdom	0.6	1.7	0.9	1.5	0.8	1.5
Japan	1.4	1.6	2.0	1.2	1.6	1.4
China	8.0	8.1	7.8	7.7	7.8	8.4
India	5.7	6.6	5.6	6.3	5.7	6.6
Brazil	3.0	3.6	2.5	3.2	2.9	3.5
Russia	3.3	3.8	2.5	3.2	2.3	3.6

Sources: European commission (May 2013), OECD (June 2013), IMF (July 2013).

Table 3.3: Change in unemployment rate

	2011	2012	June 2013	July 2013	August 2013
United States	9.0	8.1	7.6	7.4	7.3
Euro area	10.2	11.4	12.1	12.1	N.A
France	9.6	10.2	11.0	11.0	N.A
Italy	8.4	10.6	12.1	12.0	N.A
Germany	6.0	5.5	5.4	5.3	N.A
Spain	21.7	25.1	26.3	26.3	N.A
United Kingdom	8.0	7.9	7.8	7.7	N.A

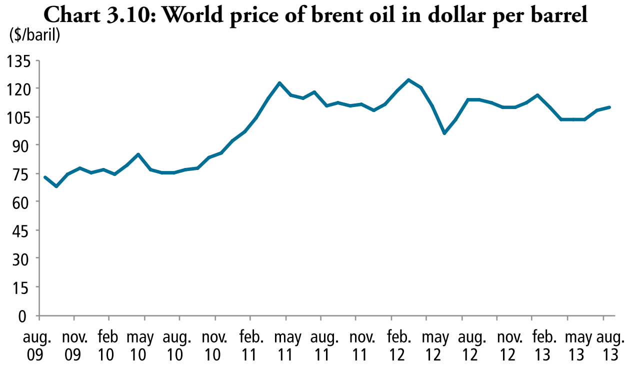
Source : Eurostat.

Table 3.4 : Expected change in unemployment rate in main advanced countries

	IMF		OECD		European commission	
	2013	2014	2013	2014	2013	2014
United States	7.7	7.5	7.5	7.0	7.7	7.2
Euro area	12.3	12.3	12.1	12.3	12.2	12.1
Germany	5.7	5.6	5.0	4.8	5.4	5.3
France	11.2	11.6	10.7	11.1	10.6	10.9
Italy	12.0	12.4	11.9	12.5	11.8	12.2
Spain	27.0	26.5	27.3	28.0	27.0	26.4
United Kingdom	7.8	7.8	8.0	7.9	8.0	7.9

Sources : European commission (May 2013), OECD (June 2013), IMF (April 2013).

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



Source: Datastream.

In the Middle East and North Africa, GDP growth should be limited to 3 percent and 3.7 percent in 2013 and 2014, respectively (see Table 3.2).

3.1.3 Labor market

In the United States, August 2013 data on the labor market indicate a further decline in the unemployment rate to 7.3 percent from 7.4 percent, its lowest level since December 2008. A total of 169,000 jobs were created.

In the euro area, despite the slight upturn in economic activity in the second quarter, July data show no improvement in the labor market conditions, as the unemployment rate was unchanged at 12.1 percent. In partner countries in particular, the unemployment rate stood at 11 percent in France, 5.3 percent in Germany, 12 percent in Italy and 26.3 percent in Spain (See Table 3.3).

3.2 Commodity prices and inflation

Over the past three months, commodity prices trended overall downward, from one year to the next, with the exception of energy prices, which remained higher than the previous year. Inflation remains moderate in most developed countries, especially in the euro area.

3.2.1 Energy commodity prices

The Brent price continued its growth that began three months ago, averaging $111.1 a barrel in August as against 107.8 dollars a month ago, up 3 percent. This change was mainly attributable to signs of recovery in developed countries and rising tensions in Egypt and Syria. Year on year, this price was down 2.4 percent.

Regarding forecasts for oil prices for 2013[1], the World Bank revised down its estimates for July from 102.4 to 100.7 dollars per barrel. Similarly, the IMF forecast was revised downward from 102.60 to $100.09 per barrel in July 2013 update.

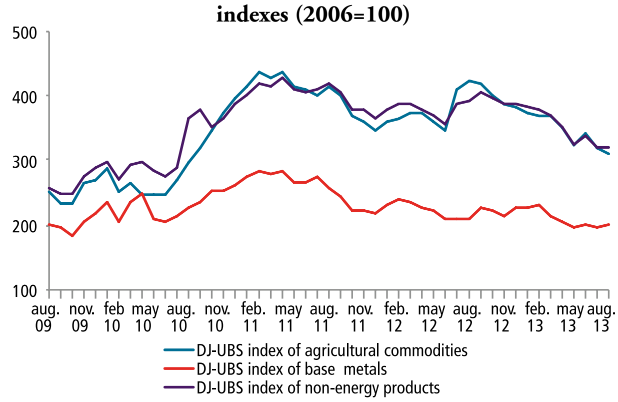
1 The World Bank and the IMF make their forecasts based on the average price of the three oil categories (Brent, WTI, Dubai).

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

	Q3:13	Q4:13	Q1:14	2013	2014	2015	2016
Oil	108.71	107.74	105.88	104.35	103.57	97.98	93.8

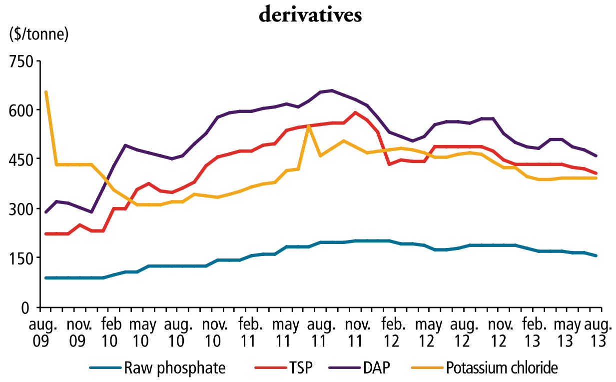
Source : Bloomberg.

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



Source: Datastream.

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



Source: World Bank.

3.2.2 Non energy commodity prices

In August 2013, non-energy commodity prices were down 16.8 percent, year on year, while they were tilted to the upside, month on month. Indeed, the relevant Dow Jones index moved up 1.4 percent, month on month, covering a 4 percent increase in the index of industrial metal prices and a decline of nearly 2 percent in the agricultural commodities index.

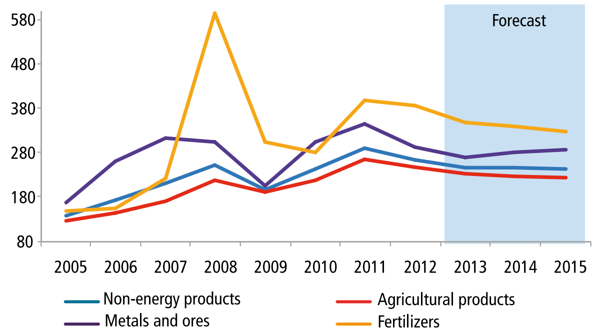
In the market of phosphate and derivatives, prices of crude phosphate fell by 7.6 percent between July and August, from $157 per tonne to $145. Similarly, prices of DAP, Urea and TSP were down 4.8 percent, 5.7 percent and 12.4 percent, respectively, from one month to another. The price of Potassium Chloride recorded a slight increase of 0.1 percent, month on month. Year on year, prices were down 26.3 percent for the TSP, 21.6 percent for crude phosphate and DAP, 19.1 percent for Urea and 15.9 percent for Potassium Chloride.

3.2.3 Inflation in the world

Overall, inflation continued to mitigate in August. Indeed, inflation in the euro area fell from 1.6 percent in July to 1.3 percent in August. In partner countries, inflation declined in Germany, Spain and France, from 1.9 percent, 1.8 percent and 1.2 percent to 1.6 percent, 1.5 percent and 1 percent, respectively, while it remained unchanged at 1.2 percent in Italy. In the United Kingdom, inflation stabilized at 2.7 percent. However, after standing at 2 percent in July, inflation in the United States fell to 1.5 percent in August. In emerging and developing countries, August data show a lower inflation from 2.7 percent to 2.6 percent in China and from 6.3 percent to 6.1 percent in Brazil.

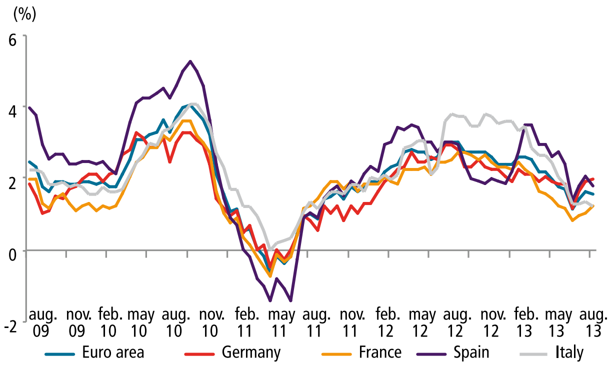
Regarding the economic outlook, the IMF projected in July 2013 that inflation in emerging and developing countries would reach 6 percent in 2013 and 5.5 percent in 2014. However, it should remain subdued in advanced countries at 1.5 percent in 2013 and 1.9 percent in 2014. Moreover, according to the latest forecasts from the European Commission, inflation in the euro area should stand at 1.8 percent in 2013 before slowing down to 1.5 percent in 2014.

Chart 3.13: Outlook for commodity price indexes



Source: World Bank.

Chart 3.14: Inflation change in the main partner countries



Source: World Bank.

Table 3.6 : Recent trend in world inflation, YoY

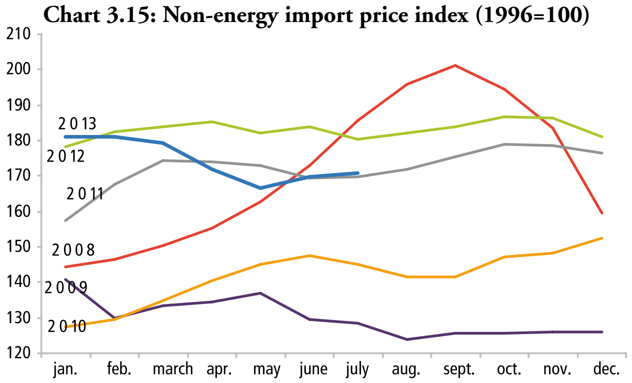
	June 2013	July 2013	August 2013	Forcasts 2013	Forcasts 2014
United States	1.8	2	1.5	1.8	2.1
Euro area	1.6	1.6	1.3	1.6	1.5
Germany	1.9	1.9	1.6	1.8	1.6
France	1	1.2	1.0	1.2	1.7
Spain	2.1	1.8	1.5	1.5	0.8
Italy	1.4	1.2	1.2	1.6	1.5
Japan	0.2	0.7	n.d.	0.2	1.8

Sources: European commission and Datastream.

3.3 Morocco's import unit price index

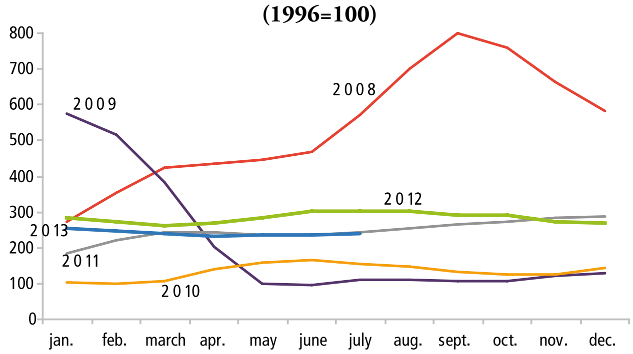
Based on data available to end-July 2013, the non-energy import price index (IPI) showed a monthly increase of 0.6 percent, as against 1.9 percent a month earlier. Thus, the mining IPI rose 1 percent, due to a 4.4 percent increase in the average import unit price of iron and steel, which offset a 0.5 percent decrease in crude sulfur.

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



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.16: Mining products' import price index (1996=100)

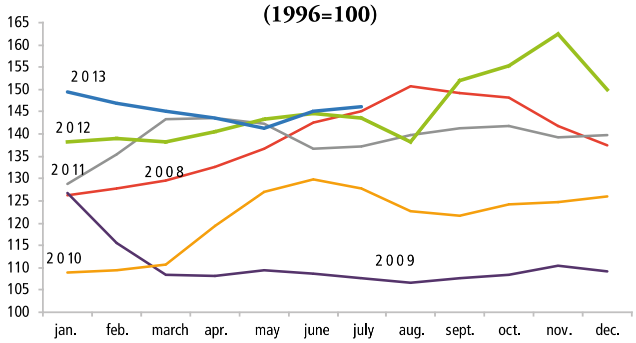


Sources: Foreign Exchange Office, and BAM calculations

Meanwhile, the IPI of semi-finished goods was up 0.8 percent as opposed to 2.6 percent in the previous month, mainly as a result of a 1.2 percent increase in the average import unit price of plastics.

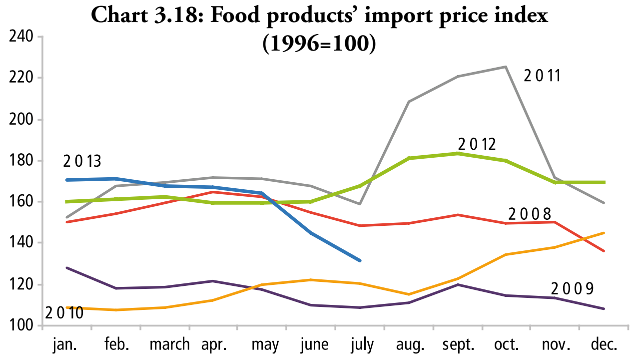
However, the food IPI dropped by 9.1 percent, as against 11.8 percent in June. This change was mainly attributed to a 20.5 percent decline in the average import unit price of wheat.

Chart 3.17: Semi-finished products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.18: Food products' import price index (1996=100)

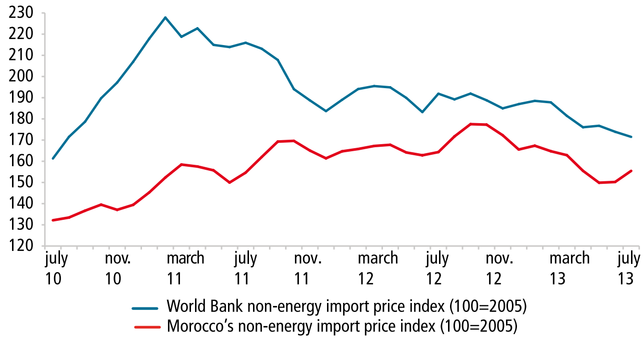


Sources: Foreign Exchange Office, and BAM calculations

Year on year, the non-energy IPI moved down 5.4 percent, as against 7.7 percent a year earlier. Thus, the food IPI decreased by 21.6 percent, owing to a 34.8 percent drop in the average import unit price of wheat, and a 21.5 percent decline in that of sugar. The mining IPI fell by 20.5 percent, owing to respective drops of 25.6 percent and 6.4 percent in the average import unit price of crude sulfur and the average price of iron and steel.

However, the IPI of semi-finished goods increased by 1.8 percent following a 3.4 percent increase in the average import unit price of plastics.

Chart 3.19: Change in world commodity price index and domestic non-energy import price index (2005=100)



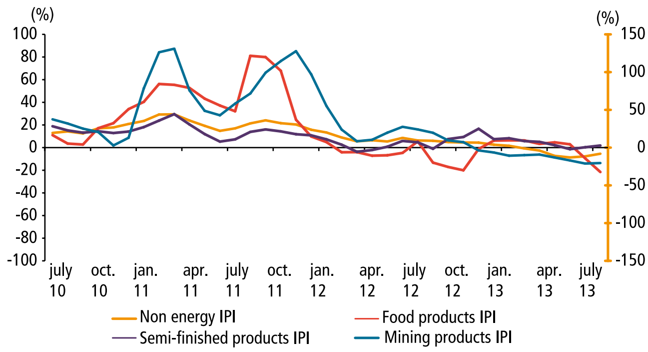
Sources: Foreign Exchange Office, World Bank and BAM calculations

Table 3. 7 : Change in import price index (IPI)

	Monthly change in %			Annual change in %		
	May 2013	June 2013	July 2013	May 2013	June 2013	July 2013
Non energy IPI	-3.1	1.9	0.6	-8.7	-7.7	-5.4
Food IPI	-1.5	-11.8	-9.1	2.9	-9.5	-21.6
Semi-finished products IPI	-1.6	2.6	0.8	-1.4	0.3	1.8
Mining IPI	0.5	1.2	1.0	-17.0	-21.1	-20.5

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

Chart 3.20: YoY change in import price index



Sources: Foreign Exchange Office, and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

The most recent data for July 2013 show a slight acceleration in the money supply growth, to 5.8 percent as against 4.5 percent in the second quarter, while the monetary gap remained negative. The outstanding bank credit recorded an annual growth of 2.2 percent, as opposed to 3.2 percent in the previous quarter, reflecting a slowdown in its various components, with the exception of equipment loans. As to lending rates, Bank Al-Maghrib's survey for the second quarter of 2013 shows an increase of 8 basis points in the weighted average rate to 6.09 percent, mainly due to higher rates on cash facilities and, to a lesser extent, rates on consumer loans. The dirham's effective exchange rate appreciated by 0.33 percent in the second quarter, in nominal terms, compared to the previous quarter, while in real terms it depreciated by 0.42 percent, due to an inflation differential in favor of Morocco. The real estate price index dropped by 0.2 percent, year on year, covering a price decline of 3.7 percent for commercial property, 0.8 percent for land property and a 0.4 percent increase in prices of residential property. The analysis of recent developments of monetary conditions and asset prices indicates overall an absence of significant inflationary pressures from monetary spheres and asset prices in the medium term.

4.1 Monetary conditions

4.1.1 Interest rates

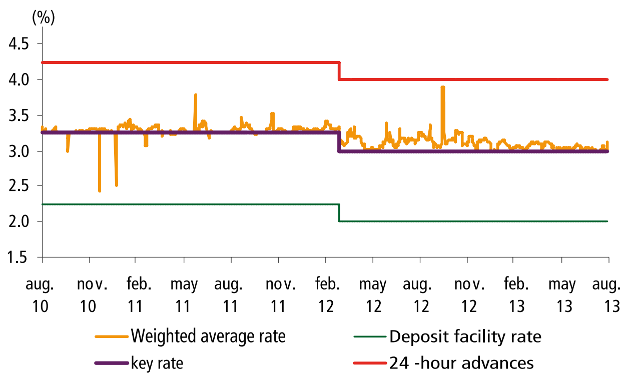
At its meeting of June 18, 2013, the Bank Board decided to keep the key rate unchanged at 3 percent. Against this backdrop, the weighted average rate on the interbank market stood at 3.03 percent on average between July and August 2013, down 3 basis points from the second quarter.

The rates of short, medium and long-term primary market Treasury bonds registered decreases in July, ranging from 3 to 22 basis points compared to the previous quarter. In the secondary market, the same trend marked the various maturity rates, except for those on long-term Treasury bonds, which showed an increase of up to 28 basis points.

Concerning deposit rates, the weighted average rate of 6 and 12-month deposits rose by 3 basis points, between the second quarter and July 2013, to 3.79 percent. This change covers an increase of 5 basis points in the one-year deposit rates and a decline of 2 basis points in the 6-month deposit rates.

As to lending rates, the findings of BAM's survey with banks for the second quarter of 2013 show an increase of 8 basis points in the weighted average rate of

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



Data at August 29, 2013.
Source : BAM.

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

	2011	2012				2013		july 13
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
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	3.34	3.42	3.21	3.31	3.40	3.93	3.94	-
26 weeks	3.33	3.55	3.39	3.42	3.57	4.07	4.11	3.89
52 weeks	3.49	3.65	3.53	3.74	3.84	4.20	4.23	4.11
2 years	3.71	3.88	3.71	3.93	4.24	4.57	4.68	4.59
5 years	3.91	4.05	4.00	4.32	4.52	4.75	-	-
10 years	4.20	4.32	4.29	4.51	4.84	-	-	-
15 years	4.45	4.46	4.52	4.74	5.08	5.52	5.69	5.66
20 years	-	-	-	5.01	-	-	-	-

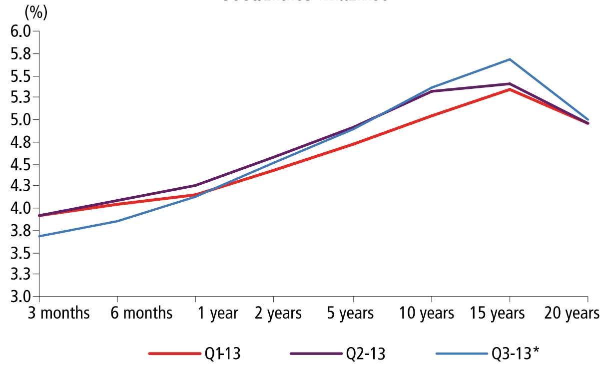
bank loans, to 6.09 percent. This trend is mainly attributed to higher rates on cash facilities and, to a lesser extent, those on consumer loans. However, rates on other loan categories recorded declines ranging from 11 to 12 basis points.

4.1.2 Money. credit and liquid investments

M3 growth

In July 2013, the money supply growth accelerated to 5.8 percent from 4.5 percent in the second quarter. Despite this change, the monetary gap remained negative, indicating, overall, the absence of monetary inflationary pressures in the medium term.

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



**Observation of the third quarter of 2013 corresponds to the daily average of data from July 1 to august 30, 2013.*
Source : BAM.

Table 4.2: Borrowing Rates (time deposits)

	2011	2012				2013		July 13
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
6 months	3.35	3.49	3.43	3.49	3.55	3.52	3.56	3.54
12 months	3.74	3.84	3.83	3.83	3.84	4.02	3.89	3.94
Weighted average	3.59	3.68	3.69	3.71	3.73	3.85	3.76	3.79

Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

During the second quarter of 2013, bank liquidity shortage slightly narrowed compared to the end of the previous quarter (from 63.8 to 59.4 billion dirhams), mainly due to the receipt by the Treasury of nearly 6.5 billion, the equivalent in dirham of the dollar-denominated issuance on international financial markets in last May.

Indeed, Treasury operations (excluding interventions on the money market) contributed to improving liquidity conditions by 7.6 billion dirhams due to the difference between:

- On the one hand, the repayment of domestic debt maturities to the banking system (33.4 billion dirhams), the settlement of civil servants' salaries (16.1 billion dirhams) and subsidization expenses (15.1 billion dirhams) ;
- On the other hand, bank subscriptions to T-bills' auction (38.7 billion dirhams) and the collection of tax revenues, including the first installment of corporate tax for 2013.

Similarly, foreign exchange transactions led to a liquidity injection of 2.6 billion dirhams, due to the difference between foreign banknotes sales, which reached 4.8 billion dirhams, and foreign exchange purchases by commercial banks from Bank Al-Maghrib, which were limited to 2.3 billion dirhams.

In contrast, net withdrawals of currency in circulation reached 5.5 billion dirhams.

Chart B 4.1.1: Change in liquidity position and in the weighted average rate, in quarterly average

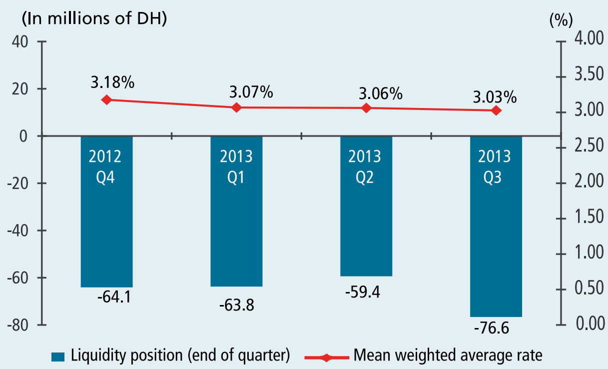


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market

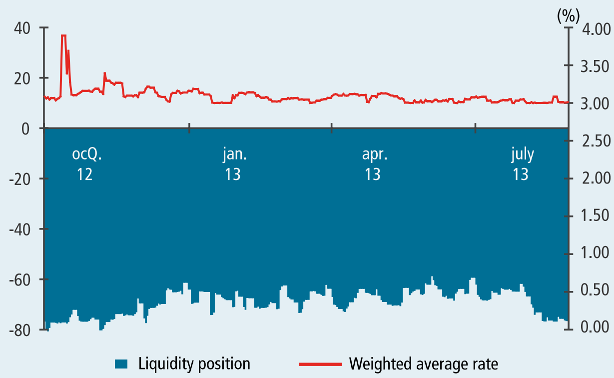


Chart B 4.1.3: Change in reserve requirements

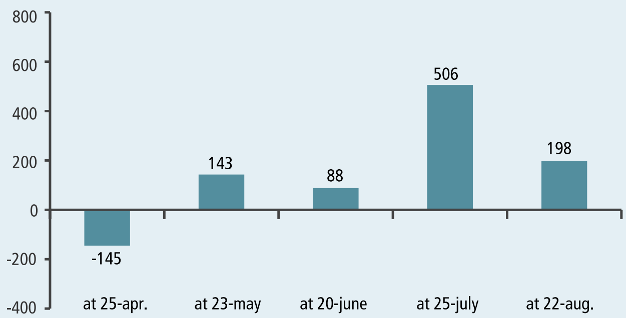
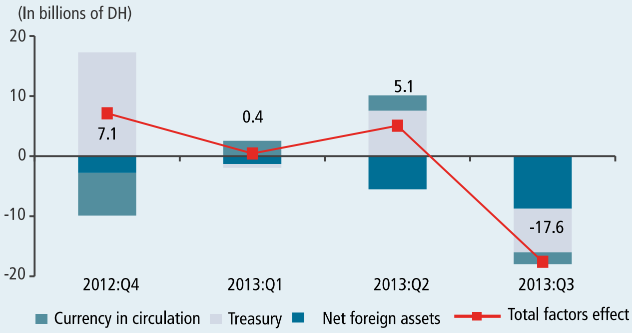


Chart B 4.1.4: Change in liquidity factors' effect



During the third quarter of 2013 [(1)], the bank liquidity deficit widened by 17.2 billion dirhams from the previous quarter to 76.6 billion dirhams, due to the combined restrictive effect of all autonomous factors.

Indeed, the increase in currency in circulation reached 8.7 billion dirhams, owing to major withdrawals related to summer time, the holy month of Ramadan and Eid Al-Fitr.

Similarly, Treasury operations (excluding interventions on the money market) caused a liquidity drain of 7.3 billion dirhams: bank subscriptions to T-bills' auction (26.7 billion dirhams) and the collection of the second installment of corporate tax, were partially offset by the repayments of domestic debt maturities to the banking system (19.8 billion dirhams), the settlement of subsidization expenses (9 billion dirhams) and the payment of civil servants' salaries (5.4 billion dirhams).

In addition, foreign assets operations had a negative impact of 2 billion dirhams on banks' liquidity: foreign banknotes sales, which reached 4.5 billion dirhams, were fully offset by the accelerated pace of foreign exchange purchases by commercial banks (6.5 billion dirhams).

Outstanding money market Treasury investments stood at 2.4 billion dirhams on daily average, as against 1.6 billion dirhams in the previous quarter.

To fill the shortage in bank liquidity, Bank Al-Maghrib intervened mainly through 7-day advances, with an average daily amount similar to the previous quarter, 46.9 billion dirhams.

Bank Al-Maghrib also raised its outstanding 3-month refinancing operations to 20 billion dirhams, of which 6 billion as operations of loans secured by private bills representing claims for SME and VSE.

In addition, the Bank granted 24-hour advances with an average amount of 2.3 billion dirhams.

Money market weighted average rate dropped by 3 basis points on average, compared to the second quarter of 2013, standing at 3.03 percent. Similarly, its volatility was limited to 3 basis points, as against 4 basis points in the previous quarter.

Chart B 4.1.5: BAM interventions on the money market

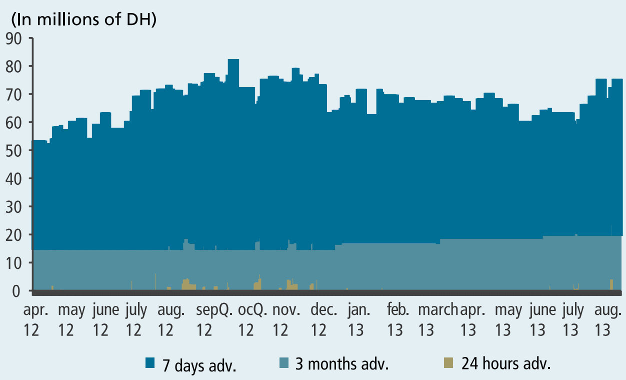


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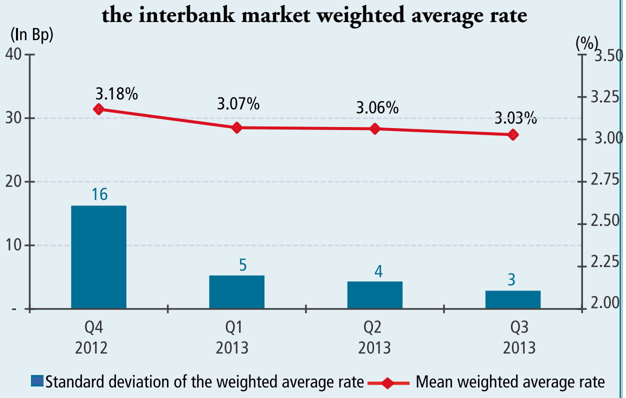
Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



The period from July 1 to August 28th,2013.

M3 increase in July reflects an accelerated growth pace of net claims on central government and net foreign assets, and a slower bank credit growth.

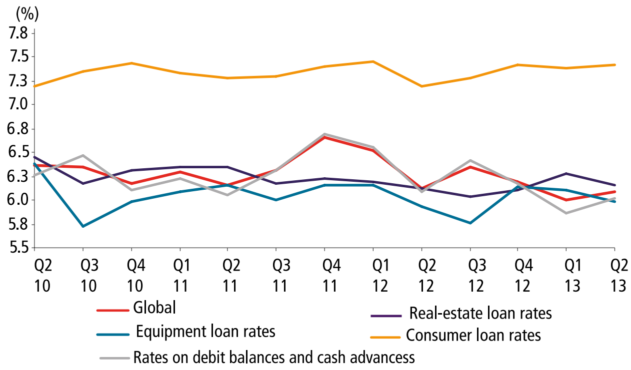
In terms of its main components, currency in circulation increased by 5.3 percent in July from 4.7 percent in the second quarter, reflecting the significant banknotes withdrawal during the month of Ramadan and summer time. Similarly, money market UCITS strengthened by 19.2 percent, making a break with the downward trend which began in December 2012. Certificates of deposit continued to grow at a sustained pace, standing at 25.1 percent in July, mainly due to persistently tight bank treasuries and moderate growth of deposits. Interest-bearing demand deposits were up 9 percent from 8.5 percent a quarter earlier. However, despite a monthly contraction of 1.1 percent due to lower demand deposits of economic units other than households, bank money rose by 3.1 percent, as against 4.7 percent in the previous quarter. The annual growth of time deposits decelerated slightly from 4.4 percent to 3.5 percent.

By economic unit, slowing growth of deposits is mainly due to lower contributions from nonfinancial private corporations and the public sector. Indeed, the assets of the latter fell by 32.1 percent, year on year, after declining 11 percent in the second quarter, contributing negatively to growth of deposits. Meanwhile, deposits of private companies increased by 4.5 percent as opposed to 7.7 percent in the last quarter, contributing 0.7 percentage point to growth of deposits. Household assets, which remain the main contributor to growth of deposits, moved up 5.9 percent, from 5.2 percent in the previous quarter.

Credit

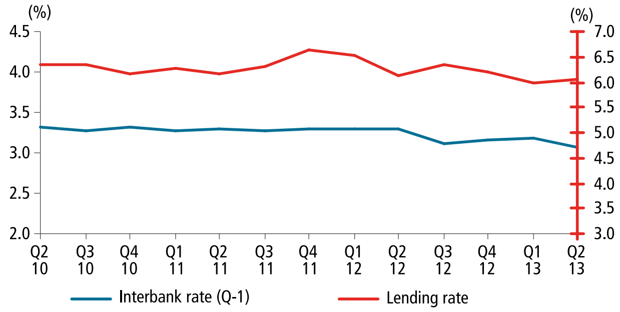
The monetary statistics for July 2013 show a further slowdown in the annual

Chart 4.3 : Change in lending rates*



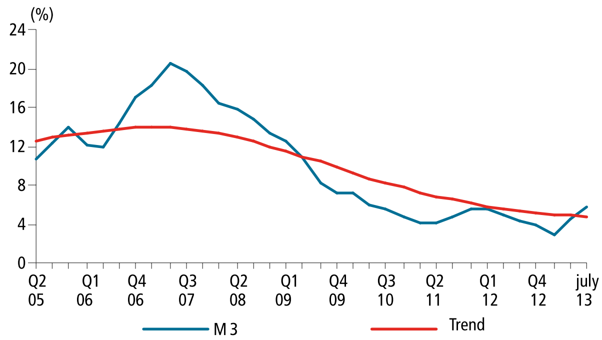
* *As from Q3-2010. the survey sample was expanded to 80 percent of loans granted to nonfinancial customers (see the Methodological Note published on Bank Al-Maghrib website).*

Chart 4.4: Change in interbank rate and lending rates



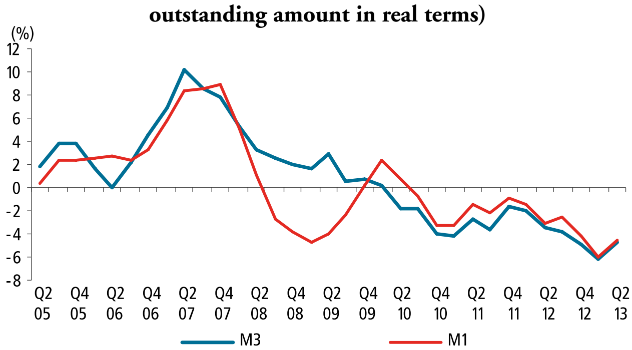
Source : BAM.

Chart 4.5: YoY M3 growth and its trend



Source : BAM.

Chart 4.6: Money gap (in percentage of M3 and M1 balance outstanding amount in real terms)



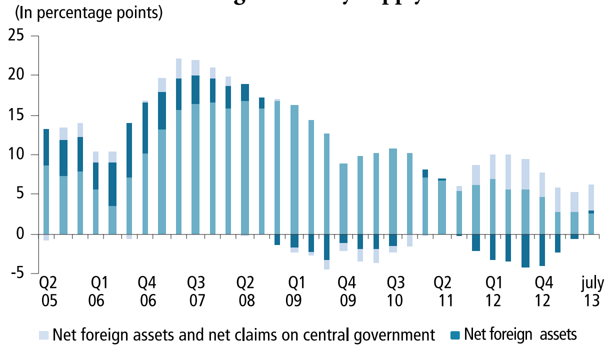
1. Money gap is the difference between the money stock recorded and its balance level. The latter, defined based on the quantity equation of money, corresponds to the change rate of the potential economic activity in real terms, minus the average rythm of money circulation velocity decrease.
Source :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

growth of bank lending, which stood at 2.2 percent, as against 3.2 percent in the second quarter of 2013.

Analysis of loans by purpose shows a deceleration in almost all components of bank credit, with the exception of equipment loans, which rose 1.2 percent, year on year, as against a 0.9 percent decline in the previous quarter. After an increase of 4 percent in the second quarter, cash advances contracted by 0.8 percent, year on year, partly reflecting a base effect caused by the increase recorded during the same month of the previous year. At the same time, the growth of real estate loans slowed down from 6.8 percent to 5.2 percent between July and the second quarter, reflecting both a deceleration from 9.4 percent to 8.7 percent in the growth pace of housing loans and a 2 percent decline in that of loans to developers. Consumer loans also slowed down, year on year, from 6.3 percent to 2.9 percent. Miscellaneous loans to customers showed a 1.4 percent decrease, as against 4.5 percent in the previous quarter. Nonperforming loans, up 1.4 percent from one month to another, grew year on year by 12.2 percent, from 11.4 percent in the second quarter of 2013.

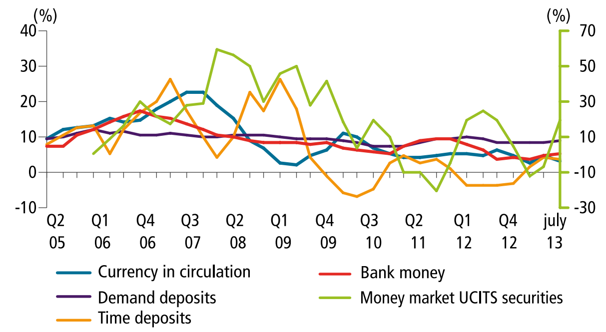
The breakdown of bank credit by institutional unit shows a slowdown in the annual growth of loans to the private sector and an increase in loans to the public sector and other financial corporations. Indeed, the increase in loans to the private sector stood at 1.2 percent, as against 4 percent in the second quarter, bringing their contribution to credit growth from 3.2 percentage points to one percentage point. This trend is attributed to both an annual contraction of 1.6 percent in loans to nonfinancial corporations, as against 1.9 percent in the previous quarter, and a deceleration from 7.4

Chart 4.7: Contribution of the major conterparts to YoY change in money supply



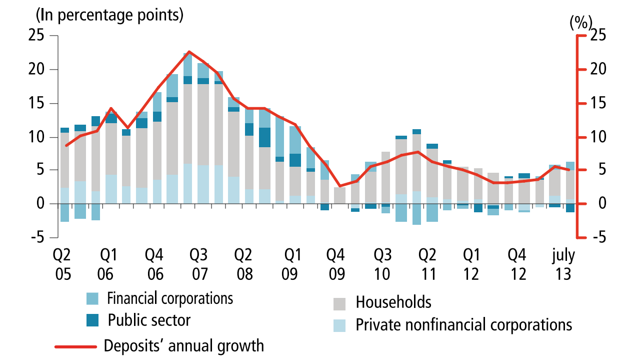
Source : BAM.

Chart 4.8: YoY change in the major M3 components



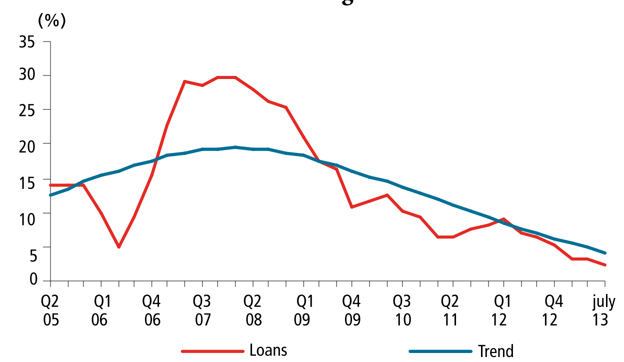
Source : BAM.

Chart 4.9: Institutional sectors' contribution to YoY change of deposits



Source : BAM.

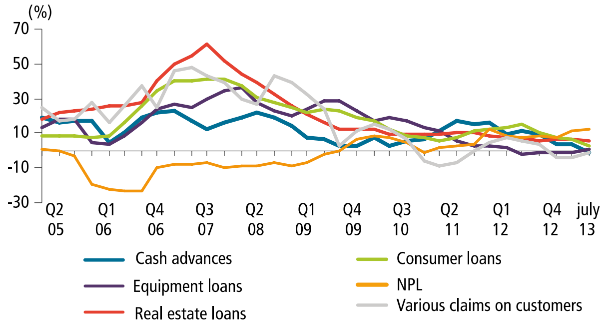
Chart 4.10: YoY change of bank loans



Source : BAM.

percent to 5.7 percent in the growth of loans to households. In contrast, loans to the public sector expanded by 18.4 percent year on year, from 3.8 percent in the previous quarter, thus contributing to credit growth by one percentage point, as against 0.2. Meanwhile, loans to other financial companies, albeit down 1.9 percent from one month to another, increased by 1.6 percent year on year, after a decline of 2.3 percent in the second quarter.

Chart 4.11: YoY change of major bank loan categories



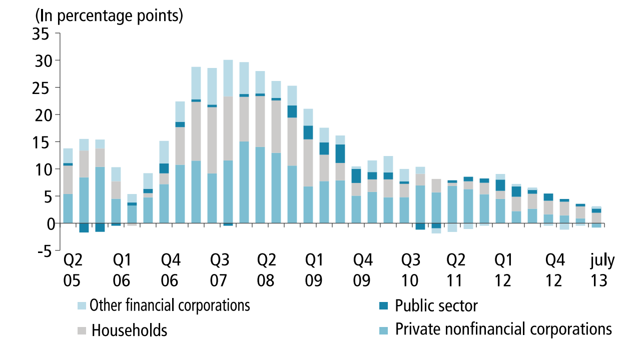
Source : BAM.

Other sources of money creation

Despite a monthly decrease of 0.4 percent, net international reserves (NIR), which constitute the official net reserve assets of short-term liabilities of the Central Bank to non-residents, increased by 5.8 percent in July, after falling 1.7 percent in the second quarter.

Net claims on central government rose by 26.8 percent from 20.7 percent in the previous quarter, mainly reflecting the Treasury's greater resort to the banking system.

Chart 4.12: Contribution of institutional sectors to credit change, YoY

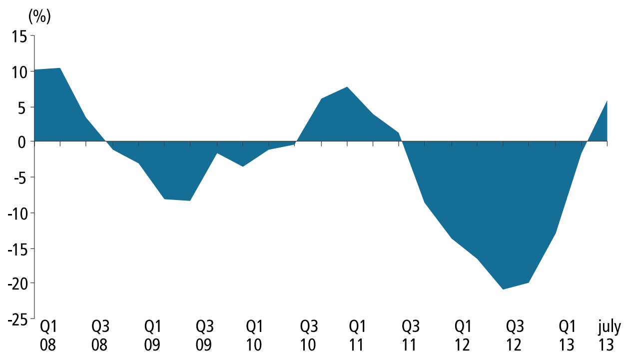


Source : BAM.

Liquid investments

In July 2013, liquid investment aggregates increased by 9.7 percent, as against 8.3 percent in the second quarter, primarily due to an accelerated growth of the LI1 aggregate. Indeed, securities included in this aggregate expanded by 16 percent from 13.3 percent in the second quarter, particularly owing to a 16.6 percent increase in marketable Treasury bonds. The annual growth of bond UCITS identified in the LI2 aggregate slowed down from 2 percent in the previous quarter to 0.9 percent.

Chart 4.13: Annual growth of net internationales reserves



Source : BAM.

Equity and diversified UCITS, which

compose the LI3 aggregate, fell by 7.2 percent year on year, registering almost the same decline as in the past quarter, mainly reflecting changing prices on the Casablanca Stock Exchange .

Exchange rate

During the second quarter of 2013 and compared to the previous quarter, the national currency appreciated 0.19 percent against the euro, 0.14 percent vis-à-vis the pound sterling and 6.14 percent against the Japanese yen. However, it depreciated by 0.84 percent against the U.S. dollar. In July and August, the dirham depreciated 0.17 percent, on average, against the euro, compared to the second quarter. However, it appreciated 0.76 percent vis-à-vis the dollar, and 1 percent against the pound sterling and the Japanese yen.

The dirham's effective exchange rate, calculated on the basis of bilateral exchange rates with Morocco's major trading partners and competitors, appreciated 0.33 percent in nominal terms over the second quarter of 2013. In real terms, the national currency depreciated 0.42 percent, due to an inflation differential in favor of Morocco.

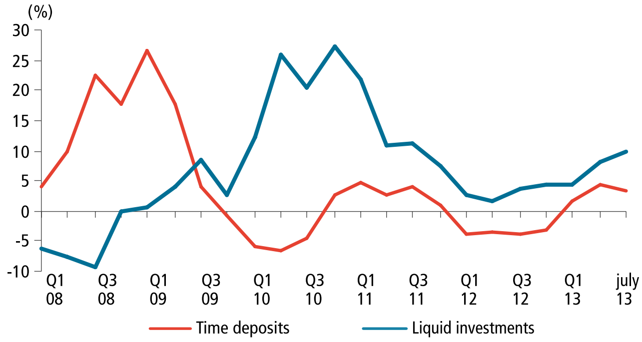
4.2. Asset prices

4.2.1 Real estate assets

In the second quarter of 2013, real estate prices were down 0.2 percent from one year to another. This change reflects respective decreases of 0.8 percent and 3.7 percent for land property and commercial one. However, residential property rose 0.4 percent.

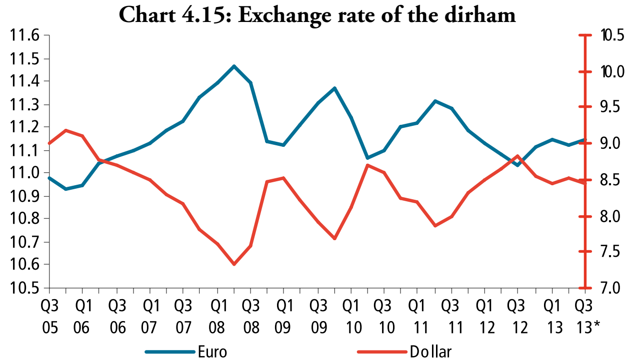
Quarter on quarter, these prices fell 0.6 percent, reflecting respective declines of 0.1 percent, 1.4 percent and 2.6 percent for residential, land and commercial properties. By city, changes range from an 11.8-percent decrease in El Jadida to a 3-percent increase in Oujda.

Chart 4.14: YoY change in liquid investments and time deposits



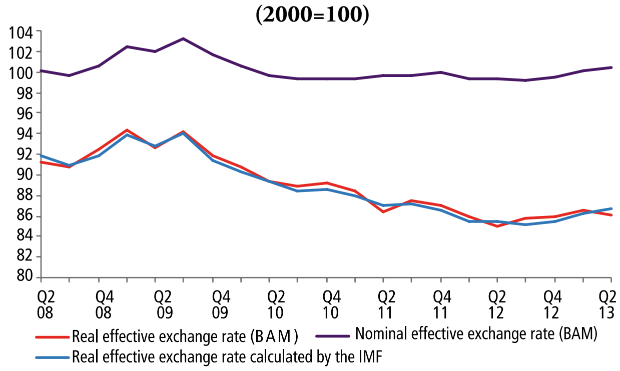
Source : BAM.

Chart 4.15: Exchange rate of the dirham



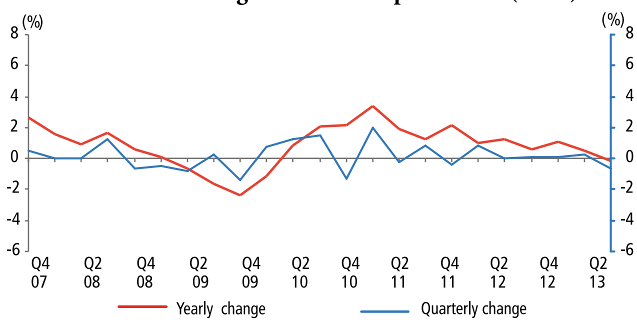
* *Observation of the third quarter of 2013 corresponds to the arithmetic average from July 1st to August 30, 2013.*
Source : BAM.

Chart 4.16: Real and nominal effective exchange rate (2000=100)



Sources: IMF and BAM calculations.

Chart 4.17: Change in real estate price index (REPI)

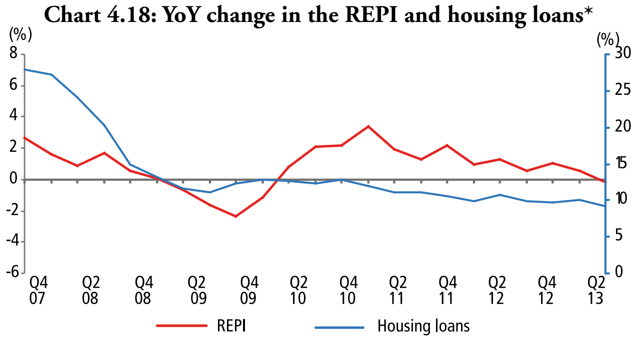


The number of transactions[1] dropped by 1.6 percent compared to the same period of 2012, reaching 27,553 sales.

Parallel to these developments, housing loans, amounting to 157.5 billion dirhams, were up 9.1 percent from one year to another.

These elements indicate the absence of inflationary pressures from real estate prices in the medium term.

Chart 4.18: YoY change in the REPI and housing loans*



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

Sources: BAM and ANCFCC.

4.2.2 Share prices

In the second quarter 2013, the MASI decreased by 12.5 percent, year on year, and 2.8 percent, quarter on quarter. Thus, its underperformance since the beginning of the year stood at 8.4 percent at end-July and 10.1 percent at end-August. In particular, share prices of real estate companies decreased by 31.8 percent compared to the same period of last year and 32.9 percent since the beginning of the year.

By sector, finance companies and other financial corporations were down 3.3 percent, while real estate stock prices dropped by 32.9 percent. However, other sectors reported increases ranging from 2.6 percent for banks to 21 percent for services to communities.

Market capitalization stood at 425 billion dirhams in the second quarter of 2013, down 1.5 percent from the previous quarter. In July and August, it continued its downward trend to 406.8 billion dirhams.

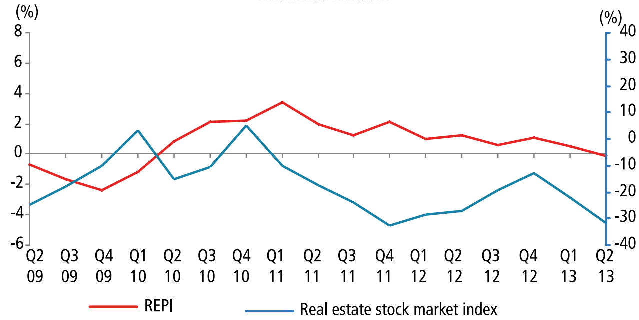
Under these conditions, the valuation indicators of the Casablanca Stock Exchange, mainly the PER[2] and PB[3], stood at 14.7 and 2.04, respectively, in August, as against 15.4 and 2.13 in the second quarter.

1 Transactions concern properties registered at the Land Registry Office (ANCFCC), fixed 35 days after the second quarter of 2013.

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

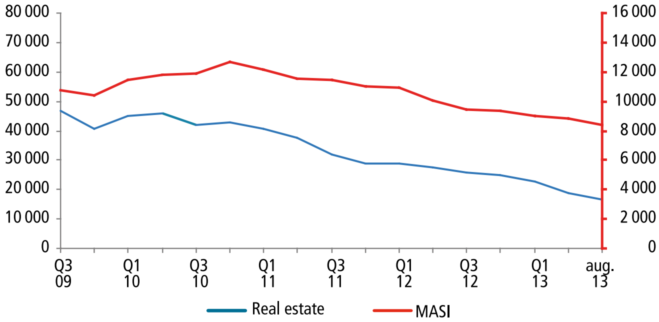
3 The price/book ratio is calculated through dividing companies' equity market value (market capitalization) by their book value.

Chart 4.19: YoY change in the REPI and the real estate stock market index



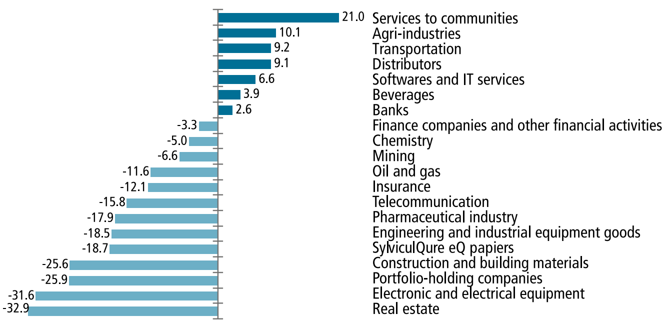
Sources: BAM, ANCFCG and Casablanca stock exchange.

Chart 4.20: Stock market indexes



Source: Casablanca stock exchange.

Chart 4.21: Performance, since the beginning of the year, of sectoral indexes, in %



Source: Casablanca stock exchange.

Still, these levels remain relatively high compared to some emerging markets (Table 4.3).

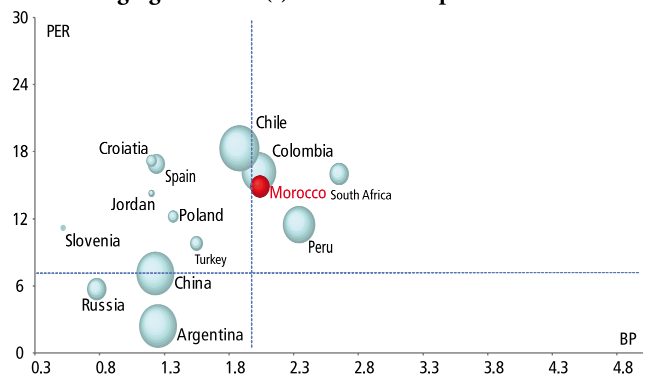
The volume of transactions in the second quarter of 2013 rose from 14.8 billion to 15.7 billion dirhams. It amounted to 1.8 billion in July and 1.1 billion dirhams in August, totaling 32.5 billion since the beginning of the year as against 30.3 billion dirhams over the same period of the previous year.

Table 4.3: Equity market valuation

PER	Q4:11	Q1:12	Q2:12	Q3:12	Q4:12	Q1 : 13	Q2:13	August -13
				PER				
Argentina	8.8	8.1	7.4	7.1	7	9	2.5	2.8
China	13.6	13.6	12.7	13.4	13.5	14.5	15.2	13.3
Slovenia	10.6	11.4	10	9.9	11.4	11.3	10.9	11.1
Croatia	10	12.6	13	21.4	15.8	17.7	17.4	16.5
Morroco	**16.8**	**17.9**	**15.7**	**15.6**	**15.7**	**14.9**	**15.4**	**14.7**
				P/B				
Argentina	1.76	1.32	0.98	0.96	1.11	1.07	0.95	1.25
Jordan	1.37	1.37	1.28	1.33	1.34	1.37	1.28	1.2
Slovenia	0.54	0.56	0.46	0.56	0.59	0.55	0.55	0.52
Croatia	1.15	1.15	1.13	1.19	1.17	1.29	1.22	1.2
Morroco	**2.75**	**2.61**	**2.39**	**2.25**	**2.23**	**2.17**	**2.13**	**2.04**

Sources : Datastream, CFG.

Chart 4.22: Stock market valuation in Morocco and in some emerging countries (*) in the second quarter of 2013



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

Sources: Datastream, CFG, and BAM calculations.

5. RECENT INFLATION TRENDS

Inflation, measured by the year-on-year increase in the consumer price index (CPI), reached 1.9 percent in August 2013, from 1.6 percent in July and 2.3 percent in June, with an average of 2.5 percent in the second quarter and 2.3 percent in the first eight months of the year. Excluding volatile food and administered products, core inflation (CPIX) stood at 1.6 percent in August, from 1.5 percent in July and 1.8 percent in June. It averaged 1.7 percent in the second quarter and 1.5 percent from year to date. This trend reflects an increase from 1.1 percent to 1.5 percent in the inflation of tradables (CPIXT) owing to rising prices of certain foodstuffs, especially milk, and from 1.8 percent to 2 percent in the inflation of nontradables (CPIXNT). In addition, the year-on-year deceleration in industrial producer prices fell from 2.4 percent in June to 0.2 percent in July, due to the recovery in global energy prices since June.

5.1 Inflation trends

Over the past three months, inflation trend remained in line with the price stability objective. The year-on-year increase in the CPI remained moderate, reaching 1.9 percent in August from 1.6 percent in July and 2.3 percent in June, bringing its year-to-date average to 2.3 percent. This recent change is mainly attributed to the further acceleration of volatile food prices and the slight increase in core inflation, while the prices of administered products grew at almost the same rate as in July.

Indeed, volatile food prices rose 4.1 percent in August from 3.1 percent in July. Vegetables, fruits and poultry were the main contributors to this acceleration, with respective year-on-year growth rates ranging from -0.3 percent to 2.5 percent, from 2.7 percent to 6.2 percent and from 1.7 percent to 2.4 percent. Together, the prices of these products contributed 0.3 percentage point to inflation, up from 0.1 point a month earlier.

Apart from "fuels and lubricants", whose prices remained unchanged, the annual growth rate of prices for administered products decelerated from 1.6 percent in June to 1.4 percent in July, due to a base effect caused by rising prices in the sectors of "road transportation

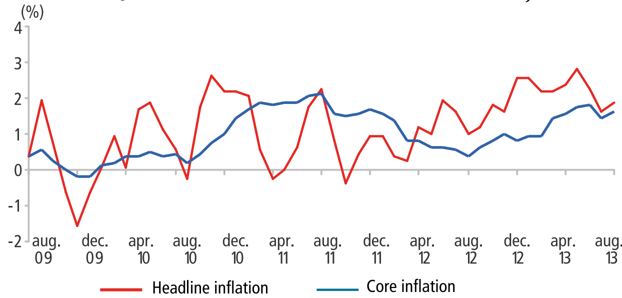
Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	June 13	July 13	August 13	June 13	July 13	August 13
Headline inflation	**0.0**	**-0.4**	**1.0**	**2.3**	**1.6**	**1.9**
Including:						
- Volatile food products excluded from core inflation	-0.6	-1.1	5.0	5.6	3.1	4.1
- Fuels and lubricants	0.0	0.0	0.0	0.3	0.3	0.3
- Administered goods excluding fuels and lubricants	0.2	0.0	0.0	1.6	1.4	1.3
Core inflation	**0.4**	**-0.1**	**0.3**	**1.8**	**1.5**	**1.6**
Including:						
- Food products	0.3	0.2	0.7	1.8	1.6	2.0
- Clothing and footwear	0.1	0.4	0.5	1.2	1.6	1.6
- Housing, water, gas. electricity and other fuels*	0.2	0.0	0.4	2.3	2.3	2.7
- Furniture, household appliances and common house maintenance	-0.1	0.1	0.1	0.0	0.2	0.3
- Health*	0.3	0.5	0.0	0.1	0.8	0.8
- Transportation*	-0.2	-0.1	0.1	1.1	0.9	0.7
- Communication	0.0	-10.9	2.1	-0.3	-11.1	-9.3
- Entertainment and culture	0.0	0.0	0.0	0.2	0.3	0.2
- Education	0.0	0.0	0.1	6.1	6.1	6.2
- Restaurants and hotels	0.2	0.3	0.3	3.2	3.5	3.9
- Miscellaneous goods and services	-0.1	0.0	0.3	1.2	1.1	1.4

** Excluding administered goods.*

Sources: HCP, and BAM calculations.

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

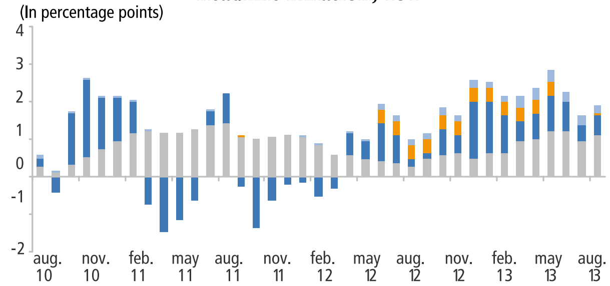
of passengers" a year earlier, before stabilizing at 1.3 percent in August. The implementation on August 29, 2013 of the new price indexation system applied to certain liquid fuels resulted in an upward adjustment of domestic fuel pump prices.

Excluding volatile food and administered goods' prices, core inflation stood at 1.6 percent in August, from 1.5 percent in July and 1.8 percent in June, averaging 1.5 percent in the first eight months of the year. Detailed analysis shows that this change mainly reflects higher prices of some food items included in core inflation, especially milk. It is also attributed to an increase in rent prices as well as in prices for "restaurants and hotels" and "miscellaneous goods and services". Prices of "telephony and fax" services adjusted upward, month on month, which helped mitigate their year-on-year decrease. The absolute difference between headline inflation and core inflation, which hit its peak in December 2012 (1.7 percentage point) narrowed to 0.4 percent in June and 0.2 percent in July and August, in conjunction with the dissipation of the downside effects of communication services and the upside effects of fuels and lubricants, as well as the moderate growth of volatile food prices.

5.2 Tradable and nontradable goods

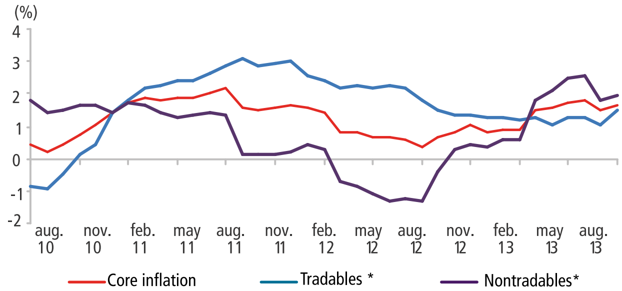
The detailed analysis of price trends by tradable and nontradable goods shows that the underlying trend in prices was driven by increases in the inflation of both tradables and nontradables (Charts 5.4 and 5.5). In August 2013, the prices of tradables and nontradables contributed 0.8 and 0.9 percentage point, respectively, to core inflation.

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



Sources: HCP, and BAM calculations.

Chart 5.3: Contribution of tradables* and nontradables* to core inflation (YoY)



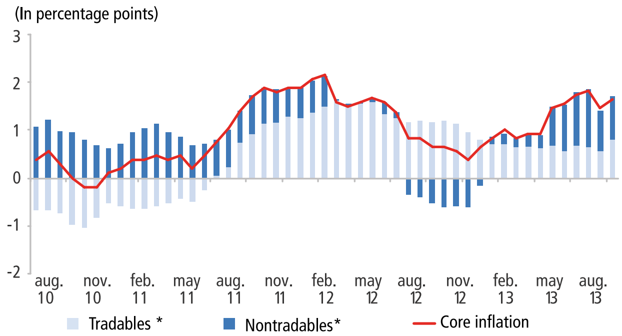
** Excluding volatile food products and administered goods.*
Sources: HCP, and BAM calculations.

Table 5.2: Change in the price indexes of tradables* and nontradables* included in the CPIX

	Monthly change (%)			YoY change (%)		
	June 13	July 13	August 13	June 13	July 13	August 13
Tradables*	0.1	0.0	0.5	1.2	1.1	1.5
Nontradables*	0.2	-0.6	0.5	2.5	1.8	2.0

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

Chart 5.4: 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.

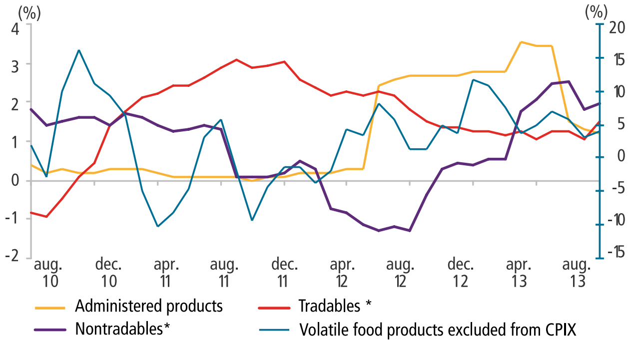
The inflation of tradables stood at 1.5 percent, after averaging 1.2 percent during the first seven months of the year. This increase reflects mainly rising milk price (5.8 percent as against 0.4 percent) and, to a lesser extent, higher prices of "cereal-based products" and "women's clothing".

The inflation of nontradables rose from 1.8 percent to 2 percent. This change is due to an acceleration of prices for "restaurants and hotels" and "rents actually paid by tenants", as well as a slower decline in prices of "telephony and fax services". In contrast, the growth in fresh meat prices showed a sharp slowdown.

5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that the short-term momentum of inflation was largely

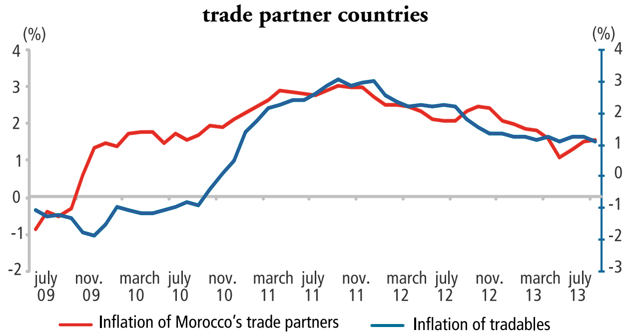
Chart 5.5: YoY change in the prices of tradables* and nontradables*



** Excluding volatile food and administered products.*

Sources: HCP, and BAM calculations.

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



** Excluding volatile food and administered products.*

Sources: HCP, IFS, and BAM calculations.

Box 5.1 : Box 5.1: New partial indexation system of some liquid fuel prices

Since August 29, 2013, a new partial indexation system for certain oil prices entered into force. It concerns diesel oil, gasoline and industrial fuel. The mechanism seeks to reflect fluctuations in international crude oil prices on the pump prices of these products. According to this system, the levels of unit subsidies are set annually based on the budget earmarked in the Finance Act. In practice, fixing selling prices under the new system is set out as follows:

- The maximum base selling prices to the public of the three fuels are reviewed on 16th day of every month at midnight;
- Retail prices are reviewed based on the moving averages of the prices of these products beginning on the 13th day of the month M-2 and ending on the 12th day of the month M, according to the same structure in force now;
- The selling prices at the pump are calculated as the difference between these prices and unit subsidies;
- Changes resulting from this calculation are reflected at the pump only if they exceed 2.5 percent;
- Unit subsidies allocated for these products are set on January 1 of each year based on credits opened in the Finance Act, by a joint order of the Ministers of Finance, Energy and General Affairs. For 2013, the unit subsidy levels are set at:
    - 2.6 dirhams a liter for diesel;
    - 0.8 dirhams a liter for premium gasoline;
    - 930 dirhams a tonne for industrial fuel.

The first effects of this new system on pump prices emerged as of September 16, 2013, with increases of 7.2 percent in the price of diesel, 5.7 percent in that of gasoline and 14.2 percent in that of industrial fuel.

influenced by that of goods and, to a lesser extent, services.

Indeed, prices of unprocessed goods, dependent upon changes in volatile food prices, rose 3.3 percent in August from 2.9 percent in July, contributing 0.8 percentage point to inflation. Prices of processed goods went up by 1.4 percent in August from 1.1 percent in July and 1.2 percent in June, contributing 0.6 to the annual change in the CPI. Service prices accelerated slightly from 1.5 percent to 1.7 percent. Prices of fuels and lubricants rose 0.3 percent, the same annual rate recorded in the previous month.

5.4 Industrial producer price index

In a context marked by a recovery in global energy prices and a slight decrease in non-energy ones, industrial producer prices recorded a monthly increase of 0.6 percent in July, as against 0.4 percent in June, mainly in connection with a 2.1 percent rise in prices for "oil refining". Apart from this sector, producer prices decreased by 0.1 percent, due to a 0.3 percent decline in "food industry" prices.

Year on year, the decline in producer prices eased from -2.4 percent in June to -0.2 percent in July. This trend largely reflects a 1.5 percent increase in prices for "oil refining" in July after a 5.6 percent drop in June. Producer prices excluding "oil refining" continue the deceleration that began in March, standing at -1.1 percent in July from -0.8 percent in June.

5.5 Inflation expectations

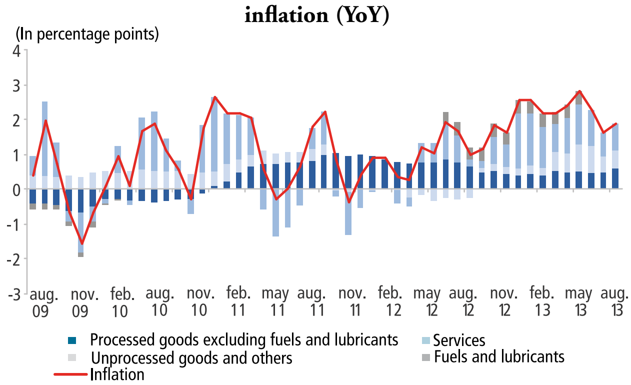
Based on the findings of Bank Al-Maghrib's business survey for July, industrial producer prices should remain unchanged over the

Table 5.3: Price indexes of tradables and nontadables excluding volatile food and administered products

	Monthly contribution to inflation		Yoy contribution to inflation	
	July 13	August 13	July 13	August 13
Products excluded from core inflation index	-0.2	0.7	0.7	0.8
Including:				
Administered products	0.0	0.0	0.3	0.2
Volatile food products	-0.2	0.7	0.4	0.6
Tradables*	0.0	0.2	0.4	0.5
Nontradables*	-0.2	0.1	0.6	0.6

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

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



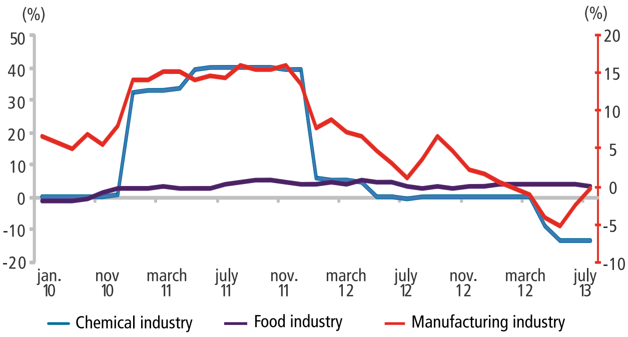
Sources: HCP, and BAM calculations.

Table 5.4: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	June 13	July 13	August 13	June 13	July 13	August 13
Processed goods*	0.0	0.0	0.4	1.2	1.1	1.4
Unprocessed goods and others	-0.2	-0.5	3.2	4.6	2.9	3.3
Services	0.2	-0.6	0.3	2.3	1.5	1.7
Fuels and lubricants	0.0	0.0	0.0	0.3	0.3	0.3

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

Chart 5.8: YoY **change in industrial producer price indexes**



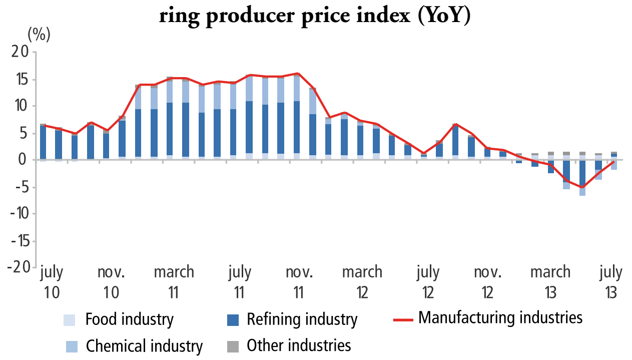
Sources: HCP. and BAM calculations.

next three months. Indeed, 90 percent of corporate managers expect a stagnation of prices, while 5 percent expect an increase and 4 percent project a decrease, with a balance of opinion of one percentage point (Chart 5.11).

The findings of the same survey indicate a continued moderation in inflation over the next three months. The percentage of corporate managers expecting stagnation totaled 75 percent in July, as against an average of 74 percent during the previous three months. The share of those expecting an increase declined from 24 percent to 18 percent in July 2013 (Chart 5.12).

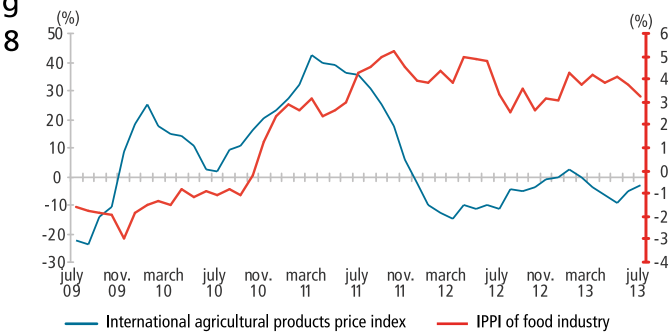
Based

Chart 5.9: Contribution of the main headings to the manufacturing producer price index (YoY)



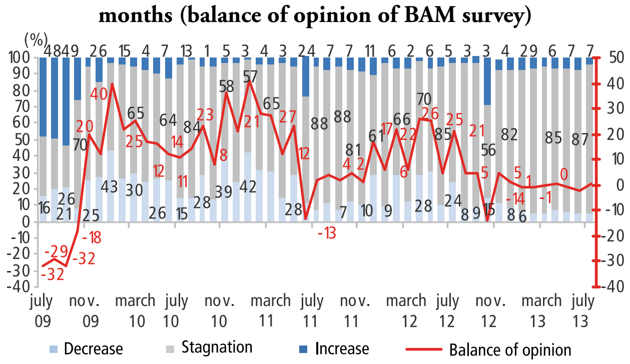
Sources: HCP. and BAM calculations.

Chart 5.10: YoY change in domestic food industrial producer prices and world prices of agricultural products



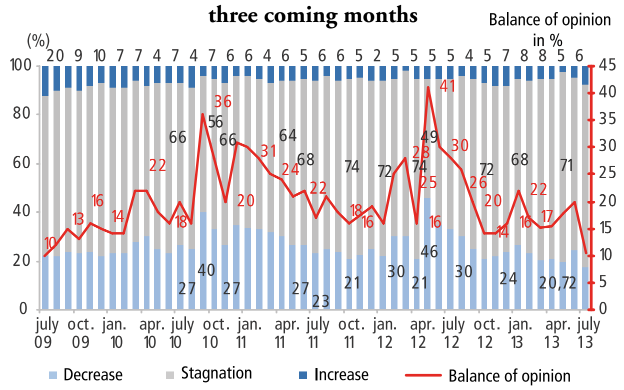
Sources: World Bank. HCP. and BAM calculations.

Chart 5.11: Trend in industrial producer prices in the next three months (balance of opinion of BAM survey)



Source: BAM monthly business survey.

Chart 5.12: Corporate managers' inflation expectations for the three coming months



Source: BAM monthly business survey.

6. INFLATION OUTLOOK

This section presents the inflation trend deemed most probable (central forecast) over the next six quarters, and examines the major risks associated thereto (balance of risks). The baseline forecast scenario depends on the assumptions and developments considered for a series of variables affecting economic activity and inflation. This scenario takes into account the new partial indexation system for certain energy prices based on international prices. 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 1.8 percent, a level similar to the average projected in the last MPR. For the full year 2013, inflation would hover around 2.2 percent. In 2014, it should average around 1.7 percent. In this forecasting exercise, the balance of risks is slightly tilted to the upside, due to uncertainties surrounding commodity prices, including energy ones, and foreign demand for Morocco.

6.1 Baseline scenario assumptions

6.1.1 International environment

Compared to the analysis presented in the last MPR, the momentum in global growth seems to register new rebounds. Advanced economies in general showed promising signs, as evidenced by the moderate recession in the euro area, continued positive growth in the United States and accelerated growth in Japan due to the sustained domestic demand. In contrast, in emerging countries, the first signs of weaker growth are seemingly appearing. The major factors behind this slight slowdown include weaker domestic demand, tighter financing conditions and sluggish foreign trade. Despite these developments, growth rates in emerging economies should remain well above the rates observed in developed countries.

After a -1 percent decline in activity in the fourth quarter of 2012 and the first quarter of 2013, the recession seems to ease relatively in the euro area, with a -0.5 percent decrease in economic activity in the second quarter of the year. This trend reflects growth recovery in Germany (0.5 percent in the second quarter of 2013 as against -0.3 percent in the first quarter) and France (0.3 percent in the second quarter of 2013 as against -0.5 percent in the first quarter) as well as a moderate recession in Spain (-1.6 percent versus -2 percent) and Italy (-2 percent as against -2.3 percent).

During the second quarter of the year, economic growth in the euro area was driven by favorable trends in domestic demand. On the one hand, private consumption, in which the volume of retail sales and new private vehicle registrations increased significantly, kept momentum. On the other hand, the rebound in the industrial production of capital goods (3 percent compared to the first quarter of 2013) suggests good prospects for non-construction investment. However, the real estate market showed a new contraction, reflecting the continued bleak outlook for employment and funding constraints. In the same vein, after two consecutive quarters of decline, foreign trade did not make a progress in view of lower exchange of goods, as evidenced by the new export orders index, excerpted from surveys by the European Commission, which points to a level lower than that observed in the first quarter.

In the labor market, unemployment stagnated in the euro area between March and July at 12.1 percent. This still-high rate reflects the difficulties facing the area's economies, although disparities persist across member countries. Thus, the labor market recorded a favorable momentum in Germany, as evidenced by the unemployment rate, which stabilized at 5.4 percent between March and June before registering a slight decrease in July (5.3 percent). However, although unemployment fell slightly in Spain (to 26.3 percent in June and July from 26.4 percent in March), it showed further increases in France (to 11 percent in July from 10.8 percent in March) and Italy (to 12 percent in July from 11.9 percent in March).

In light of these developments, inflation in the euro area recorded a virtual stagnation between June and July (1.6 percent) before declining in August (1.3 percent). This trend reflects mainly moderate prices for non-energy industrial goods and for services, which offset the increase in food prices.

The U.S. economy continues to show positive momentum, given the growth rate of 1.6 percent in the second quarter of 2013, from 1.3 percent in the first quarter of the same year. This change resulted from an uptrend in consumer spending, a buoyant residential and non-residential investment and an accommodative monetary policy. In contrast, government consumption and foreign trade suffered from fiscal adjustment and contraction in foreign demand, thus contributing negatively to growth for the second consecutive quarter.

Taking advantage of the uptrend of the U.S. economy, unemployment stabilized between March and June at 7.6 percent before falling in July (7.4 percent) and August (7.3 percent), which are positive rates compared to 2012.

Unlike the euro area, inflation in the United States rose between March and July from 1.5 percent to 2 percent. This trend mainly reflects higher energy prices and, to a lesser extent, higher food prices.

Given all these developments, the IMF, in its update of July, forecasts a growth of around -0.6 percent in 2013 and 0.9 percent in 2014 in the euro area. In the United States, the IMF expects a growth of 1.7 percent and 2.7 percent, respectively, in 2013 and 2014. Compared with rates reported in the MPR of June, growth projections were slightly revised downward, as rates of -0.3 percent and 1.1 percent were projected in 2013 and 2014 in the euro area and 1.9 percent and 3 percent in the United States over the same period.

Uncertainties about growth prospects remain significant, although extreme risks hanging over developed countries diminished. In the short term, the recent turmoil in financial markets can again interact negatively with the real economy and thus compromise the expectations for a better economic growth. Also, the exacerbation of geopolitical tensions in the Middle East could lead to a surge in oil prices.

Other risks relate to a slower implementation of structural reforms in the euro area countries, and the downward potential pressure on the U.S. economy from budgetary adjustments undertaken by the government to restore the sustainability of public finances. Finally, the extension of a slower activity in emerging markets in the first half of this year could impede the growth of world trade.

Against this backdrop, the weighted average rates of the major trading partners (Germany, Spain, France, Italy and the United Kingdom), assumed in this forecast exercise stands at -0.7 percent for this year and 0.6 percent for 2014. Compared to those projected in the June MPR (-0.7 percent in 2013 and 0.9 percent in 2014), the 2014 forecast was revised slightly downward. The growth rate of major trading partners is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

Regarding inflation forecasts, the Fed expects, in its monetary policy report of July, inflation rates ranging from 1.8 percent to 1.2 percent in 2013, and from 1.4 percent to 2 percent in 2014. The ECB, in its bulletin of August, lowered again its inflation forecasts and now predicts a rate of 1.5 percent in 2013 and 2014 (as against 1.9 percent and 1.7 percent respectively). Risks to inflation trends in the euro area remain broadly balanced. In the medium term, 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 forecast models developed by Bank Al-Maghrib, now expect a decline in 2013 more pronounced than in 2014, owing to prospects for a more dynamic demand from developed countries in the next year.

6.1.2 National environment

The economic growth prospects for 2013 remain positive. This trend reflects primarily a momentum in the agricultural sector, while nonagricultural activities should slow down significantly in connection with the persistent recession in the euro area.

According to the assumption in the previous MPR, the Ministry of Agriculture and Fisheries confirmed that cereal production reached 97 million quintals, up 91 percent compared to the 2012 crop year. This uptrend is due to favorable weather conditions throughout the 2012-2013 crop year, increase in the planted area and the availability of fertilizers and selected seeds in adequate quantity. Concerning the next crop year and given the lack of visibility, an average cereal production of 68 million quintals is maintained in the central scenario.

Nonagricultural activities are expected to slow down during the year. This underperformance is mainly due to the persistent contraction in external demand and slowing domestic demand in the first two quarters of the year. However, domestic demand should strengthen in the coming quarters owing, inter alia, to the positive impacts of a good crop year on rural household incomes and the still positive trend in consumer loans.

Under these conditions, a growth rate of nonagricultural GDP below 3 percent is adopted in this forecasting exercise. Compared to the June MPR, this forecast remains unchanged. With regard to overall growth, it should be between 4.5 percent and 5.5 percent.

Labor market recent data for the second quarter of 2013 show that the national unemployment rate rose 0.7 percent compared to the same period of 2012, reaching 8.8 percent. This change reflects a 1.5 percent worsening in the urban unemployment rate, which stood at 13.8 percent, and a 0.3 percent decline in the unemployment rate, which reached 3.2 percent. This change is due to the creation of 165,000 jobs in the second quarter of the current year, including 49,000 in urban areas and 116,000 in rural areas. At the sectoral level, 136,000 jobs were created in the "agriculture, forestry and fishing" sector, while "industry and handicrafts" and "services" generated 37,000 and 5,000 positions, respectively. In contrast, the largest job loss was recorded in the "construction" sector, with 38,000 positions.

Moreover, the employment prospects in the industrial sector suggest stagnation for the current quarter. According to BAM's quarterly business survey, manufacturers project stagnation of the total workforce employed in all industrial branches. Thus, these conditions should not weigh on wages level and a minimum wage of 12.24 dirham/hour is assumed in the central scenario.

Finally, the entry into force of the Decree issued by Head of Government relating to the partial price indexation system for certain liquid fuels would lead to greater flexibility in fuel prices at the pump. As such, the price of diesel and premium gasoline stood at September 16, 2013, at 8.84 dirhams per liter and 12.77 dirhams per liter, respectively. The industrial fuel price rose from 4,666 to 5,329 dirhams per tonne. In addition, based on a price scenario of $110 a barrel, these prices would not be revised for the rest of 2013. In 2014, the IMF and the World Bank revised slightly downward their oil price forecast (July 2013), which now stands at $95.36 and $99.6 a barrel, respectively. Under these conditions, assuming that unit subsidies under the new partial indexation system would continue, the diesel price at the pump would decline to 8.53 dirhams per liter 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 1.8 percent, a level similar to the average rate projected in the last MPR. Similarly, inflation forecast for 2013 showed an average rate of 2.2 percent, slightly higher than the expected rate in the previous year (2.1 percent). In 2014, inflation forecast in the first half should be around 1.8 percent, which is higher than the rate reported in the previous MPR (1.5 percent). In the third quarter of 2014, inflation would stand at 1.8 percent from 1.6 percent expected in the previous MPR. Finally, in the fourth quarter of 2014, inflation should reach 1.5 percent.

These projections are based on assumptions deemed most probable. However, there are several sources of uncertainty stemming from forecasting models as well as the future developments of exogenous variables, 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 fan chart of this forecasting exercise is slightly on upward trend. 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 to deviate from the central forecast, at a value within the forecast range represented on the fan chart (with a probability 90 percent).

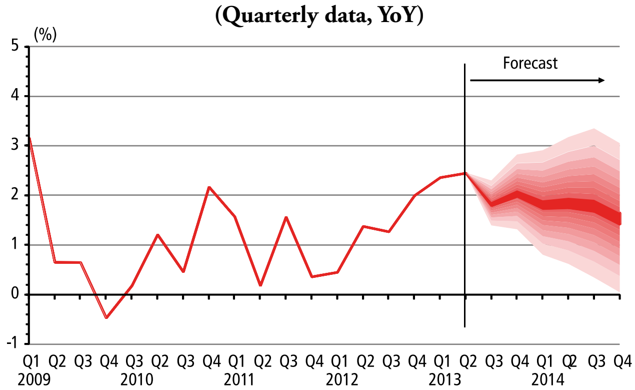
Table 6.1: Inflation outlook for 2013 Q3 –2014 Q4

	2013		2014				Average		HP*
	Q3	Q4	Q1	Q2	Q3	Q4	2013	2014	
Central forecast (%)	1.8	2.0	1.8	1.9	1.8	1.5	2.2	1.7	1.8

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2013 Q3 – 2014 Q4
(Quarterly data, YoY)



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

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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

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