BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 27 / 2013

Document prepared for
the Bank Board
June 18, 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, June 18, 2013

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, June 18, 2013.
2. During this meeting, the Board reviewed and approved the 2012 Annual Report on Morocco's economic, monetary and financial situation as well as on the Bank's activities.
3. The Board also considered recent economic, monetary and financial developments and inflation forecasts up to the third quarter of 2014.
4. The Board noted that inflation averaged 2.4 percent in the first quarter of 2013 and remained unchanged in April, a trend consistent with the forecasts contained in the Monetary Policy Report of March 2013. Core inflation rose from 0.9 percent in the first two months of the year to 1.5 percent in March and 1.6 percent in April. This increase mostly reflects the dissipating effect of the cut in communication prices in 2012. Due to the decrease in international commodity prices, industrial producer prices continued to decline by 1 percent in March and 4 percent in April.
5. The international environment is still characterized by the continued worsening of economic activity and the persistently high levels of unemployment, particularly in the euro area where growth stood at -1.1 percent in the first quarter of 2013 after -0.9 percent in the fourth quarter of 2012. In contrast, GDP in the United States expanded by 1.8 percent, up from 1.7 percent a quarter earlier. Labor market data show that unemployment rate was virtually unchanged at 7.6 percent in the United States in May, and reached 12.2 percent in the euro area in April. Lending to the private sector continued to fall in the euro area for the 12th month in a row, shrinking by 0.9 percent in April, while in the United States it grew by 4.3 percent in May. In terms of outlook, the IMF expects the U.S. economy to grow by 1.9 percent in 2013 and 3 percent in 2014. For the euro area, it predicts a contraction of 0.3 percent followed by an increase of 1.1 percent. These developments, coupled with lower commodity prices, contributed to keeping inflation at moderate levels, particularly in partner countries, which suggests the absence of significant external inflationary pressures on the national economy in the coming quarters.
6. At the domestic level, national accounts data for 2012 point to a deceleration of growth to 2.7 percent, as a result of an 8.9 percent decrease in the agricultural value added and a 4.5 percent increase in nonagricultural GDP. In 2013, agricultural activity will benefit from the good weather conditions of the crop year 2012-2013, while nonagricultural growth will continue to feel the impact of the economic downturn in key partner countries. GDP growth is projected to range between 4.5 and 5.5 percent, with a less rapid growth in nonagricultural GDP between 2.5 percent and 3.5 percent. Under these conditions, nonagricultural output gap would remain below zero in the short run, indicating the absence of inflationary pressures from domestic demand.

7. Concerning public finance, data as at end-April 2013 show a budget deficit of 18.6 billion dirhams as against 15.1 billion at end-April 2012. This reflects a 6.1 percent rise in total expenditure, though subsidy costs fell 31.9 percent, while ordinary income inched up by a mere 1.6 percent due to the 3.1 percent drop in tax revenues. For the year 2013, fiscal deficit is expected at 5.5 percent of GDP, down from 7.6% in 2012.

8. External accounts data available as at end-May show a 7.3 percent reduction in the trade deficit to 81.6 billion dirhams. At the same time, travel receipts and remittances posted a year-on-year increase of 3.1 percent and 0.1 percent, respectively, while income from foreign direct investment expanded by 32.8 percent to 17.8 billion dirhams, up from 13.4 billion a year earlier. Taking into account the Treasury's last bond issuance in international markets, net international reserves totaled 153.1 billion dirhams, covering 4 months and 9 days of goods and services' imports.

9. Recent developments in monetary conditions and asset prices suggest subdued inflationary pressures in the medium term, as the money gap would remain negative. The annual growth rate of M3 increased from an average of 2.9 percent in the first quarter to 4 percent in April, and that of bank credit was up from 3.1 percent to 3.9 percent. As at end-December 2013, credit growth would range between 5 and 6 percent, based on the latest available data. On lending rates, the results of Bank Al-Maghrib's survey among banks for the first quarter of 2013 show a decline of 21 basis points to 5.99 percent in the weighted average interest rate. The effective exchange rate of the dirham appreciated at a quarterly rate of 0.5 percent in nominal terms and 0.66 percent in real terms. The real estate price index remained virtually flat year on year.

10. Based on all these elements, inflation up to the next six quarters should remain broadly in line with the price stability objective in the medium term. It would hover around 2.1 percent in 2013 and 1.6 percent in the third quarter of 2014, averaging 2 percent over the forecast horizon.

11. In this context of balanced risks, under the assumption of maintaining the current subsidy system, and an inflation forecast permanently in line with the price stability objective, the Board decided to keep the key rate unchanged at 3 percent.

12. Noting the continued deceleration in nonagricultural activity and bank credit, Bank Al-Maghrib decided to implement a new program to encourage banks to finance very small, small and medium-sized enterprises, particularly those operating in the industrial sector or whose production is export-oriented. This program, with a minimum duration of two years, provides banks with liquidity collateralized mostly by private securities issued by this category of businesses.

OVERVIEW

In the first quarter of 2013, inflation stood at 2.4 percent on average, as against 2 percent in the previous quarter, which is a trend in line with the forecasts published in the last Monetary Policy Report (MPR). In April 2013, it remained at 2.4 percent, while its core component reached 1.6 percent, as against 1.5 percent in March and 0.9 percent in January and February. The increase in core inflation mainly reflects the rise of prices of nontradables by 0.6 percent in February, 1.8 percent in March and 2.1 percent in April. Inflation of tradables almost stagnated around 1.2 percent between January and April, in a context of moderate international inflationary pressures. In addition, due to lower international commodity prices, industrial producer prices continued to decline, by 4 percent in April from 1 percent in March.

Internationally, the continued weaker activity and its prospects, combined with high unemployment rates, particularly in the euro area, contributed to maintaining inflationary pressures moderate. Despite a relative easing in various financial markets, the latest available data indicate further deterioration of activity in major advanced countries, confirming the decoupling between real and financial spheres. The degradation of activity affected particularly the euro area, while a slight growth was registered in the United States and the United Kingdom. Thus, the growth rate stood at 1.8 percent in the first quarter of 2013 from 1.7 percent a quarter earlier in the United States, in a context marked by a return of uncertainties relating to the lack of visibility on the budget plan beyond September 2013. In the United Kingdom, growth improved relatively from 0.2 percent in the fourth quarter of 2012 to 0.6 percent in the first quarter of 2013. In the euro area, economic activity continued to decline, with a 1.1 percent contraction of GDP, year on year, as opposed to 0.9 percent in the fourth quarter of 2012. In Japan, although its GDP grew by 0.2 percent, year on year, it recorded a quarter-on-quarter increase of 1 percent, largely due to the new highly expansionary economic policy adopted by the government. Meanwhile, labor markets did not show signs of improvement, especially in the euro area, while in the United States, May data showed a creation of 175,000 jobs, albeit with a slight increase in the unemployment rate to 7.6 percent. Loans to the private sector grew by 4.3 percent in the United States, while they contracted in the euro area by 0.9 percent, which is the 12th consecutive decline. In emerging and developing countries, growth continued to slow down, with a slight decrease in China to 7.7 percent, mainly due to lower domestic and foreign demand. In terms of outlook, recent updates published by international institutions indicate downward revisions of growth projections for 2013 and a gradual recovery as of 2014. In this regard, the IMF projected an increase of 3.3 percent in global GDP in 2013 and 4 percent in 2014, covering a growth of 1.2 percent and 2.2 percent, respectively, in advanced economies, and 5.3 percent and 5.7 percent in emerging and developing economies.

Nationally, the provisional national accounts estimates for 2012 show an overall growth of 2.7 percent, reflecting a 4.5 percent increase in nonagricultural GDP and an 8.9 percent contraction in agricultural value added. In the short term, the economic downturn, particularly in Morocco's main partner countries, continues to negatively impact nonagricultural growth. Under these conditions and according to estimates by Bank Al-Maghrib, the nonagricultural output gap should be lower than zero, indicating the absence of domestic demand inflationary pressures. This is confirmed by the findings of the BAM monthly business survey of April, which show stagnation in the capacity utilization rate, a level below the historical average. In terms of outlook, the deceleration of nonagricultural growth observed in 2012 should accentuate in 2013, with a forecast within the range of 2.5 percent to 3.5 percent, as against 4 percent to 5 percent, published in the last MPR. However, driven by a significant improvement in agricultural activities, GDP growth is expected to rise faster, ranging in 2013 from 4.5 percent to 5.5 percent.

In terms of public finances, the data available at end-April 2013 show that the fiscal deficit widened to 18.6 billion from 15 billion dirhams a year earlier. Current revenues were up by 1.6 percent, covering an increase of 3 billion in non-tax revenues and a 3.1 percent decline in tax receipts. Meanwhile, overall expenses moved up 6.1 percent, including particularly a 15.8 percent increase in spending on goods and services and a 31.9 percent decrease in subsidy expenses.

The latest data available at end-May show that external accounts fell by 7.8 billion dirhams of imports and 1.5 billion of exports. Against this backdrop, the trade deficit recorded a relief to 81.6 billion dirhams from 88 billion over the same period of 2012. Meanwhile, travel receipts and remittances from

Moroccans living abroad rose 3.1 percent and 0.1 percent, respectively. Given other components of the balance of payments, net international reserves improved by 0.1 percent at end-May, following the last Treasury issuance on the international market, to 153.1 billion dirhams at end-May, representing 4 months and 9 days of imports of goods and services.

In addition to the absence of price pressures of internal and external demand, the recent developments of monetary conditions also show moderate inflationary pressures. Indeed, despite slight increases in annual growth rates of monetary aggregates and credit at end-April, the monetary gap remained negative. M3 growth rose by 4 percent from 2.9 percent in the first quarter, and the bank credit grew to 3.9 percent from 3.1 percent in the previous quarter, reflecting an acceleration of cash advances and real estate loans. Equipment loans have continued their almost steady contraction trend since July 2012. Moreover, as to lending rates, Bank Al-Maghrib's survey with banks for the first quarter of 2013 shows a decrease of 21 basis points to 5.99 percent in the weighted average rate of credit. This decrease affected only rates on cash advances.

The dirham's effective exchange rate appreciated by 0.5 percent in the first quarter in nominal terms compared to the previous quarter, and by 0.66 percent in real terms, due to a rate of national inflation overall higher than that of major partners and competitors. The real estate price index virtually stagnated from one year to another, covering a 0.5 percent increase in residential property, a 2.9 percent decrease in commercial one and virtual stability in land property.

Based on all these elements, inflation should remain broadly consistent with the price stability objective. The average inflation forecast for 2013 was revised slightly downward to 2.1 percent. At the end of the forecast horizon, i.e. the third quarter of 2014, inflation would stand at 1.6 percent, while it would average 1.8 percent over the same horizon. Core inflation should remain moderate, not exceeding 2 percent at the end of the forecast horizon.

In total, assuming that the existing price subsidy system would be maintained, risks to the central forecast remain broadly balanced, particularly in light of uncertainties about the development of commodity prices and economic growth in the main partner countries.

1. AGGREGATE SUPPLY AND DEMAND

Over the full year 2012, national growth stood at 2.7 percent, covering a slowdown in nonagricultural activities from 4.9 percent in 2011 to 4.5 percent and an 8.9 percent decrease in agricultural value added. The demand trend was mainly marked by a slower national final consumption and gross fixed capital formation, although consumption and government investment accelerated. For 2013, mainly due to higher agricultural value added, national economy should register a growth faster than that expected previously, to stand within a range of 4.5 percent to 5.5 percent. However, the nonagricultural component should decelerate significantly within a range of 2.5 percent to 3.5 percent. This trend reflects direct and indirect effects of persistent uncertainties about the economic activity in Morocco's major partner countries. In terms of domestic demand, although consumption may benefit from the positive effects of improved farm income, investment should suffer from a still adverse economic environment, affected by the consequences of the budget cuts announced by the Government. The foreign trade indicators show, at end-May 2013, a further decline in exports and imports. Against this backdrop, the analysis elements of supply and demand suggest that pressures on price remain subdued.

1.1 Output

In 2012, national growth stood at 2.7 percent, covering a 4.5 percent increase in nonagricultural GDP and an 8.9 percent decline in agricultural value added. These trends are in line with the Bank's forecasts published in the MPR of March 2013.

In the first half of 2013, GDP growth would have accelerated to 5.1 percent, driven by a strong recovery of agricultural growth, standing at 16.7 percent. The nonagricultural component would have slowed to 3.2 percent, reflecting an underperformance of almost all sectors of activity.

Following the earliness and good temporal and spatial distribution of rainfall, which favored the cultivation of autumn cereals, agricultural activity should improve significantly in 2013. Indeed, cumulative rainfall amounted to 394.2 mm as at May 31, 2013, up 73.7 percent compared to the same period a year earlier, bringing the filling rate of farm dams to 87 percent as against 68 percent.

Regarding nonagricultural activities, the latest available data show a marked sluggishness. Indeed, the growth of the mining value added would have continued its downward trend, standing at -4.1 percent in the first half of 2013 after falling 2.8 percent in the fourth quarter of 2012. This change

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

Activity sectors	2011				2012				2013	
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI_F	QII_F
Agriculture	5.9	6.1	6.0	4.3	-8.3	-9.6	-8.4	-9.0	16.9	16.5
Nonagricultural VA	**6.0**	**4.4**	**5.0**	**5.4**	**4.4**	**4.1**	**4.6**	**3.9**	**3.4**	**3.6**
Extractive industry	14.5	2.8	-1.7	8.2	-7.9	-5.4	3.2	-2.8	-3.9	-4.2
Processing industry	3.4	0.8	3.7	4.0	3.5	0.9	1.7	0.7	0.7	1.0
Electricity and water	0.4	5.7	5.3	12.8	12.6	10.8	11.5	1.7	-2.2	1.4
Construction	2.0	1.7	6.1	7.0	5.7	3.5	-1.7	-5.7	-6.8	-6.0
Trade	4.7	4.7	4.6	4.9	2.8	1.7	1.6	1.6	1.7	1.6
Hotels and restaurants	6.3	-2.9	-3.9	-7.0	-4.9	2.3	1.4	5.6	2.2	1.9
Transportation	7.4	6.5	5.9	3.9	1.7	2.4	2.1	3.5	2.2	2.1
Post and telecommunication	13.0	15.5	24.1	23.0	13.4	12.8	18.1	19.6	14.7	13.5
General government and social security	6.5	6.4	5.7	4.5	10.3	9.9	9.3	9.0	6.4	5.7
Other services*	7.0	6.3	5.6	4.3	6.0	5.9	5.7	5.7	5.0	5.0
Taxes on products net of subsidies	3.6	2.2	3.5	1.4	3.0	3.1	1.9	2.1	1.9	1.4
Nonagricultural GDP	**5.7**	**4.1**	**4.8**	**5.0**	**4.3**	**4.0**	**4.4**	**3.7**	**3.2**	**3.3**
Gross domestic product	**5.7**	**4.4**	**5.0**	**4.9**	**2.7**	**2.2**	**2.7**	**2.0**	**5.2**	**5.1**

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

Sources: HCP, and BAM forecasts

reflects mainly lower foreign demand for phosphate and derivatives, as evidenced by a 12.1 percent decline in OCP exports at end-April 2013. In the same vein, the phosphate price decline that began in the second half of 2012 accentuated, with a 10.3 percent drop on average during the first five months of 2013.

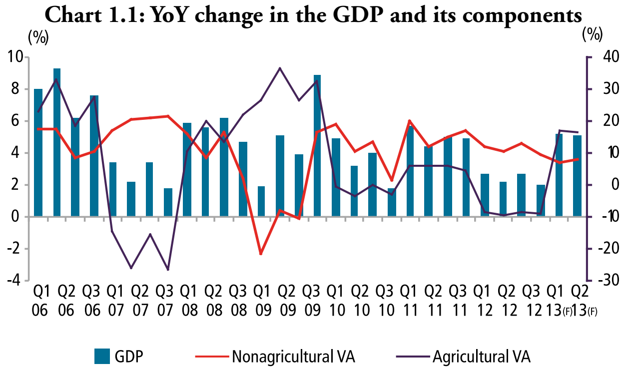
The value added of the processing industry should improve slightly in the second quarter of 2013, showing a 1 percent increase, which is still below the average of the achievements of the past three years. The findings of BAM monthly business survey of April 2013 confirms this trend, showing that sales increased and finished goods inventories remained at their normal level, registered since the beginning of the year. Similarly, the order book remained at its usual level and the utilization capacity rate stood at 68 percent.

The value added of the "electricity and water" sector would have fallen 2.2 percent in the first quarter of 2013, reflecting a decrease of 4 percent in local net production of the National Electricity Office and 2.2 percent in its high and medium voltage sales. However, it should recover by 1.4 percent, assuming that the improvement recorded in April 2013 would continue, with respective increases of 3.7 percent and 4 percent in electricity production and sales.

May 2013 indicators on the construction sector continue to point to lower activity, with a slight mitigation compared to the first quarter. Indeed, cement sales dropped by 6.6 percent at end-May after a decrease of 20.8 percent in the first quarter, while loans to property developers rose 1.9 percent at end-April after a virtual stagnation at end-March 2013. Under these conditions, the construction value added should decline by 6 percent in the second quarter of 2013, after a 6.8 percent decrease a quarter earlier.

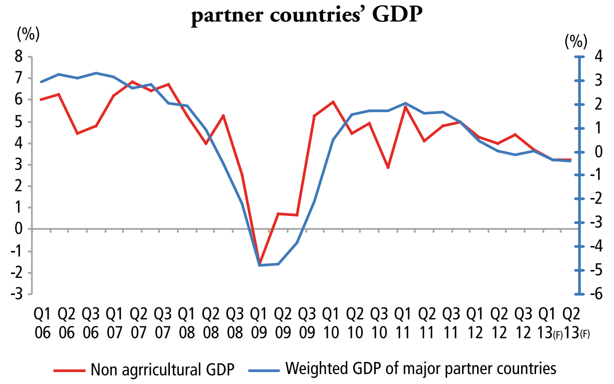
As to tertiary activities, the value added of posts and telecommunications should grow by 14.7 percent and 13.5 percent in the first and second quarters of 2013, respectively.

Chart 1.1: YoY change in the GDP and its components



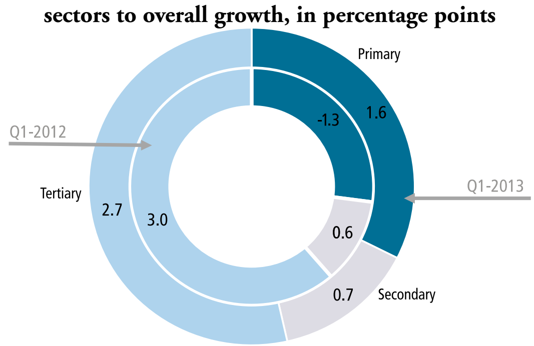
Sources: HCP, and BAM calculations and forecasts

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

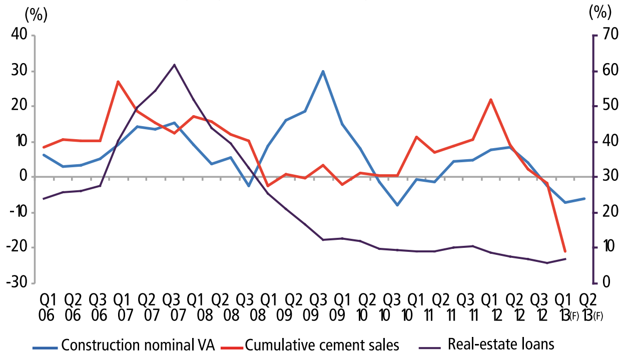
The latest available data, which remain those of the first quarter of 2013, show a year-on-year increase of 9 percent in the number of mobile phone subscribers and 17.9 percent in that of Internet subscribers, as against 8.6 percent and 58.5 percent, respectively, over the same period of 2012.

The growth of tourism should stand at 2 percent in the first half of 2013, driven by a favorable base effect as well as some improvement in most indicators of the sector. Indeed, tourist arrivals totaled 2,558 thousand visitors at end-April 2013, up 1.5 percent compared to 2012. Meanwhile, overnight stays in classified hotels rose by 8.6 percent, thus bringing the occupancy rate to 48 percent from 46 percent a year earlier. Meanwhile, travel receipts were up 3.1 percent at end-May 2013.

The value added of transport, linked to performance in other sectors, should grow at a rate slightly lower than that registered in 2012.

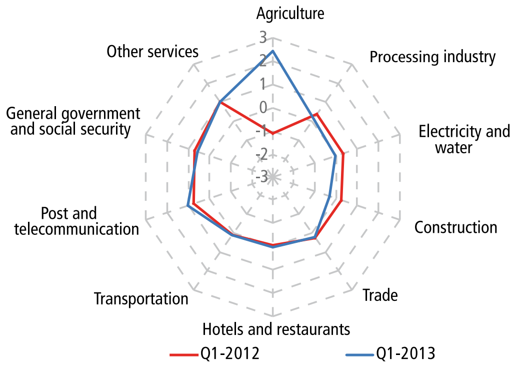
In terms of outlook, national growth throughout the year should stand within a range of 4.5 percent to 5.5 percent, as opposed to a range of 4 percent to 5 percent expected in March 2013. These projections cover mainly a downward revision of the nonagricultural growth, which should stand between 2.5 percent and 3.5 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

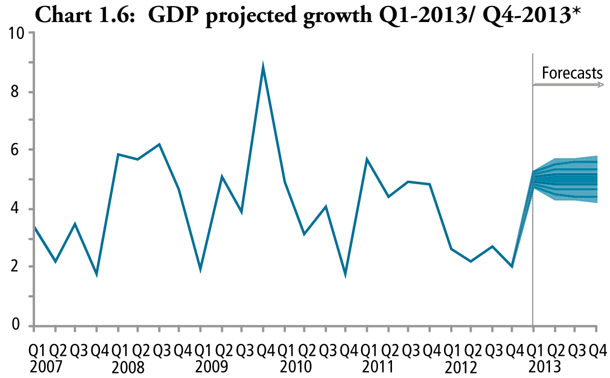


Sources: HCP, and BAM forecasts and calculations

1.2 Consumption

National final consumption expenditure increased, in real terms, by 3 percent in the fourth quarter of 2012, as against 3.3 percent in the previous quarter and 7.3 percent in the same quarter of 2011. This trend reflects slower growth in household final consumption from 2.4 percent to 2 percent from one quarter to the next, while the government consumption remained around 6.8 percent. In the coming quarters, household final consumption should expand, particularly in connection with the improvement in rural income. Other available indicators suggest a downward

Chart 1.6: GDP projected growth Q1-2013/ Q4-2013*



(*) Fans depending on the standard deviation

Sources: HCP, and BAM forecasts

trend, owing to the unfavorable trend of nonagricultural activities.

In addition, end-May 2013 foreign trade data indicate a recovery of 0.1 percent in remittances from Moroccans living abroad and 3.1 percent in travel receipts. Imports of finished consumer goods showed a 5.7 percent decline, as against a 12.1 percent increase over the same period a year earlier.

The government consumption should continue its growth. Indeed, the latest available data indicate a 15.8 percent increase in operating expenses at the end of April 2013, as against 9 percent over the same period a year earlier, driven by higher personnel costs and spending on miscellaneous goods and services.

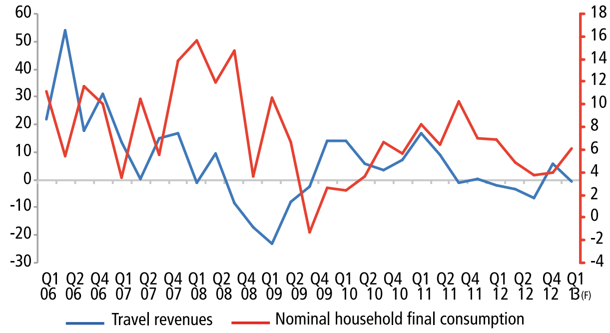
1.3 Investment

Investment fell 0.7 percent in the fourth quarter of 2012, after a growth limited to 0.4 percent in the previous quarter. The findings of BAM monthly business survey of the first quarter of 2013 show a business climate considered normal after two consecutive unfavorable quarters. Indeed, investment expenditures in the first quarter would have stagnated, according to 46 percent of manufacturers, and decreased according to 37 percent of them.

Moreover, the monetary data indicate a 0.9 percent contraction in equipment loans at end-April 2013 and a 7.3 percent increase in real-estate loans. Foreign trade indicators show an 8.8 percent increase in imports of equipment goods at end-May 2013. In addition, the wait-and-see attitude marking the real-estate market, with an 8.1 percent decline in the number of transactions and a virtual stagnation of real estate price index in the first quarter, is a further source of uncertainty for household investment.

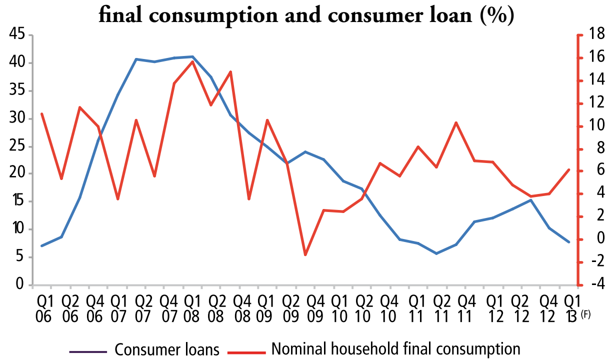
Treasury investment expenditures grew at end-April 2013 by 39.5 percent compared to last year.

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



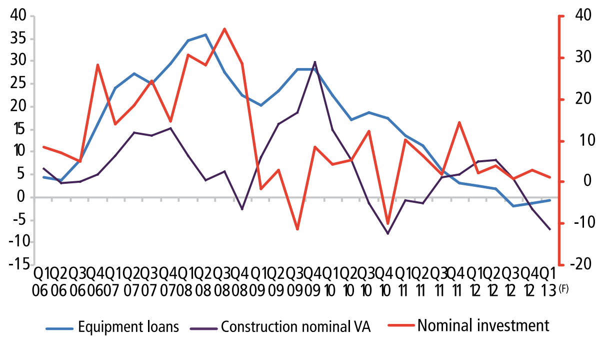
Sources: High Commission for Planning, Foreign Exchange Office and BAM forecast

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

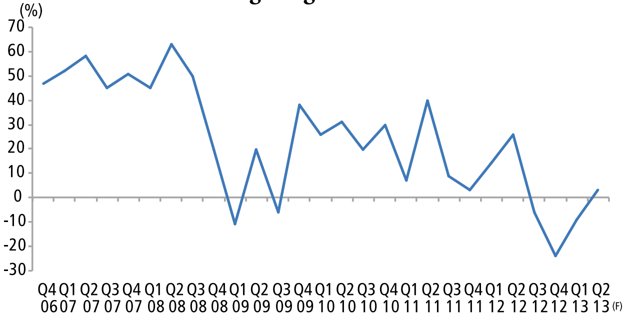
1.4 Foreign trade

Data available at end-May 2013 indicate a continued year-on-year decline in the trade deficit, due to lower imports. Indeed, the trade balance posted a deficit of 81.6 billion dirhams, down 7.3 percent compared to the same period of the previous year, as against a worsening of 14.7 percent a year earlier. This trend is attributed to a drop of 4.7 percent or 7.8 billion dirhams of imports, which amounted to 157.6 billion dirhams. Exports fell 1.9 percent, or 1.5 billion dirhams, amounting to 76 billion dirhams. Thus, the import coverage stood at 48.2 percent.

The decline in exports is due to an 18 percent decrease in sales of mining extractive industry, totaling 5.5 billion dirhams, as well as a 7.9 percent drop in exports of the chemical industry to 14.7 billion. Exports of the automotive sector grew by 10.7 percent to 12 billion, due to a 50.5 percent increase in sales of passenger cars to 3.9 billion dirhams. Similarly, shipments of the aeronautics sector moved up 22.5 percent to 3.2 billion dirhams. Deliveries of the agri-food sector also rose 4.1 percent to 15.3 billion dirhams, covering a 17.4 percent increase in sales of the food industry and respective declines of 10.4 percent and 9.4 percent in those of fishing and citrus. Meanwhile, exports of the electronics sector recorded an increase of 7.6 percent, totaling 3.3 billion dirhams. In contrast, shipments of the textile and leather sector were down 0.9 percent to 13.9 billion dirhams.

The decline in imports is mainly attributed to a 16.2 percent drop in purchases of energy products, which totaled 38 billion dirhams. This trend is mainly due to the 29.9 percent decrease in purchases of crude oil, totaling 10.4 billion dirhams. However, purchases of non-energy products edged down 0.4 percent, year on year. Indeed, imports of crude products fell 21.2 percent to 7.6 billion dirhams, including particularly a 29.3 percent decline in those of crude sulfur to 1.6 billion dirhams. Purchases of consumer goods also moved down 5.7 percent to 26.3 billion

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

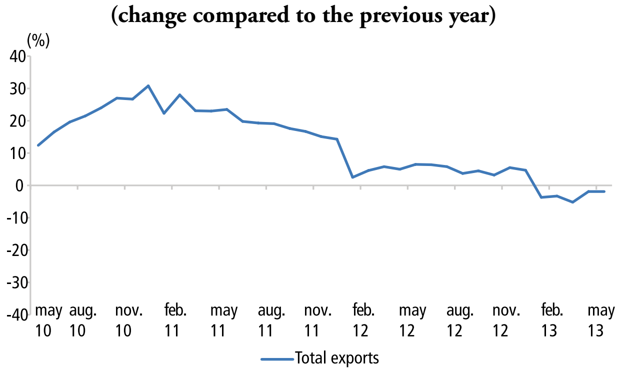
Table 1.2 : Change in the trade balance at end May 2013

(In millions of dirhams)	may 2012	may 2013*	Variations Amount	Variations %
Exports	**77 438**	**75 983**	**-1 455**	**- 1.9**
Ore extractive industry	6 701	5 495	-1 206	-18.0
Chemical industry	15 984	14 718	-1 266	-7.9
Textile and leather	13 986	13 860	-126	- 0.9
Agriculture and food industry	14 699	15 300	+601	+ 4.1
Aeronautics	2 571	3 150	+579	+ 22.5
Automotive industry	10 786	11 939	+1 153	+ 10.7
Electronics	3 025	3 254	+229	+7.6
Imports	**165 430**	**157 595**	**-7 835**	**- 4.7**
Energy goods imports	45 374	38 011	-7363	- 16.2
Non-energy imports	120 056	119 584	-472	- 0.4
Capital goods	31 079	33 803	+2 724	+ 8.8
Semi-finished goods	32 828	34 264	+1 436	+ 4.4
Consumer goods	27 893	26 312	-1 581	- 5.7
Food products	18 639	17 623	-1 016	- 5.5
Unprocessed goods	9 617	7 582	-2 035	- 21.2
Trade deficit	**87 992**	**81 612**	**6 380**	**-7.3**

** Provisional data*

Source: Foreign Exchange Office

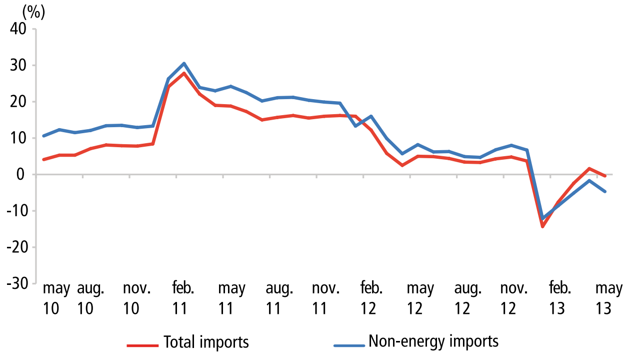
Chart 1.11: Total exports (change compared to the previous year)



Source: Foreign Exchange Office

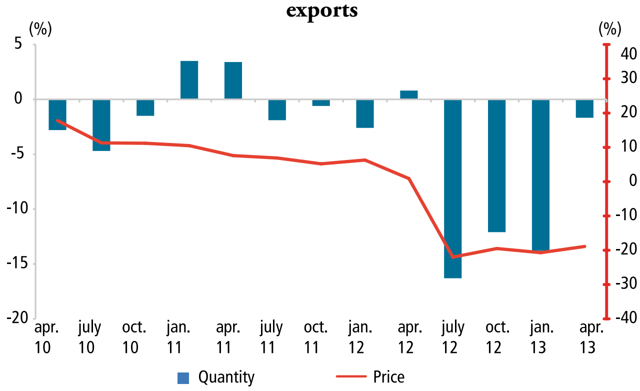
dirhams, in conjunction with a drop of 27.1 percent in those of ready-made garments to 676 million and 13.6 percent in passenger cars and related spare parts to 6.1 billion dirhams. Similarly, imports of food products fell 5.5 percent to 17.6 billion dirhams, particularly due to respective declines of 90.4 percent and 26.9 percent in supplies of barley and corn, to 109 million and 1.4 billion dirhams. However, imports of equipment goods grew by 8.8 percent to 33.8 billion dirhams, mainly following the significant increase in purchases of spare parts for industrial vehicles, which moved up from 685 million to 1.5 billion dirhams in one year. Similarly, purchases of semi-finished goods rose by 4.4 percent to 34.3 billion dirhams.

Chart 1.12: Total imports (change compared to the previous year)



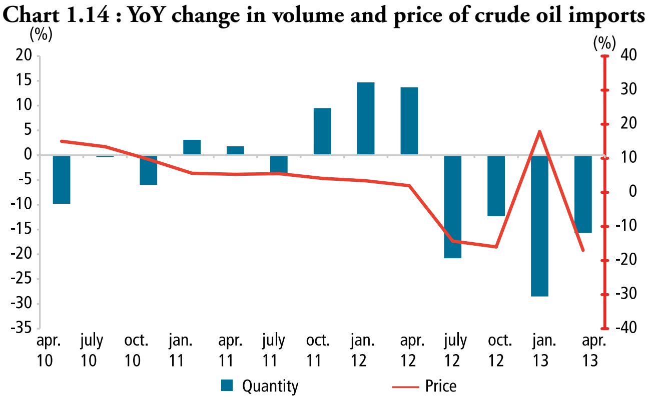
Source: Foreign Exchange Office

Chart 1.13: YoY change in volume and price of phosphate exports



Source: Foreign Exchange Office

Chart 1.14 : 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 the persistence of difficult international economic conditions, particularly in the euro area, and some slowdown in domestic demand, nonagricultural output gap should stand below zero in the second quarter of 2013, according to estimates by Bank Al-Maghrib. Meanwhile, the BAM monthly business survey shows that the capacity utilization rate stagnated at 68 percent in April 2013, a level below the historical average of 71 percent.

In the labor market, the unemployment rate fell 0.5 percentage point to 9.4 percent in the first quarter of 2013. Over the same period, the hourly minimum wage and private sector wages showed respective increases of 2.2 percent and 6.1 percent in real terms. Overall, despite some pressures on production costs, the analysis of all factors indicates the absence of significant pressures on prices in the coming quarters.

2.1 Pressures on output capacity

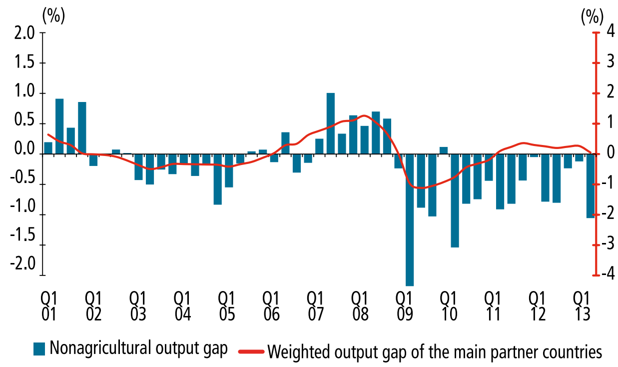
According to estimates by Bank Al-Maghrib, nonagricultural output gap should stand at-1 percent in the second quarter of 2013, from -0.1 percent in the first quarter of 2013 and -0.5 percent on average in 2012, thus indicating the absence of significant demand pressures on prices.

As reported by Bank Al-Maghrib monthly industrial survey, the capacity utilization rate (CUR) stagnated at 68 percent in April 2013, a level, since last August, remaining lower than its historical average (71 percent) registered since 2007 (Chart 2.2). This covers an improvement of the CUR in the agri-food industries, stagnation in the mechanical and metallurgical industries, and decline in other branches.

Meanwhile, the results of the same survey reveal higher unit industrial production cost in the first quarter of 2013. This trend affected all sectors, with the exception of electrical and electronics industries and mechanical and metallurgical industries, in which the increase in financial expenses was the main factor behind higher costs (Chart 2.3).

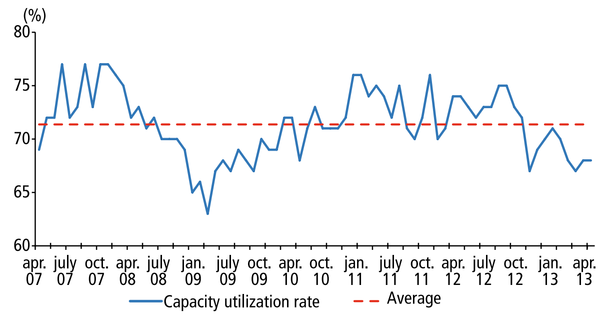
Apparent labor productivity in nonagricultural activities increased by 0.2 percent in the first quarter of 2013, year on year, as against

Chart 2.1: Nonagricultural output gap



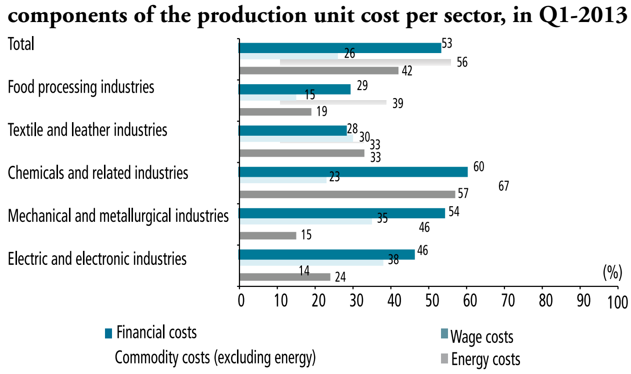
Sources: HCP, Eurostat and BAM estimates

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 Q1-2013



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

2.6 percent in the last quarter of 2012 (Chart 2.4). This trend is attributable to an increase in nonagricultural employment at a rate (3.2 percent) lower than that of the nonagricultural value added, as estimated by BAM (3.4 percent).

2.2 Pressures on the labor market

At the end of the first quarter of 2013, the labor force aged 15 and over rose by 0.4 percent to nearly 11.5 million people, reflecting an increase of 1.2 percent in urban areas and a decrease of 0.4 percent in rural ones. This increase was accompanied by a decline in the participation rate from 48.2 percent to 47.6 percent.

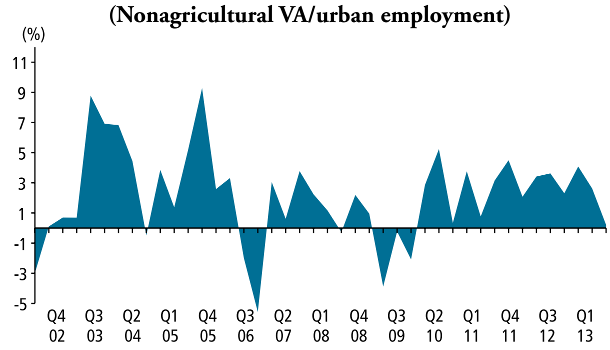
A total of 99,000 jobs were created, while 109,000 positions were lost over the same period of 2012. At the sectoral level, services and industry provided 243,000 and 20,000 jobs, respectively. However, construction and agriculture lost 56,000 and 100,000 positions (Chart 2.5).

In total, employed labor force stood at 10.4 million people, up 1 percent. The employment rate showed a slight decline from 43.4 percent to 43.2 percent.

Under these conditions, the unemployment rate fell 0.5 percentage point to 9.4 percent, reflecting a decrease of 0.7 points to 13.7 percent in urban areas and 0.4 point to 4.4 percent in rural ones. Unemployment among young people aged 15 to 24 years remains high at 19.5 percent (Table 2.1).

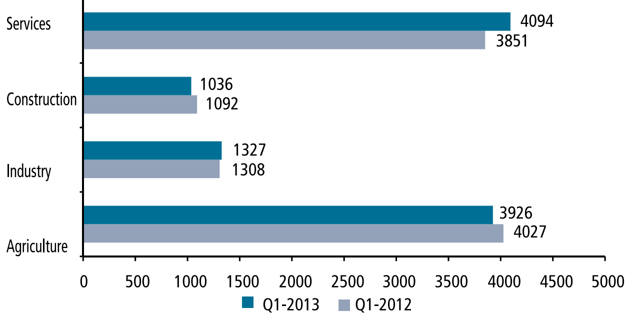
Regarding labor costs, the private sector wage index, based on CNSS data, recorded in the first quarter of 2013 a year-on-year appreciation of 8.6 percent in nominal terms and 6.1 percent in real terms. This trend is in line with the BAM's quarterly

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



Sources : HCP, and BAM estimates

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



Source: HCP

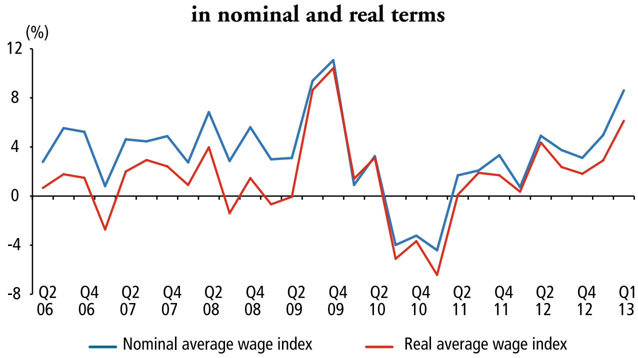
Table 2.1: Quarterly indicators of activity employment and unemployment indicators per place of residence

In million / in %	Q2 - 2012			Q2 - 2013		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (1)	6.075	5.353	11.428	6.145	5.329	11.474
Labor force participation rate (%) (2)	42.6	56.6	48.2	42.2	55.9	47.6
Employed labor force	5.202	5.096	10.298	5.303	5.094	10.397
Employment rate (%) (3)	36.5	53.9	43.4	36.4	53.5	43.2
Unemployment						
Unemployed labor force	873	257	1.130	842	235	1.077
Unemployment rate (in %) (4)	14.4	4.8	9.9	13.7	4.4	9.4
By age						
.15 - 24 years	32.8	10.3	19.2	35.6	9.2	19.5
.25 - 34 years	20.9	5.6	14.5	19.6	5.2	13.5
.35 - 44 years	8.2	2.5	5.9	7.3	2.7	5.5
By degree						
. Non-graduates	7.7	3.3	5.0	7.8	2.8	4.7
. Graduates	19.4	10.7	17.4	18.2	10.9	16.5

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

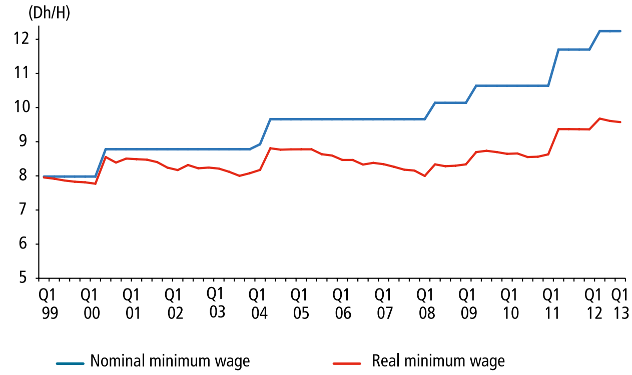
business survey of March, which indicates a rise in wages. The hourly minimum wage increased by 2.2 percent in real terms in the first quarter 2013.

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: Labor Ministry, and BAM calculations

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

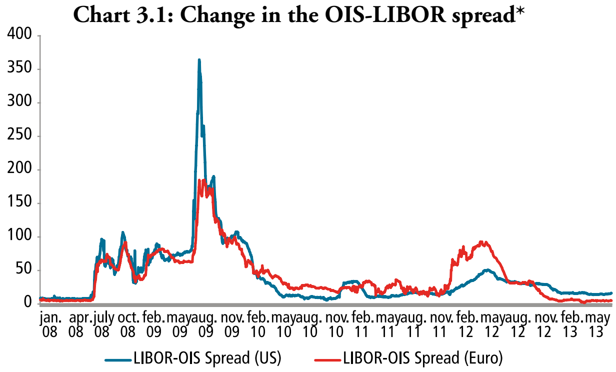
In a context marked by a relative easing of financial conditions, the latest data on the international economic environment show overall a continued weakening of the economic activity and its prospects. This applies particularly to developed countries, albeit with divergent trends between the United States and the United Kingdom, where GDP showed increases, and the euro area, which remains in recession for the fourth consecutive quarter. In emerging and developing countries, growth recorded a further slowdown, mainly in China, where it decelerated from 7.9 percent to 7.7 percent due to lower domestic and foreign demand. The latest forecasts of international institutions show that the growth of the global economy should not improve significantly in 2013. Indeed, the IMF, the European Commission and the OECD revised down their growth projections for 2013, while assuming that the economic activity would recover progressively as of 2014. In addition, adverse conditions in the labor market constitute a major concern, especially in the euro area. On commodity markets, excluding energy prices, which remain high, compared to the same period of last year, prices are overall tilted to the downside. This trend, coupled with slower demand, high unemployment rates and unfavorable growth prospects, contributed to keeping inflation moderate, particularly in developed countries.

3.1 Global financial conditions and economic activity

3.1.1 Financial conditions

In May 2013, tensions in financial markets appear to have eased on almost all compartments, except for some disruptions in stock markets at the end of the month.

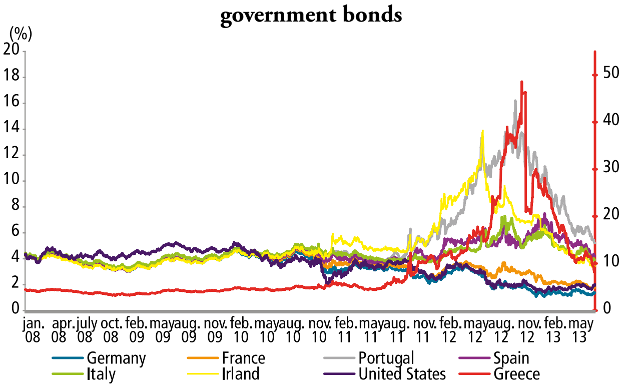
Chart 3.1: Change in the OIS-LIBOR spread*



** 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

In bond markets, sovereign yields eased or stagnated across countries for the second consecutive month. In the euro area, 10-year yields of peripheral countries recorded declines, between April and May 2013, from 4.3 percent to 3.9 percent in Italy, from 4.6 percent to 4.2 percent in Spain and from 6.2 percent to 5.4 percent in Portugal. Similarly, those of Greece decreased to 9.3 percent from 11.6 percent. Meanwhile, French and German bond yields stagnated at 1.8 percent and 1.3 percent, respectively. Yields in the United States rose in May to 1.9 percent as against 1.7 percent in the previous month.

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



Source: Datastream

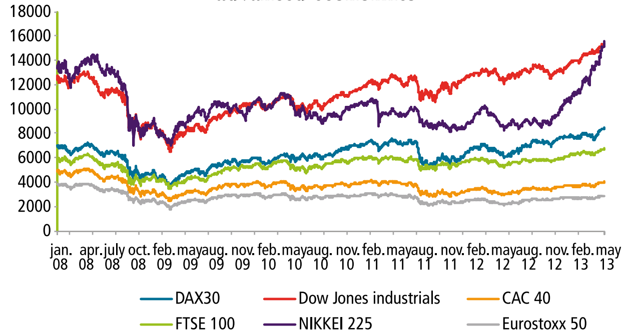
In money markets, interbank rates and spreads virtually stagnated. Indeed, the 3-month Euribor reached 0.21 percent in May from 0.20 percent in the previous month, while 3-month Libor stood at 0.27 percent from 0.28 percent. The euro Libor-OIS spread stabilized at 4.9 basis points from April to May 2013, while the dollar Libor-OIS spread was up to 15.4 points in May as opposed to 14.6 points in April.

Moreover, loans to the private sector grew in April to 4.3 percent from 4.1 percent a month earlier in the United States. In contrast, in the euro area, they shrank by 0.9 percent, which is the 12th consecutive decline.

In stock markets, major indexes broadly performed well in May, while being less volatile compared to April. Indeed, in the European markets, the EUROSTOXX50, DAX30, CAC40 and FTSE rose by 5.6 percent, 7 percent, 5.9 percent and 4.2 percent, respectively. Concerning other indexes of advanced economies, the NIKKEI225 and the Dow Jones were up 10 percent and 3.1 percent, respectively. In terms of volatility, VSTOXX fell from 20.4 basis points to 17.4 points, while the VIX dropped from 14 to 13 points, from one month to another. Similarly, indexes of emerging economies grew, in contrast to the trend of the previous month. Thus, the MSCI EM rose in May by 2.9 percent, month on month.

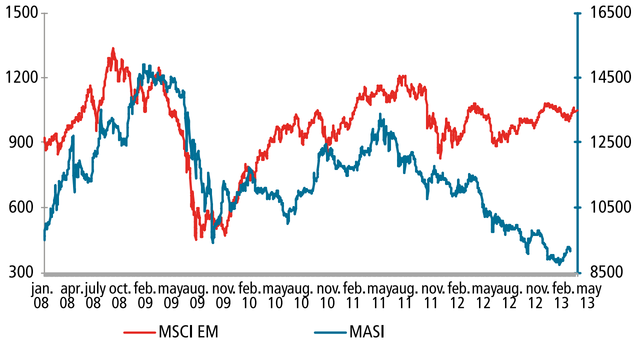
In foreign exchange markets, the euro traded at $1.30 on average in May, registering a slight depreciation of 0.5 percent from the previous month. The single currency also depreciated 0.5 percent vis-à-vis the pound sterling, while it appreciated 2.8 percent against the Japanese yen. The latter depreciated significantly, standing at 133 yen against the euro and 103 yen to one dollar in May, levels never recorded since January 2010 and April 2009, respectively. This change is mainly attributed to monetary easing measures taken by the Central Bank of Japan to fight against deflation.

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



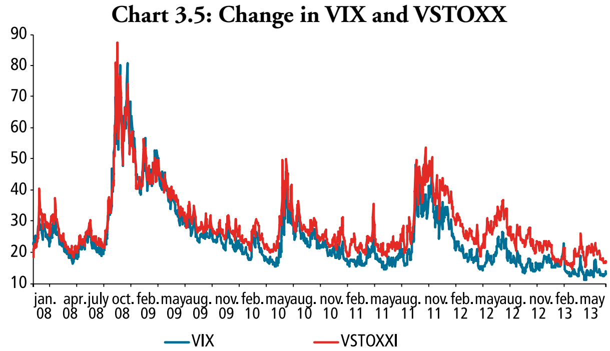
Source: Datastream

Chart 3.4: Change in the MSCI EM and MASI



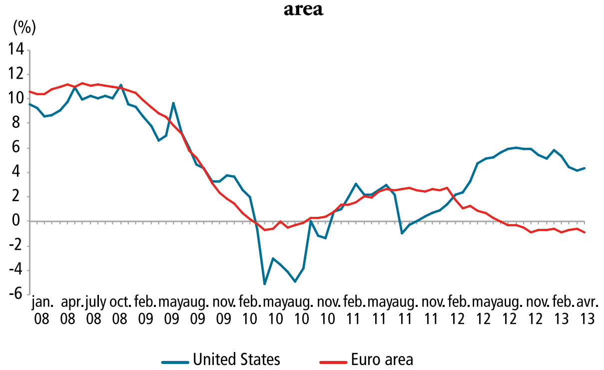
Source: Datastream

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

With regard to monetary policy decisions, the Bank of England and the Federal Reserve (FED), at their last meetings, kept their key rates unchanged at 0.50 percent and within a range of 0 percent to 0.25 percent, respectively. Similarly, the ECB kept its key rate at 0.5 percent.

In addition, the minutes of the Fed in May 2013 showed divergences within the Federal Open Market Committee (FOMC) about the bond-buying program, which currently amounts to $85 billion per month. Some FOMC members indicated that this program could be slowed or stopped before the condition of the unemployment rate is met. Thus, the statement highlight that the FOMC should be prepared to adjust the pace of its purchases up or down, either in response to an improvement in the economic outlook or in case of a reassessment of efficacy and costs of such a program.

3.1.2 Global economic activity

Regarding the real sphere, national accounts data for the first quarter of 2013 indicate a continued deterioration of economic activity, particularly in the euro area, while a slight increase was registered in the United States and the United Kingdom.

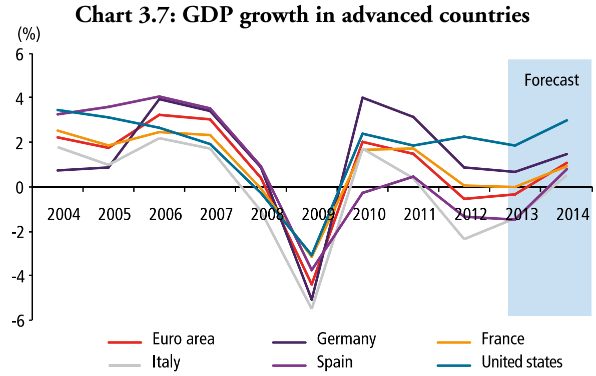
In the first quarter of 2013, growth in developed countries showed divergent trends across countries. In the United States, growth stood at 1.8 percent from 1.7 percent in the previous quarter. This improvement is mainly due to the buoyant trend in household consumption and a rebound in exports. Similarly, in the United Kingdom, GDP increased slightly, year on year, to 0.6 percent from 0.2 percent in the fourth quarter of 2012, driven mainly by the services sector. In Japan, GDP grew by 0.2 percent, year on year.

Table 3.1: YoY change in quarterly growth

	2011		2012				2013
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
United States	1.6	2.0	2.5	2.1	2.6	1.7	1.8
Euro area	1.3	0.6	-0.1	-0.5	-0.7	-0.9	-1.1
France	1.8	1.4	0.3	0.1	0	-0.3	-0.4
Germany	2.7	1.9	1.3	1.0	0.9	0.3	-0.3
Italy	0.3	-0.5	-1.7	-2.5	-2.6	-2.8	-2.3
Spain	0.6	0.0	-0.7	-1.4	-1.6	-1.9	-2.0
United Kingdom	0.7	1.0	0.4	0.04	0.3	0.2	0.5
Japan	-0.5	0.0	3.3	4.0	0.4	0.4	0.2
China	9.1	8.9	8.1	7.6	7.4	7.9	7.7

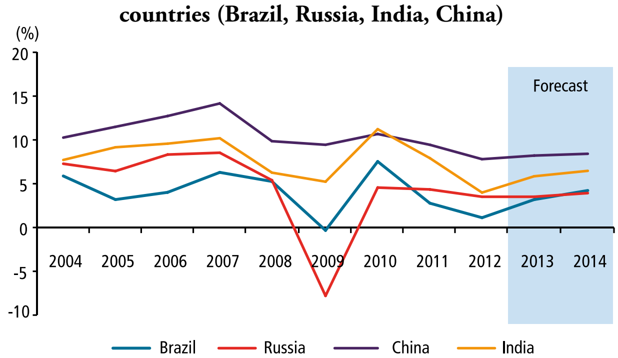
Source : Eurostat

Chart 3.7: GDP growth in advanced countries



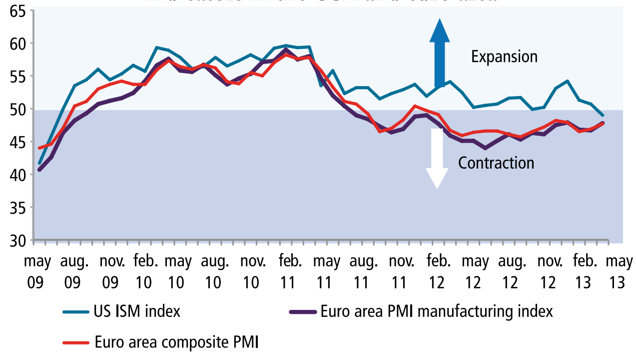
Source: IMF

Chart 3.8: GDP growth in emerging countries (Brazil, Russia, India, China)



Source: IMF

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



Source: Datastream

In contrast, in the euro area, the economic activity continued to decline, with GDP contracting by 1.1 percent, year on year, in the first quarter, as against 0.9 percent in the previous quarter.

This change mainly reflects lower activity in the major economies of the area. In Germany, GDP fell by 0.3 percent, after a slight increase of 0.3 percent in the previous quarter, thus registering the weakest performance since 2009. Moreover, the underperformance of exports affected GDP growth in France and Spain, worsening its year-on-year contraction from 0.3 percent to 0.4 percent and from 1.9 percent to 2 percent, respectively, from one quarter to another. In Italy, the decline in GDP eased slightly from -2.8 percent to -2.6 percent.

In emerging Asia, growth in China fell slightly from 7.9 percent to 7.7 percent in the first quarter, partly due to slower domestic and external demand. While in India, GDP growth increased slightly from 4.7 percent to 4.8 percent.

The findings of eurozone purchasing managers' surveys suggest an easing in economic contraction in May. Indeed, the composite PMI rose from 46.9 in April to 47.7 points, but remaining down 4.8 percent compared to the threshold of 50 points. The manufacturing PMI rose to 47.8 points from 46.7 a month earlier. In the United States, the results indicate that the ISM manufacturing index stood at 49 points from 50.7 in the previous month, thus ranking above the level of 50 points.

In light of economic developments over the last two quarters, the IMF slightly revised down its growth projections in April. Thus, it predicts that global GDP should increase by 3.3 percent in 2013 and 4 percent in 2014, covering a growth of

Table 3.2: Global growth outlook

	Forecasts (%)					
	European commission		IMF*		OECD	
	2013	2014	2013	2014	2013	2014
Global GDP	3.1	3.8	3.3	4.0	3.1	4.0
United States	1.9	2.6	1.9	3.0	1.9	2.8
Euro area	-0.4	1.2	-0.3	1.1	-0.6	1.1
Germany	0.4	1.8	0.6	1.5	0.4	1.9
France	-0.1	1.1	-0.1	0.9	-0.3	0.8
Italy	-1.3	0.7	-1.5	0.5	-1.8	0.4
Spain	-1.5	0.9	-1.6	0.7	-1.7	0.4
United Kingdom	0.6	1.7	0.7	1.5	0.8	1.5
Japan	1.4	1.6	1.6	1.4	1.6	1.4
China	8.0	8.1	8.0	8.2	7.8	8.4
India	5.7	6.6	5.7	6.2	5.7	6.6
Brazil	3.0	3.6	3.0	4.0	2.9	3.5
Russia	3.3	3.8	3.4	3.8	2.3	3.6

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

Table 3.3: Change in unemployment rate

	2011	2012	march 2013	apr. 2013	may 2013
United States	9.0	8.1	7.6	7.5	7.6
Euro area	10.2	11.4	12.1	12.2	N.A
France	9.6	10.2	11.0	11.0	N.A
Italy	8.4	10.6	11.9	12.0	N.A
Germany	6.0	5.5	5.4	5.4	N.A
Spain	21.7	25.1	26.7	26.8	N.A
United Kingdom	8.0	7.9	N.A	N.A	N.A

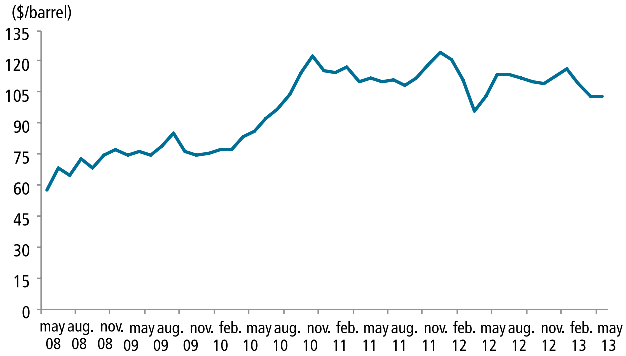
Source : Eurostat

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 (May 2013), IMF (April 2013).

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



Source: Datastream

1.2 percent and 2.2 percent in advanced economies and 5.3 percent 5.7 percent in emerging and developing economies. Growth would be around 1.9 percent in 2013 and 3 percent in 2014 in the United States, -0.3 percent and 1.1 percent in the euro area and 1.6 percent and 1.4 percent in Japan. In addition, the IMF forecast a growth of around 8 percent and 8.2 percent in China, 5.7 percent and 6.2 percent in India and 3 percent and 4 percent in Brazil.

Similarly, the European Commission revised down its growth forecast in its economic outlook of May 2013, reaffirming that the return to growth should occur in a progressive manner as of the second half, before accelerating in 2014. Indeed, global GDP should grow by 3.1 percent in 2013 and 3.8 percent in 2014. By group of countries, growth would stand, respectively in 2013 and 2014, at 1.1 percent and 2.1 percent in advanced economies, and 5.2 percent and 5.6 percent in emerging and developing countries. In addition, the Commission expects that growth would be 1.9 percent in the United States, and -0.4 percent in the euro area in 2013, before rising 2.6 percent and 1.2 percent in 2014 (see Table 3.2).

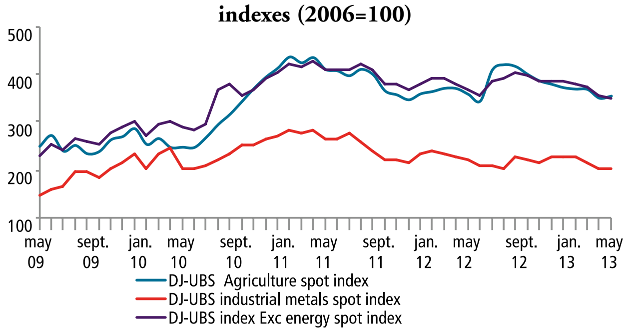
The OECD outlook for May 2013 indicates also downward revisions of growth in most advanced countries in 2013. The OECD forecasts a global GDP growth of 3.1 percent in 2013 before increasing to 4 percent in 2014. In the United States, GDP growth should reach 1.9 percent in 2013, as against a decline of 0.6 percent in the euro area. In partner countries, GDP growth should increase by 0.4 percent in Germany and show contractions of 0.3 percent in France, 1.7 percent in Italy and 1.8 percent in Spain in 2013.

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

	Q2:13	Q3:13	Q4:13	Q1:14	2013	2014	2015
Oil	103.59	103.15	102.16	101.20	105.29	99.78	96.07

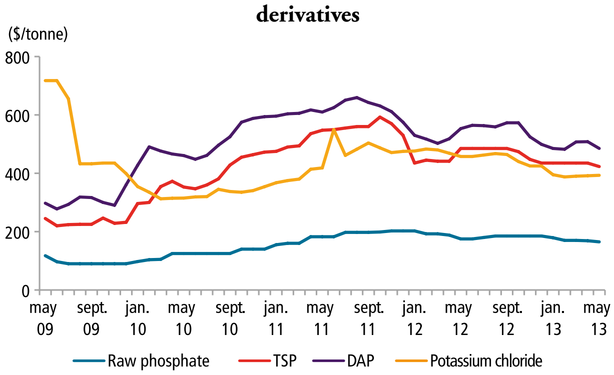
Source : Bloomberg

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

3.1.3 Job market

Data as at end-April 2013 indicate that the labor market continues to be marked by persistently high unemployment rates in most developed countries. In the United States, May data reveal a slight increase in the unemployment rate to 7.6 percent from 7.5 percent in the previous month. However, this increase is due to a higher participation rate, which rose from 63.3 percent to 63.4 percent, owing to a significant job creation of 175,000.

In the euro area, the unemployment rate, which has been rising since the beginning of 2008, stood in April at 12.2 percent, as against 12.1 percent a month earlier. In partner countries, this rate remained unchanged in France and Germany at 11 percent and 5.4 percent, respectively, while in Italy and Spain, it rose slightly to 12 percent and 26.8 percent from 11.9 percent and 26.7 percent in the previous month. In the United Kingdom, unemployment data remain those of February and indicate a slight decrease to 7.7 percent as against 7.8 percent in the previous month.

Short-term forecasts of the labor market, mainly those of the OECD dated end-May, show overall an increase in 2013 for the majority of developed countries. Thus, the OECD expects in 2013 for the United States an unemployment rate of 7.5 percent, which would slow down to 7 percent in 2014, while in the euro area, it would stand at 12.1 percent in 2013, before rising to 12.3 percent in 2014.

In the United States, the European Commission expects an unemployment rate of 7.7 percent in 2013 and 7.2 percent in 2014. In the euro area, it forecasts respective unemployment rates of 12.2 percent and 12.1 percent in 2013 and 2014.

Based on IMF forecasts, the unemployment rate in the United States would stand at 7.7 percent in 2013 and slow down to 7.5 percent in 2014. However, it would remain stable in the euro area at 12.3 percent in both 2013 and 2014. In partner countries, the unemployment rate in Germany would move up to 5.7 percent in 2013 before decreasing slightly to 5.6 percent in 2014. In Spain, it is revised upward to 27 percent in 2013 and would slow down to 26.5 percent in 2014. In France, it increased to 11.2 percent and 11.6 percent in 2013 and 2014, respectively.

3.2 Commodity prices and inflation

During the last three months, commodity prices declined overall, year on year, with the exception of energy prices, which remain high compared to the same period of last year. Inflation resumed its rise in May, particularly in the euro area, after five consecutive months of decline.

3.2.1 Energy commodity prices

After sharp declines in the past two months, the Brent price almost stabilized, moving from $102.96 to 102.98 per barrel. This trend is due to the weakening of the dollar, hampered, however, by the abundant supply of oil.

In terms of outlook[1], the World Bank revised slightly upward its estimates in May, now assuming a price of $102.4 per barrel in 2013 as against $102 previously. Similarly, the IMF forecast rose from $99.71, published in its WEO of January 2013, to $102.6 per barrel, reported in its WEO April 2013. However, the European

1 *The World Bank and the IMF make their forecasts based on the average price of the three oil categories (Brent, WTI, Dubai). The European Commission makes projections about the price of Brent only.*

Commission lowered its Brent price forecast, which should stand at $104.9 per barrel in 2013, a revision of -7.7 percent.

3.2.2 Non energy commodity prices

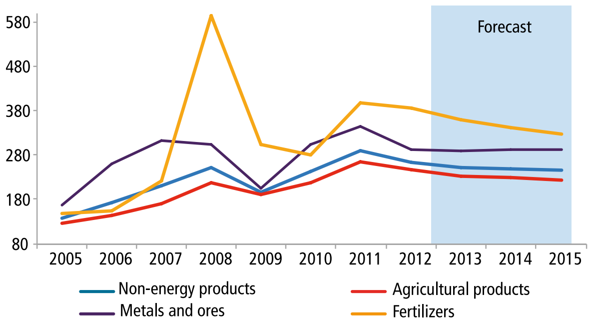
In May 2013, non-energy commodity prices a year-on-year decline, as evidenced by a 5.4 percent drop in the relevant Dow Jones index. This change reflects a significant decline of 9.1 percent in the index of industrial metal prices, as well as a slight decrease of 0.9 percent in that of agricultural commodities.

In the world market of phosphate, the price of crude fell by 2.2 percent from one month to another, to $165 per tonne in May. Similarly, Urea and DAP prices recorded respective declines of 4.7 percent and 4.6 percent, month on month. After stagnating at $435 per tonne over the last five months, the price for TSP moved down 2.8 percent in May. In contrast, Potassium Chloride prices edged up 0.4 percent from one month to another. Year on year, prices for these commodities showed declines of 26.7 percent for urea, 16.5 percent for Potassium Chloride, 11 percent for crude phosphate, 1.9 percent for DAP and 1.4 percent for TSP.

3.2.3 Inflation in the world

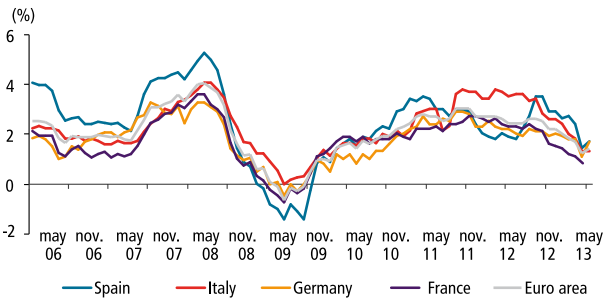
According to preliminary estimates by Eurostat, inflation in the euro area increased to 1.4 percent in May, after having stood at 1.2 percent in April. Indeed, it reached 1.7 percent in Germany and Spain, as against 1.1 percent and 1.4 percent, respectively, in the previous month, while in Italy, it stagnated at 1.3 percent. In other partner countries, the data remain those of April and show decreases from 2.8 percent to 2.4 percent in the United Kingdom, and from 1.1 percent to 0.8 percent in France. In the United States, inflation dropped in April from 1.5 percent to 1.1 percent, a level reached for the last time in November

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

	march 2013	april 2013	may 2013	Forcasts 2013	2014
United States	1.5	1.1	n.a	1.8	2.1
Euro area	1.7	1.2	1.4	1.6	1.5
Germany	1.8	1.1	1.7	1.8	1.6
France	1.1	0.8	n.a	1.2	1.7
Spain	2.4	1.4	1.7	1.5	0.8
Italy	1.8	1.3	1.3	1.6	1.5
Japan	-0.9	-0.7	n.a	0.2	1.8

Sources: European commission and Datastream

2010. In emerging countries, inflation moved up in China from 2.1 percent to 2.4 percent in April, while it fell from 6.6 percent to 6.5 percent in Brazil.

Regarding the outlook, according to the IMF forecasts, published in the April 2013 WEO, inflation would reach 5.9 percent in 2013 and 5.6 percent in 2014 in emerging and developing countries. In developed countries, it should be limited to 1.7 percent in 2013 before increasing to 2 percent in 2014. Moreover, according to the latest forecasts from the European Commission, inflation should stand in the euro area at 1.6 percent in 2013 before declining slightly to 1.5 percent in 2014.

3.3 Morocco's import unit price index

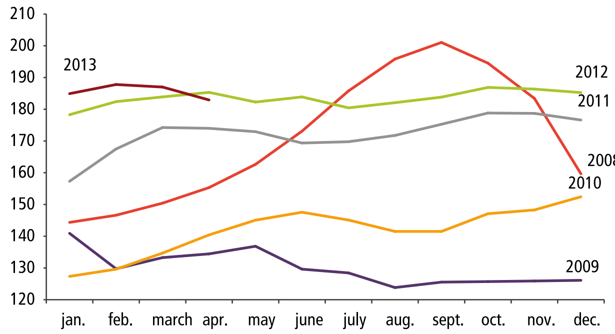
According to data available at end-April 2013, non-energy import price index (IPI) recorded a monthly decline of 2.2 percent, as against 0.4 percent a month earlier. Indeed, the food IPI fell 2 percent as opposed to 1.9 percent in March, mainly owing to a 5.8 percent drop in the average import unit price of corn, offset by a 1.9 percent increase in that of sugar.

Meanwhile, the IPI of semi-finished goods decreased by 0.6 percent, as against 1 percent in the previous month, due to a 3.3 percent decline in the average import unit price of wires and bars, while that of paper and cardboard grew by 0.9 percent.

Similarly, the mining IPI fell by 3.2 percent as opposed to 1.3 percent in March. This trend was mainly due to a 2.5 percent decrease in the average import unit price of crude sulfur and 4.7 percent in that of iron and steel.

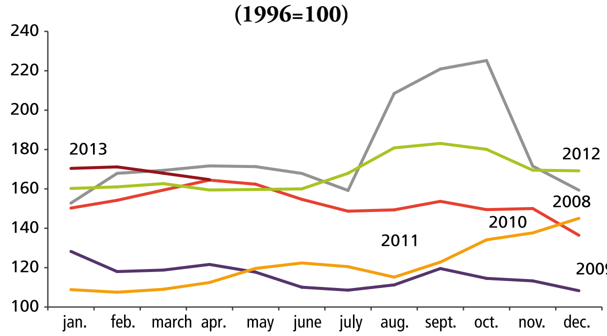
Year on year, non-energy IPI decreased by 1.3 percent, as against an increase of 6.5 percent a year earlier. The mining IPI dropped by 7.8 percent in April 2013, following a 13.9 percent decline in the average import unit price of crude sulfur, while the food IPI rose 3.3 percent, following a 9.6 percent increase in the

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



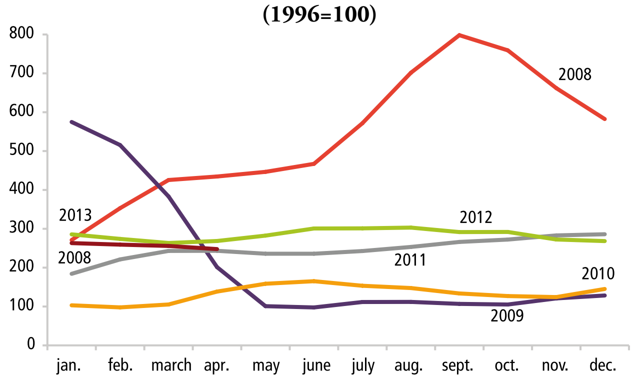
Sources: Foreign Exchange Office, and BAM calculations

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



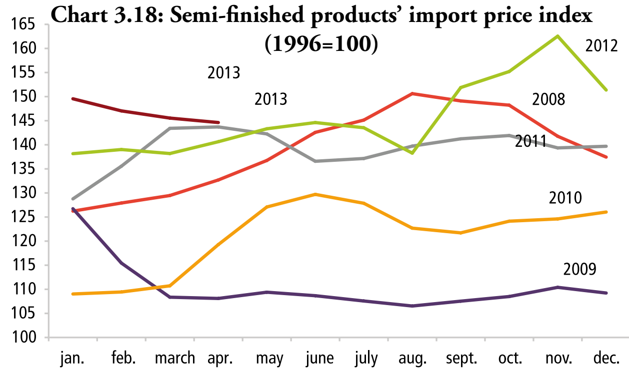
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.17: Mining products' import price index (1996=100)



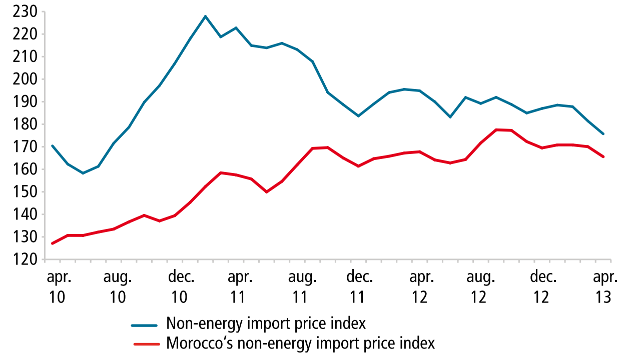
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.18: Semi-finished products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations average import unit price of wheat, offset by a 16.4 percent drop in that of sugar. The IPI of semi-finished goods increased by 2.8 percent, mainly owing to a 4.7 percent increase in the average import unit price of paper and cardboard.

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



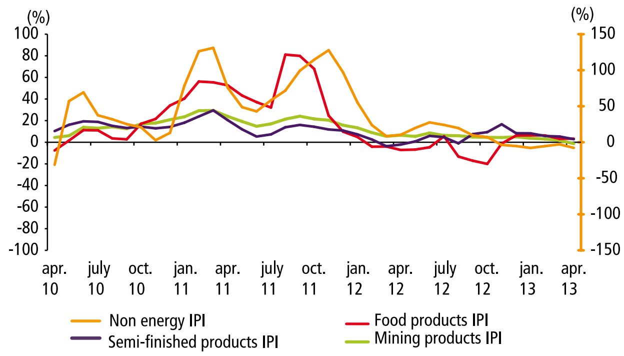
Sources: Foreign Exchange Office, World Bank and BAM calculations

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

	Monthly change in %			Annual change in %		
	feb. 2013	march 2013	apr. 2013	feb. 2013	march 2013	apr. 2013
Non energy IPI	1.6	-0.4	-2.2	3.0	1.7	-1.3
Food IPI	0.4	-1.9	-2.0	6.3	3.26	3.30
Semi-finished products IPI	-1.7	-1.0	-0.6	5.8	5.3	2.8
Mining IPI	-1.5	-1.3	-3.2	-5.4	-2.9	-7.8

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

Data as at end-April 2013 show a slight increase in the growth of the money supply and bank credit, while the monetary gap remained negative. Indeed, M3 growth stood at 4 percent from 2.9 percent in the first quarter. Bank credit grew by 3.9 percent as against 3.1 percent in the previous quarter, particularly reflecting an accelerated growth of cash facilities and real-estate loans, while equipment loans continued their contraction that started in July 2012. As to lending rates, Bank Al-Maghrib's survey for the first quarter of 2013 shows a decline of 21 basis points to 5.99 percent in the weighted average lending rate. However, this drop affected only rates on cash facilities.

The dirham's effective exchange rate appreciated by 0.5 percent in the first quarter in nominal terms compared to the previous quarter, while in real terms it appreciated 0.66 percent, due a national inflation rate overall higher than that of key partners and competitors. The real estate price index almost stagnated, year on year, covering an increase of 0.5 percent for residential property, a decrease of 2.9 percent for commercial one, and virtual stability for land property. Overall, the analysis of recent developments of monetary conditions and asset prices indicate an absence of monetary inflationary pressures in the medium term.

4.1 Monetary conditions

4.1.1 Interest rates

Taking into account a neutral balance of risks, under the assumption that the existing subsidy system would be maintained and the central inflation forecast would be in line with the price stability objective, the Board, at its last meeting on March 26, 2013, decided to keep the key rate unchanged at 3 percent. Against this backdrop, the weighted average rate on the interbank market stood at 3.08 percent on average between April and May 2013, remaining virtually stable from the first quarter.

The rates of short and medium-term primary market Treasury bonds continued their upward trend that began in the third quarter of 2012, with increases in April to 8 basis points from the previous quarter. In the secondary market, the same trend characterized the various maturity rates, except for those on 15-year bonds, which dropped slightly and those on 20-year bonds, which remained unchanged.

Concerning deposit rates, the weighted average rate of 6 and 12-month deposits

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

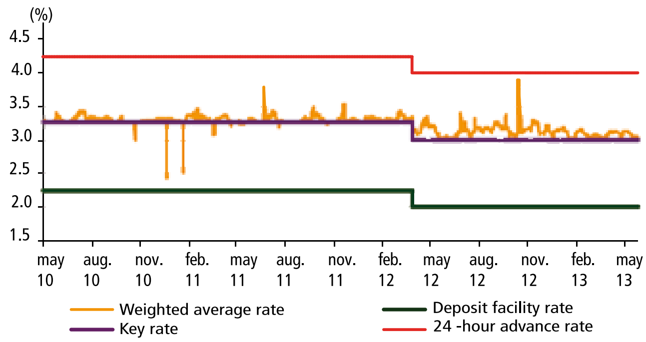


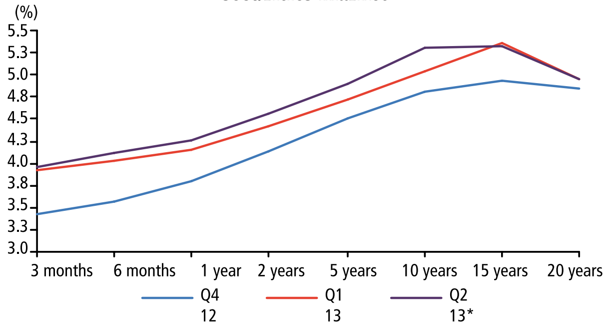
Table 4.1: Change in Treasury bond yields on the primary market

	2011		2012				2013	apr. 13
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
21 days	3.28	-	-	-	-	-	-	-
24 days	-	-	-	-	-	3.71	-	-
35 days	-	-	-	-	-	3.78	4.12	-
43 days	-	-	-	-	3.48	-	-	-
44 jours	-	-	-	-	3.59	-	-	-
45 jours	-	-	-	-	-	3.97	-	-
13 weeks	3.30	3.34	3.42	3.21	3.31	3.40	3.93	3.96
26 weeks	3.33	3.33	3.55	3.39	3.42	3.57	4.07	4.10
52 weeks	3.46	3.49	3.65	3.53	3.74	3.84	4.20	4.23
2 years	3.61	3.71	3.88	3.71	3.93	4.24	4.57	4.65
5 years	3.85	3.91	4.05	4.00	4.32	4.52	4.75	-
10 years	4.13	4.20	4.32	4.29	4.51	4.84	-	-
15 years	4.34	4.45	4.46	4.52	4.74	5.08	5.52	-
20 years	-	-	-	-	5.01	-	-	-

declined 18 basis points between the first quarter and April 2013, to 3.67 percent. This change reflects a decline of 22 basis points in one-year deposit rates and virtual stagnation in the 6-month deposit rates.

As to lending rates, the findings of BAM's survey with banks for the first quarter of 2013 indicates a reduction of 21 basis points in the weighted average rate of bank loans, to 5.99 percent. However, this contraction affected only rates on cash facilities, while rates on other loan categories recorded increases ranging from 4 to 15 basis points.

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



**Observation of the second quarter of 2013 corresponds to the daily average of data from April 1 to May 27. 2013*
Source : BAM

Table 4.2: Borrowing Rates (time deposits)

	2011		2012				2013	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	apr. 13
6 months	3.33	3.35	3.49	3.43	3.49	3.55	3.52	3.53
12 months	3.78	3.74	3.84	3.83	3.83	3.84	4.02	3.80
Weighted average	3.63	3.59	3.68	3.69	3.71	3.73	3.85	3.67

Box 4.1: Liquidity and monetary policy implementation

During the first quarter of 2013, bank liquidity deficit slightly narrowed compared to the end of the previous quarter, from 64.1 billion to 63.7 billion dirhams, due to foreign assets operations. Indeed, foreign exchange transactions led to a liquidity injection of 2.6 billion dirhams, due to the difference between foreign banknotes sales, amounting to 5 billion dirhams, and foreign exchange purchases by commercial banks from Bank Al-Maghrib, which were limited to 2.4 billion dirhams.

In contrast, net withdrawals of currency in circulation reached 1.3 billion dirhams during school holidays.

Similarly, Treasury operations (excluding interventions on the money market) contributed to tightening liquidity conditions by 634 million dirhams due to the difference between:

- On the one hand, bank subscriptions to T-bills' auction (44.6 billion dirhams) and the collection of tax revenues, including the remainder of the 4th installment of corporate tax for 2012,
- On the other hand, the repayment of the domestic debt maturities to the banking system (30.7 billion dirhams), the settlement of civil servants' salaries (16.2 billion dirhams) and subsidization expenses (15.5 billion dirhams).

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

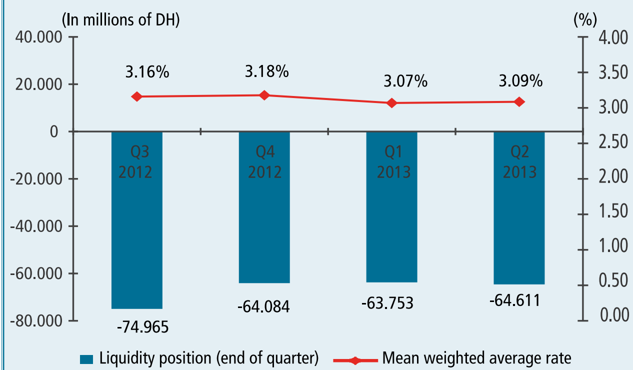


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market

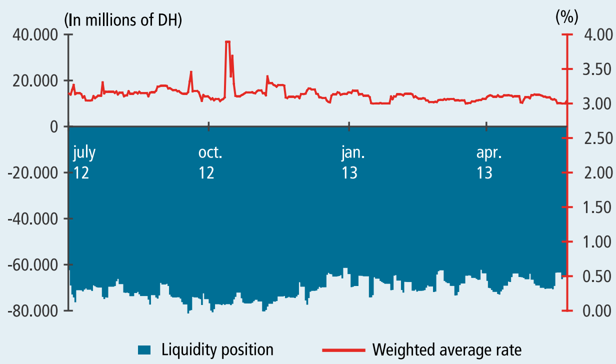


Chart B 4.1.3: Change in reserve requirements

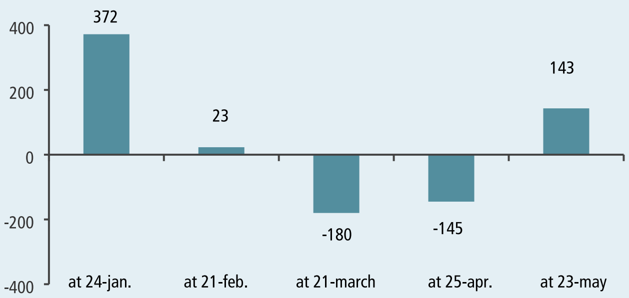
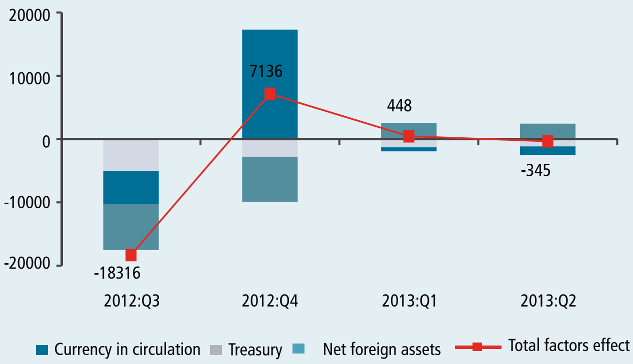


Chart B 4.1.4: Change in liquidity factors' effect



In the second quarter of 2013[1], the bank liquidity shortage widened slightly by 900 million dirhams from the previous quarter to 64.6 billion dirhams due to the restrictive impact of Treasury operations (excluding interventions on the money market), combined with an increase in currency in circulation.

Indeed, Treasury operations caused a liquidity drain of 1.4 billion dirhams: Bank subscriptions to T-bills' auction (27.4 billion dirhams) and the collection of the 1st installment of corporate tax for 2013, were only partially offset by the repayments of domestic debt maturities to the banking system (24.6 billion dirhams), the payment of civil servants' salaries (5.2 billion dirhams) and subsidization expenses (3.5 billion dirhams).

Similarly, the net outflow of currency in circulation totaled 1.2 billion dirhams.

However, foreign assets operations led to a liquidity injection of 2.4 billion dirhams resulting from the difference between foreign banknotes sales, amounting to 3 billion dirhams, and foreign exchange purchases by commercial banks, which were limited to 574 million dirhams.

Outstanding money market Treasury investments remained unchanged from the last quarter of the previous year, at nearly 900 million dirhams on daily average.

To fill the shortage in bank liquidity, Bank Al-Maghrib intervened mainly through 7-day advances with an average daily amount of 48.2 billion dirhams, as against nearly 50 billion dirhams in the previous quarter.

Bank Al-Maghrib also raised its outstanding 3-month refinancing operations to 19 billion dirhams, of which 4 billion as operations of loans secured by private bills representing claims for SME and VSE.

Money market weighted average rate registered a slight increase to 3.09 percent on average during this quarter, as against 3.07 percent in the first quarter of 2013.

However, its volatility declined to 3 basis points, as opposed to 5 basis points in the previous quarter, due to the stability of the weighted average rate at levels close to the key rate.

Chart B 4.1.5: BAM interventions on the money market

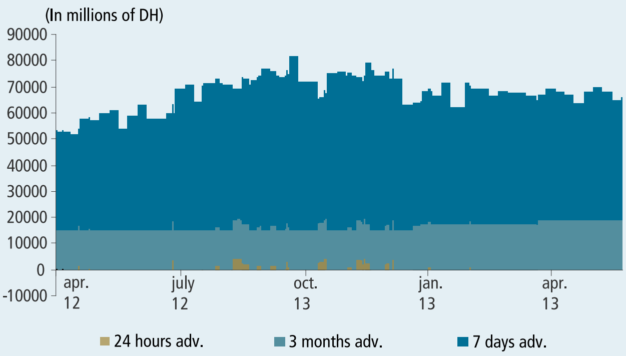
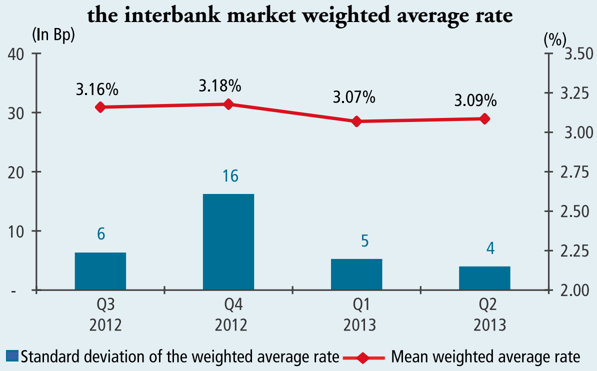


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



(1) Q2 2013: the second quarter of 2013 covers only the period from April 1 to May 23, 2013.

4.1.2 Money. credit and liquid investments

M3 growth

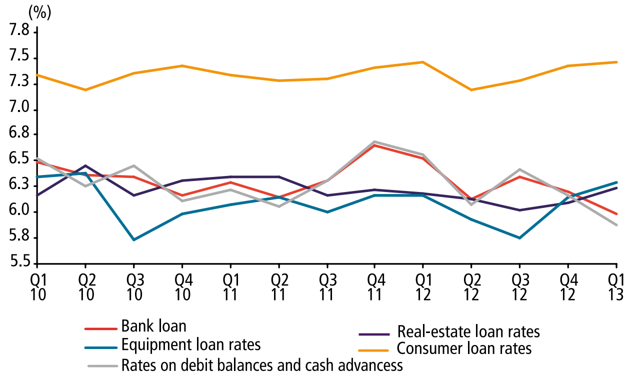
April 2013 data show that the money supply grew slightly to 4 percent from 2.9 percent in the first quarter. Despite this increase, the monetary gap remained negative, indicating the absence of monetary inflationary pressures in the medium term.

The increase in M3 in April reflects a slight acceleration of the bank credit growth and net claims on central government, as well as a mitigated decline in net foreign assets.

This accelerated growth of the money supply was almost universal to all components. Thus, bank money and currency in circulation increased by 3.7 percent and 3.9 percent, respectively, as against 2.7 percent and 3.5 percent in the first quarter. At the same time, after successive declines since the fourth quarter of 2011, time deposits showed annual increases of 1.6 percent in the first quarter and 4.5 percent in April. This trend would be due to the cumulative effect of increases in the weighted average deposit rate since the third quarter of 2012, despite a slight fall in April. As for money market UCITS, although up 7.1 percent from one month to another, their outstanding amount remains at a lower level by 6.4 percent compared to the same period of 2012. Demand deposits increased by 8.2 percent, year on year, a rate similar to that registered in the previous quarter.

By economic unit, the accelerated growth of deposits, included in the M3 aggregate, reflects particularly higher contribution of both nonfinancial private corporations and financial companies. Indeed, the deposits of the latter grew by 10.6 percent, as against 2.1 percent a quarter earlier, thus contributing

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

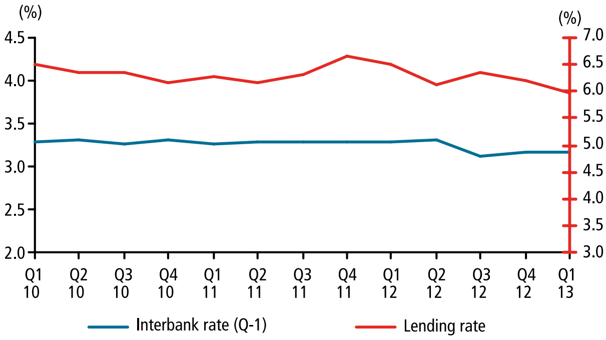


Chart 4.5: YoY M3 growth and its trend

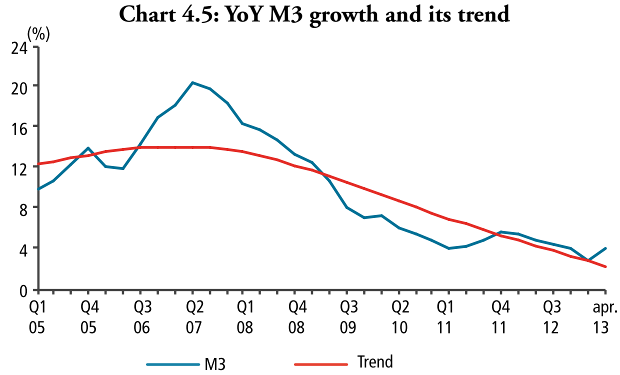
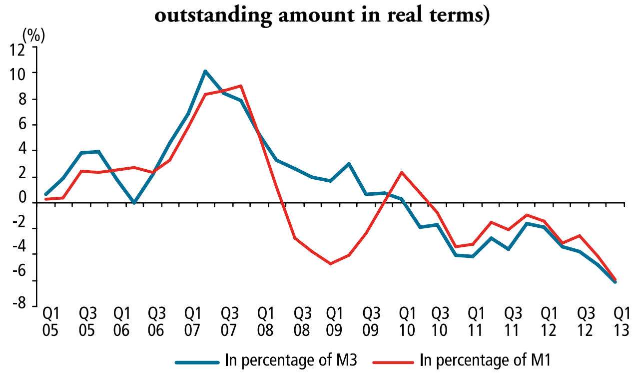


Chart 4.6: Money gap (in percentage of M3 and M1 balance outstanding amount in real terms)



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.

0.6 percentage point to the growth of deposits. After a decrease of 3.3 percent in the first quarter, the assets of nonfinancial private corporations moved up 6.6 percent, thus contributing one percentage point to the growth of deposits. However, the public sector deposits, down 9.5 percent year on year, contributed negatively to the growth of deposits. Household assets, which remain the main contributor to the increase in deposits, were up by 5 percent, a rate similar to that of the previous quarter.

Credit

The data available at end-April show a slight acceleration in the annual growth of bank lending, which stood at 3.9 percent, from 3.1 percent on average during the first quarter of 2013. The quarterly survey on lending conditions of the first quarter of 2013 indicates that the supply criteria remained overall unchanged. However, banks are split in their views on demand trends between stagnation and decline.

This credit growth reflects divergent trends across loan categories. Thus, cash advances increased by 5.4 percent, from 4.1 percent in the first three months of the year. At the same time, the annual growth of real-estate loans stood at 7.3 percent from 6.8 percent in the previous quarter, covering a 1.9 percent improvement in the growth of loans to developers, after a 0.5 percent decline, and a slight deceleration from 10.1 percent to 9.7 percent in that of housing loans. In contrast, the annual growth of consumer loans slowed down to 6.7 percent from 7.7 percent. Meanwhile, despite a monthly increase of 0.8 percent, equipment loans contracted by 0.9 percent, after falling 0.8 percent in the first quarter, thus showing an almost continuous downward trend since July 2012. Miscellaneous loans to

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

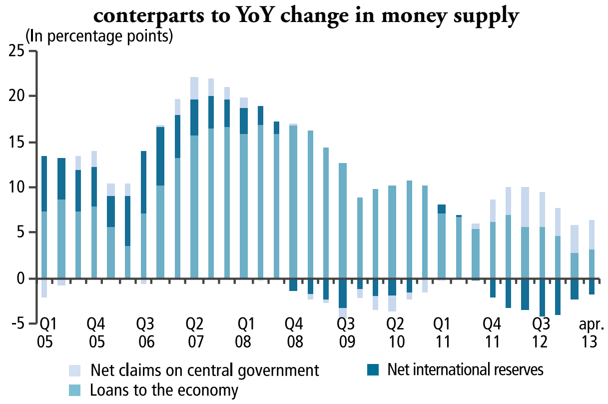


Chart 4.8: YoY change in the major M3 components

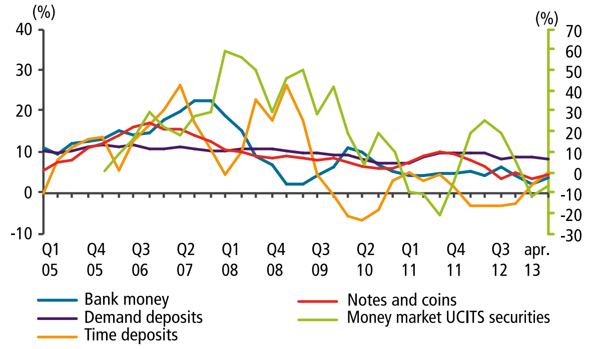


Chart 4.9: Institutional sectors' contribution to YoY change of deposits

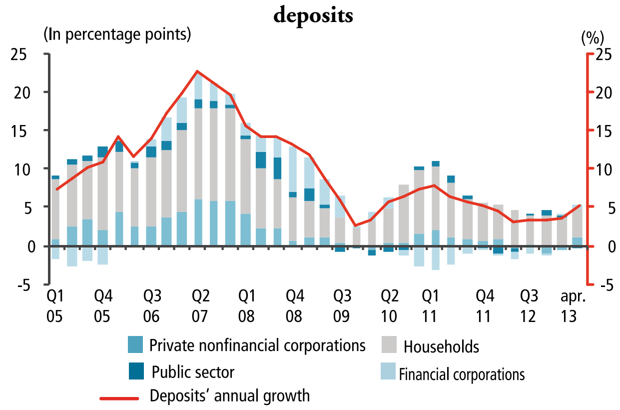
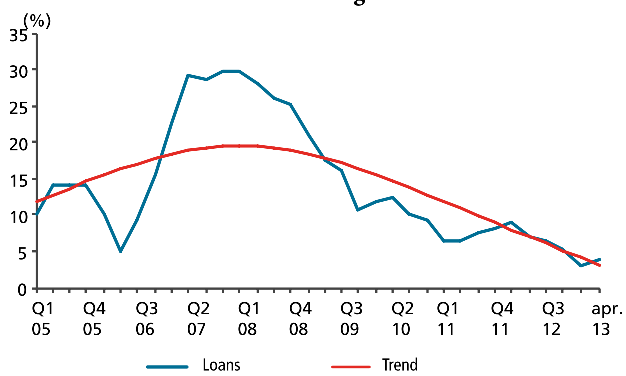


Chart 4.10: YoY change of bank loans



customers dropped 2.9 percent, while nonperforming loans, up 1.6 percent from one month to another, grew by 10.4 percent, year on year, representing a share of 5.4 percent of bank credit.

The analysis by institutional unit indicates that the slight acceleration in bank lending in April was attributable to higher growth rates of both loans to households and loans to other financial corporations. Indeed, loans to households grew 8.2 percent, as against 7.6 percent in the previous quarter, contributing 2.7 percentage points to the growth of bank credit. In addition, loans to other financial corporations posted an annual increase of 0.5 percent, after a decline of 9.1 percent on average in the past quarter. In contrast, the annual change of loans to nonfinancial private corporations decelerated to 3 percent from 2.2 percent, a contribution of 1.1 percentage point. Similarly, loans to the public sector slowed down from 9 percent to 2 percent in April, year on year, thus limiting their contribution to 0.1 percentage point.

Other sources of money creation

Net international reserves (NIR), which constitute the official net reserve assets of short-term liabilities of the Central Bank to nonresidents, showed a new mitigation of their contraction in April. They recorded an annual decline of 10.6 percent, after that of 13.2 percent in the first quarter.

Net claims on central administration moved up 28.7 percent in April, from 27.3 percent in the previous quarter, mainly reflecting the Treasury's greater use of the banking system.

Chart 4.11: YoY change of major bank loan categories

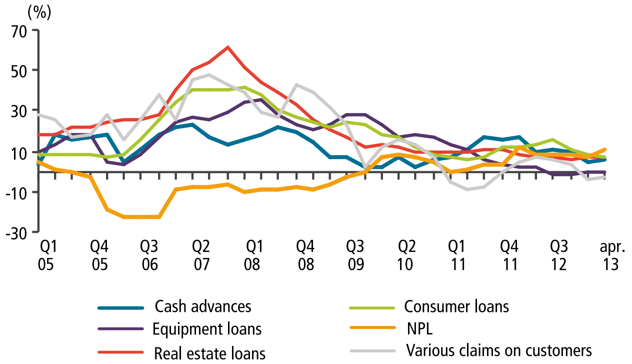


Chart 4.12: Contribution of institutional sectors to credit change, YoY

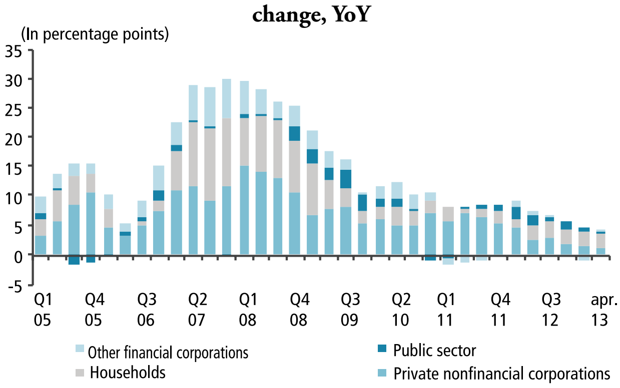
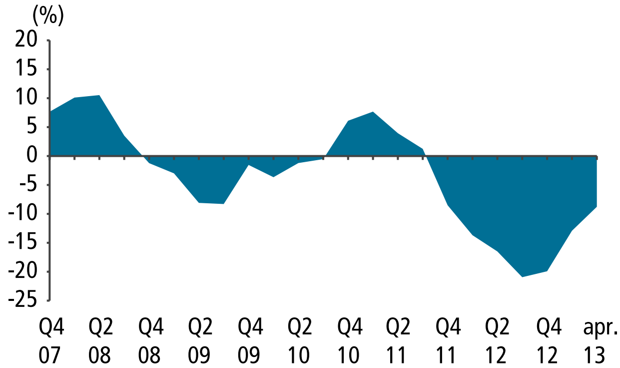


Chart 4.13: Annual growth of net internationales reserves



Liquid investments

In April 2013, liquid investment aggregates rose by 6.8 percent, as against 4.4 percent in the first quarter, primarily due to an accelerated growth of the LI1 aggregate.

Indeed, the outstanding securities included in the LI1 aggregate expanded by 10.6 percent from 7.3 percent in the first quarter, primarily owing to an increase in marketable Treasury bonds. Meanwhile, the outstanding bond UCITS, which constitute the LI2 aggregate, grew by 2.3 percent, as against 4.1 percent on average during the first three months of 2013, mainly reflecting lower demand for these assets.

Equity and diversified UCITS, which compose the LI3 aggregate, contracted by 5.4 percent year on year, after a decline of 16.2 percent in the past quarter, primarily reflecting the changing prices on the Casablanca Stock Exchange.

Exchange rate

During the first quarter of 2013 and compared to the previous quarter, the national currency depreciated 0.5 percent against the euro. However, it appreciated 1.34 percent vis-à-vis the U.S. dollar, 5 percent against the pound sterling and 15.1 percent versus the Japanese yen. During March and April, the dirham appreciated 0.47 percent against the euro and 6.41 percent vis-à-vis the Japanese yen, while it depreciated 1.20 percent against the dollar.

The dirham's effective exchange rate, calculated on the basis of bilateral exchange rates with Morocco's major trading partners and competitors, appreciated 0.5 percent

Chart 4.14: YoY change in liquid investments and time deposits

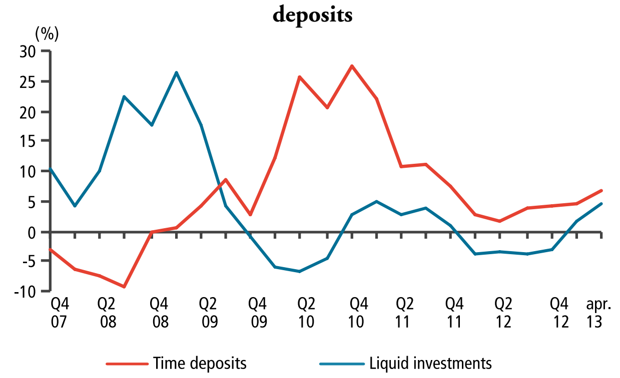
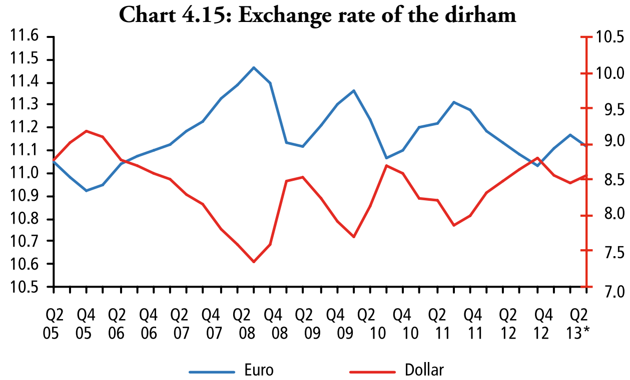
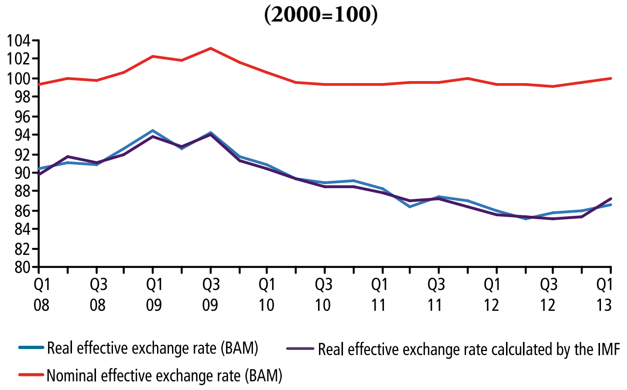


Chart 4.15: Exchange rate of the dirham



** Observation of the second quarter of 2013 corresponds to the arithmetic average from April 1st to May 24, 2013*

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



Sources: IMF and BAM calculations

in nominal terms in the first quarter of 2013. The 0.66 percent appreciation of the national currency appears slightly more significant in real terms, due to a national inflation rate overall higher than that of main partners and competitors.

4.2. Asset prices

4.2.1 Real estate assets

In the first quarter of 2013, real estate prices were virtually flat, year on year. This stability covers an increase of 0.5 percent for residential property, a decrease of 2.9 percent for commercial one and a virtual stability for land property. Quarter on quarter, prices trended similarly, with a 1.8 percent decline in land property prices, a 0.7 percent increase in residential ones and a 2.6 percent rise in commercial ones. By city, the largest increases were recorded in Oujda, with 5.1 percent, and Tangier, with 4.4 percent, while the most significant decreases were registered in El Jadida, with 1.4 percent, and Agadir with 1.3 percent.

Transactions[1] fell by 8.1 percent compared to the same period of 2012.

4.2.2 Share prices

In the first quarter of 2013, the MASI continued its downward trend, showing an underperformance of 17.4 percent, year on year, and 3.4 percent, quarter on quarter. The decline in this index since the beginning of the year stood at 3.7 percent in April and 4.8 percent in May. In particular, the share prices of real estate companies decreased by 26.7 percent

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

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

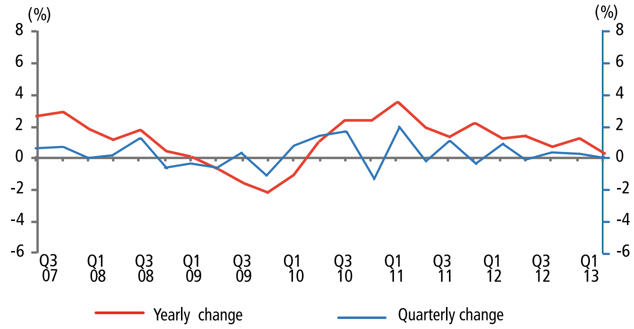
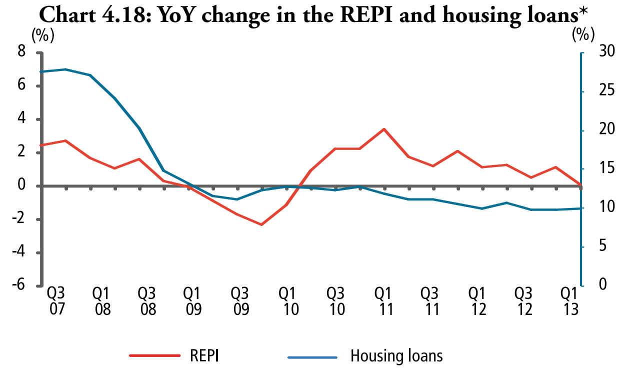


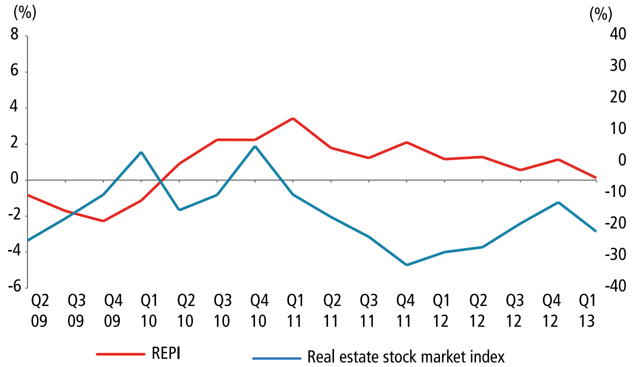
Chart 4.18: YoY change in the REPI and housing loans*



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

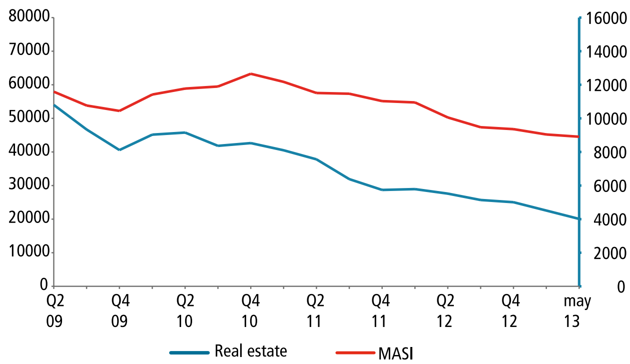
Sources: BAM and ANCFCC

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

compared to the same period of last year and 19.8 percent since the beginning of the year.

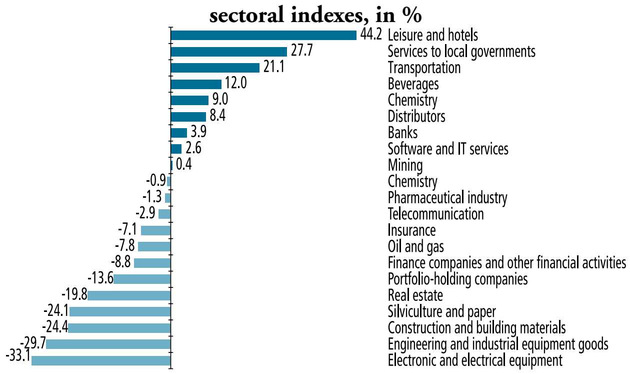
By sector, the decreases ranged from 0.9 percent for the chemical industry to 33.1 percent for electronics and electrical equipment. However, increases were recorded ranging from 0.4 percent for the mining sector to 44.2 percent for the leisure and hotels industry.

As a result, the market capitalization shrank by 3.1 percent from one quarter to the next, to 431.6 billion dirhams in the first quarter 2013. In April, it reached 439 billion dirhams, while it declined in May to 429.6 billion dirhams.

Against this backdrop, the valuation indicators of the Casablanca stock market in particular, mainly the Price Earnings Ratio (PER)[1] and the price/book ratio (PB)[2], stood respectively at 15.6 and 2.2 in May, as against14.9 and 2.18 in the first quarter. These levels remain high compared to those of some emerging countries, as evidenced by the data in Table 4.3.

The volume of transactions in the first quarter reached 14.8 billion as opposed to 11.7 billion dirhams a quarter earlier. This volume totaled 5.2 billion in April and 2.9 billion dirhams in May. It thus amounts to 23 billion since the beginning of the year, as against 18.3 billion dirhams compared to the same period of last year.

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



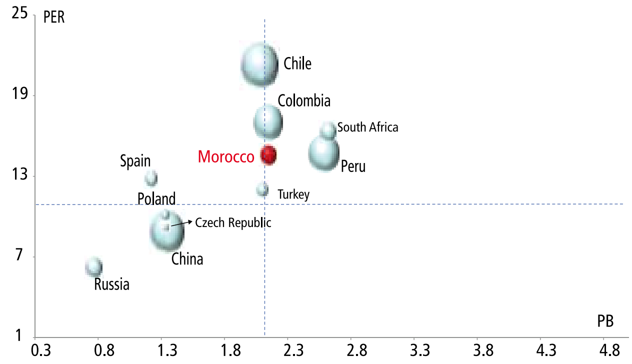
Source: Casablanca stock exchange

Table 4.3: Equity market valuation

PER	Q3:11	Q4:11	Q1:12	Q2:12	Q3:12	Q4:12	Q1 : 13	may-13
				PER				
Argentina	9.9	8.8	8.1	7.4	7.1	7	9	2.6
China	8.7	7.4	9.2	7.3	6.8	7.7	8.4	8.1
Mexico	12.8	13.9	17.6	16.3	18.3	18.8	19.9	20.2
Turkey	10.2	10.5	10.9	9.5	11.4	11.2	12.1	12.6
Marroco	**17.4**	**16.8**	**17.9**	**15.7**	**15.6**	**15.7**	**14.9**	**15.6**
				P/B				
Argentina	1.85	1.76	1.32	0.98	0.96	1.11	1.07	1.15
China	1.2	1.36	1.29	1.16	1.19	1.39	1.36	1.37
Mexico	2.36	2.6	2.82	2.78	2.91	3.16	3.22	3.15
Turkey	1.56	1.37	1.42	1.41	1.49	1.74	1.92	1.92
Marroco	**2.92**	**2.75**	**2.63**	**2.4**	**2.26**	**2.24**	**2.18**	**2.22**

Sources : Datastream, CFG

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



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

Sources: Datastream, CFG, and BAM calculations

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

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

5. RECENT INFLATION TRENDS

Inflation, measured by the increase in the consumer price index (CPI), stood at 2.4 percent in April, from 2.2 percent in March, bringing the average over the first four months of the year to 2.3 percent. Excluding volatile food and administered products, core inflation (CPIX), after being limited to 0.9 percent in January and February, rose to 1.5 percent in March and 1.6 percent in April. This change reflects an increase of 0.6 percent in February, 1.8 percent in March and 2.1 percent in April in nontradables' prices, particularly in the sectors of "transportation", "education" and "restaurants and hotels". The inflation of tradables remained almost unchanged at 1.2 percent since the beginning of the year, reflecting a continued decline in international inflationary pressures, particularly in partner countries. Moreover, recent developments in global commodity prices, marked by slower energy and food prices, continue to feed through to industrial producer prices, whose year-on-year change decreased from -1 percent in March to -4.0 percent in April.

5.1 Inflation trends

During the first four months of 2013, inflation trends remained in line with the price stability objective, in a context characterized by the absence of internal and external demand pressures. Thus, the year-on-year increase in consumer prices stood at 2.4 percent in April from 2.2 percent in February and March. On average, inflation stood at 2.4 percent in the first quarter and 2.3 percent in the first four months of the year.

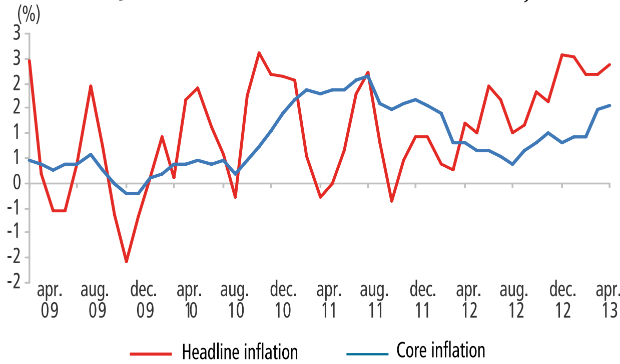
Recent inflation trends are mainly due to a 5 percent increase in April in "volatile food" prices, especially vegetables, fruits and citrus, as against 3.6 percent in March. The contribution of these three headings to inflation rose to 0.5 percentage point, while it was zero a month ago. With regard to administered products, prices excluding fuels and lubricants moved up 1.9 percent on average in March and April, as against 1 percent in February, mainly in connection with higher tobacco prices. In contrast, prices of fuels and lubricants did not change (Table 5.1). Core inflation (CPIX), which excludes volatile food and administered products, stood at 1.6 percent in April, as against 1.5 percent in March and 0.9 percent in

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	feb. 13	march 13	apr. 13	feb. 13	march 13	apr. 13
Headline inflation	**-0.1**	**-0.2**	**0.0**	**2.2**	**2.2**	**2.4**
Including:						
- Volatile food products excluded from core inflation	-0.6	-3.2	-0.2	7.6	3.6	5.0
- Fuels and lubricants	0.0	0.0	0.0	17.2	17.1	17.1
- Administered goods excluding fuels and lubricants	0.0	0.8	0.0	1.0	1.9	1.8
Core inflation	**0.0**	**0.1**	**0.1**	**0.9**	**1.5**	**1.6**
Including:						
- Food products	0.0	0.0	0.0	1.5	1.8	1.9
- Clothing and footwear	-0.3	0.1	-0.2	1.0	1.2	1.0
- Housing. water. gas. electricity and other fuels*	0.0	0.4	0.6	1.3	1.7	2.1
- Furniture. household appliances and common house maintenance	0.0	0.0	0.0	-0.1	-0.1	0.0
- Health*	0.0	0.0	0.1	-0.2	-0.2	-0.1
- Transportation*	0.1	0.3	-0.1	1.0	1.4	1.3
- Communication	-0.2	0.0	0.0	-16.2	-8.7	-8.8
- Entertainment and culture	0.1	0.0	0.0	1.1	1.0	1.1
- Education	0.0	0.0	0.0	6.1	6.1	6.1
- Restaurants and hotels	0.0	-0.1	1.1	2.3	2.2	3.0
- Miscellaneous goods and services	0.1	0.5	0.1	0.9	1.4	1.4

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

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations

February. The absolute difference between headline inflation and core inflation diminished to 0.8 percent in March and April, while it was 1.3 in February.

The analysis by main components shows that the core inflation trend was influenced by communication prices, particularly those of "telephony and fax services". Indeed, the partial dissipation of the base effect of the decline in these prices in 2012 contributed significantly to the increase in the CPIX as of March. In addition to this mechanical effect, the momentum in core inflation was also affected by the accelerated growth of prices of food products included in it, rent, "restaurants, cafés and similar services" and "miscellaneous goods and services".

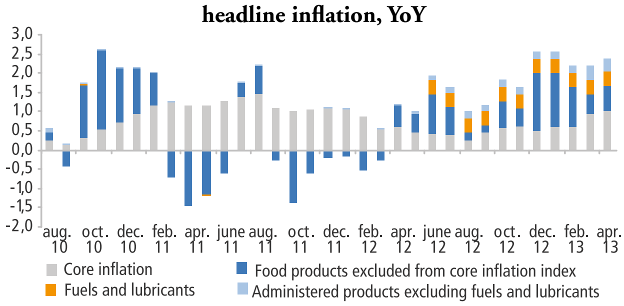
5.2 Tradable and nontradable goods

The core inflation trend is due to a virtual stagnation in inflation of tradables (CPIXT) and a relatively significant increase in inflation of nontradables (CPIXNT) (Charts 5.3 to 5.6).

Indeed, inflation of tradables stood at 1.1 percent, from 1.2 percent in March and February, covering a net slowdown in prices of some food staples and an accentuated increase in the prices for dried fruits and "other appliances, articles and products for body care".

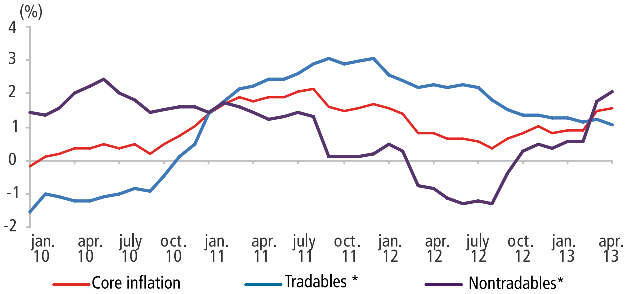
Inflation of nontradables was 1.8 percent in March and 2.1 percent in April, as against 0.6 percent in February. This increase, the fastest since June 2010, is attributed to the mitigation of the base effect caused by the sharp decline in 2012 in communication prices. It is also due to the rising prices for meat, rent and headings

Chart 5.2: Contribution of the main components' prices to headline inflation, YoY



Sources: HCP, and BAM calculations

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



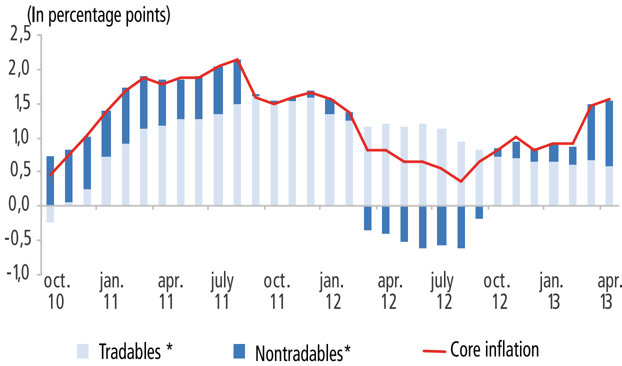
** Excluding volatile food products and administered goods*
Sources: HCP, and BAM calculations

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

	Monthly change (%)			YoY change (%)		
	feb. 13	march 13	apr. 13	feb. 13	march 13	apr. 13
Tradables*	0.0	0.1	-0.1	1.2	1.2	1.1
Nontradables*	0.0	0.3	0.2	0.6	1.8	2.1

** 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

of "transportation", "education" and "restaurants and hotels".

5.3 Goods and services

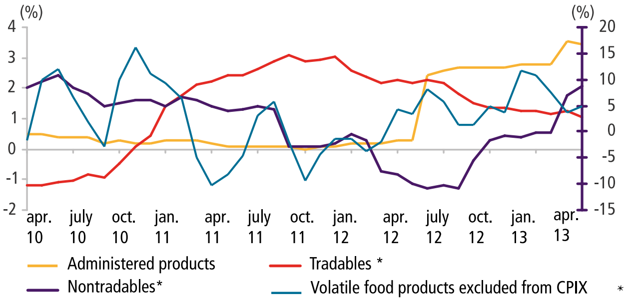
The analysis of the breakdown of the CPI basket into goods and services indicates that during the first four months of 2013, the inflation trend was mainly driven by dynamic prices for unprocessed goods. Thus, on average, during the first four months, the price growth in this category stood at 4.9 percent, as against 2.1 percent for the full year 2012. Inflation of services, almost stable at around 0.8 percent since October 2012, rose to 1.6 percent in March and 1.7 percent in April. Its contribution to the annual change in the CPI moved up from 0.2 percentage point in January and February to 0.6 percentage point as of March 2013.

Prices of processed goods, excluding fuels and lubricants, continue to trend, since last November, at a virtually stable rate of 1 percent. Similarly, prices of fuels and lubricants rose by 17.1 percent, a rate unchanged since the beginning of the year.

5.4 Industrial producer price index

Industrial producer prices showed a monthly decline of 2.5 percent in April 2013, after rising 0.7 percent in March. This decline is the result of a combined trend of respective declines of 3.8 percent and 8.9 percent in prices for "oil refining" and "chemical" industries. Apart from these two branches, producer prices rose 0.1 percent in April, driven by a 0.3 percent increase in prices for "food industries".

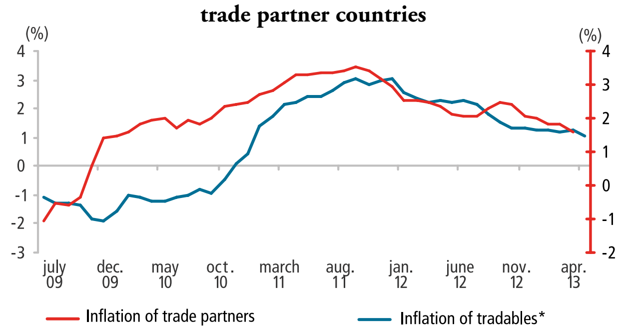
Chart 5.5: YoY change in the prices of tradables*, nontradables*



*
Excluding volatile food and administered products

Sources: HCP, and BAM calculations

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



** Excluding volatile food and administered products*

Sources: HCP, IFS, and BAM calculations

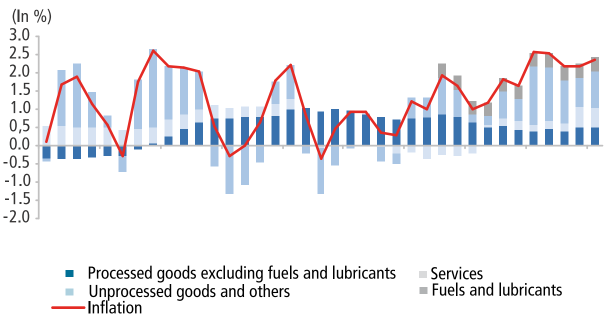
Table 5.3: Price indexes of tradables and nontadables excluding volatile food and administered products

	Monthly contribution to inflation		Yoy contribution to inflation	
	march 13	april 13	march 13	april 13
Products excluded from core inflation index Including:	-0.3	-0.1	1.2	1.3
Administered products	0.2	0.0	0.7	0.7
Volatile food products	-0.4	0.0	0.5	0.7
Tradables*	0.0	0.0	0.5	0.4
Nontradables*	0.1	0.0	0.6	0.7

** 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

Year on year, producer prices recorded their third decline with -0.2 percent in February, -1 percent in March and -4 percent in April. "Oil refining" prices declined by 11.7 percent in April, as against 7.1 percent in March. Similarly, prices for the "chemical industry" fell 8.7 percent in April, after rising 0.1 percent in March. Meanwhile, producer prices excluding "oil refining" and "chemical industry" showed a slightly slower growth from 3 percent in March to 2.8 percent in April.

5.5 Inflation expectations

Based on the findings of Bank Al-Maghrib's business survey of April 2013, industrial producer prices should not change significantly over the next three months. Thus, the percentage of corporate managers anticipating stagnant prices remained at 87 percent, the same level since the beginning of the year, while 7 percent of manufacturers expect an increase in prices and 6 percent projecting a decrease, with a positive balance of opinion of one percentage point (Chart 5.11).

Meanwhile, the findings of the same survey indicate a continued moderation in inflation over the next three months. The percentage of corporate managers expecting stagnation stood at 73 percent in April 2013, as against an average of 71 percent in the first quarter. The share of manufacturers anticipating an increase declined slightly from 23 percent to 21 percent over the same period (Chart 5.12).

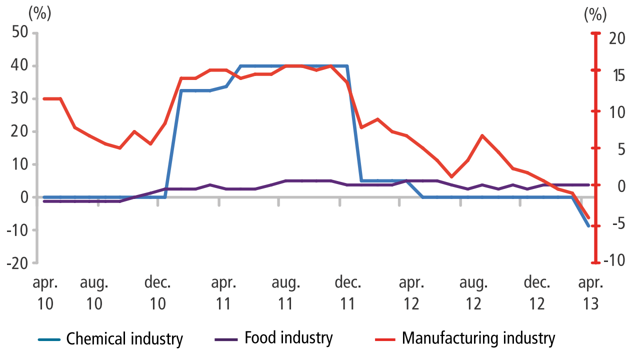
Moreover, according to BAM's quarterly business survey, inflation, as projected by financial sector experts, stands at 2.5 percent on average over the coming six

Table 5.4: Price indexes of goods and services

	Monthly change (%)			YoY change (%)		
	feb. 13	march 13	apr. 13	feb. 13	march 13	apr. 13
Processed goods*	-0.1	0.3	0.0	0.9	1.1	1.1
Unprocessed goods and others	-0.2	-1.8	-0.1	5.3	3.4	4.4
Services	0.0	0.3	0.2	0.8	1.6	1.7
Fuels and lubricants	0.0	0.0	0.0	17.2	17.1	17.1

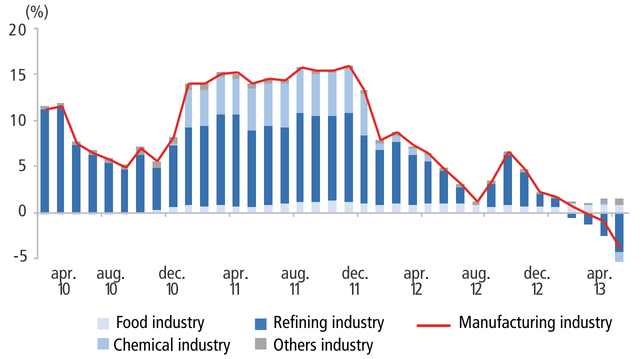
** Excluding volatile food and administered products*
Sources: HCP. and BAM calculations

Chart 5.8: YoY change in industrial producer price indexes



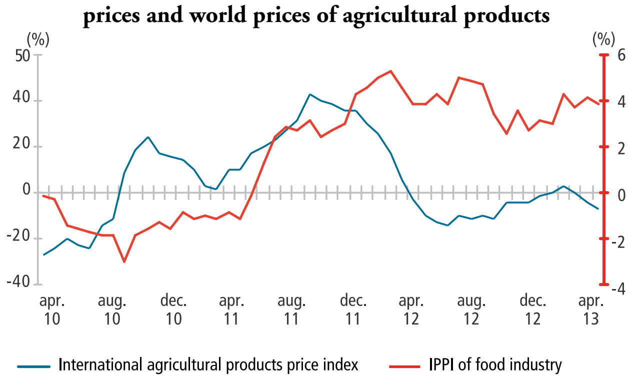
Sources: HCP. and BAM calculations

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



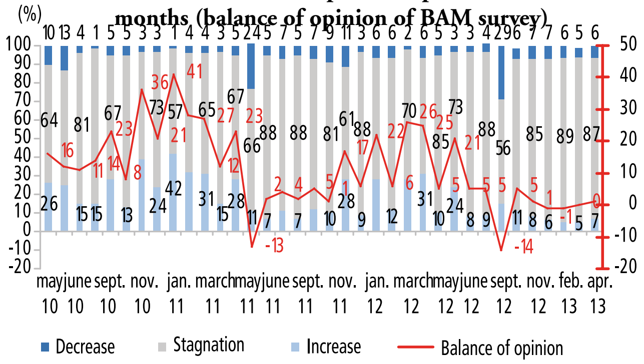
Sources: HCP. and BAM calculations

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



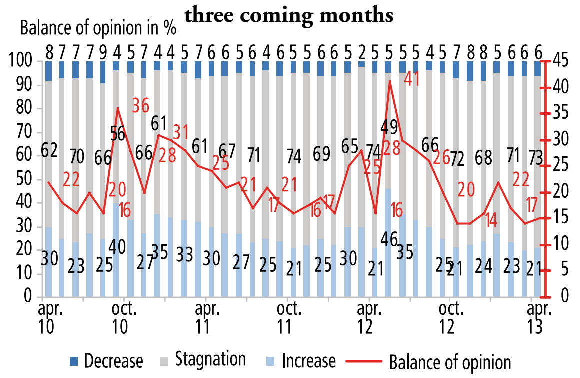
Sources: World Bank. HCP. and BAM calculations quarters, while university professors and researchers expect an inflation rate of around 2.8 percent over the same horizon.

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. Assuming the non-realization of the major risk factors identified, the inflation trend over the next six quarters remains in line with the price stability objective, with an average forecast of about 1.8 percent, a rate slightly lower than the average rate of 2 percent expected in the last MPR. Over the year 2013, inflation would evolve around 2.1 percent. Assuming that the diesel price at the pump would remain at its current level of 8.15 dirhams per liter, the balance of risks to the current forecast exercise is broadly at equilibrium, due to uncertainties surrounding the change in non-energy commodity prices and economic growth main partner countries.

6.1 Baseline scenario assumptions

6.1.1 International environment

After a two-speed growth dynamic, strong in emerging countries and sluggish in advanced economies, recent developments point to a new widening gap even within developed countries. In the United States, renewed confidence continues to stimulate private demand and credit and real estate markets recovery confirms the beginning of a long-sought recovery. In contrast, the euro area continues to suffer from fiscal adjustment plans whose intensity has not decreased. Similarly, despite a significant improvement in financing conditions in peripheral countries, the bank credit cost which is the main source of external financing, remains high in these countries.

The growth rates registered in the euro area in the first quarter of 2013 perfectly illustrate the difficulties facing European economies. Indeed, the euro area GDP contracted by 1.1 percent, confirming the downward trend that started four quarters ago. This poor performance reflects, on the one hand, lower activity in Germany (-0.3 percent in the first quarter of 2013 as against 0.3 percent in the fourth quarter of 2012) and, on the other hand, further recession in France (-0.4 percent in the first quarter of 2013 after -0.3 percent in the fourth quarter of 2012), Spain (-2 percent) and more severely in Italy (-2.3 percent).

The factor behind this weakness is mainly a sluggish trend of domestic demand. Indeed, household consumption remains moderate, as evidenced particularly by the weaker growth in the retail sales volume and the decline of new vehicle registrations. Regarding investment, the production of equipment goods moved down compared to the fourth quarter of 2012 level. Also, funding constraints and ongoing adjustments in the residential real estate market continue to weigh on investment in the construction sector.

In light of these developments, the latest statistics for the first quarter of 2013 indicate a slight worsening of the unemployment rate in the euro area, which reached 12 percent, thus remaining high. However, disaggregation of this indicator by country reveals significant disparities. In Germany, the unemployment rate stabilized at 5.4 percent between December and March, while it increased slightly in Spain (to 26.7 percent from 26.2 percent), France (to 11 percent from 10.6 percent) and Italy (to 11.9 percent from 11.2 percent).

In this context, inflation dropped significantly in the euro area from 2 percent in January to 1.4 percent in May (Eurostat estimate). This trend mainly reflects lower energy prices.

Unlike the euro area, the U.S. economy grew by 1.8 percent in the first quarter of 2013, after 1.7 percent in the fourth quarter 2012. Although these rates are still below the performance achieved in the first half of last year, due to lower government expenditure and negative contribution of net exports, the economic activity is still driven mainly by the private demand. In this regard, household consumption reached the highest growth rate in two years (3.2 percent) and the contribution of GFCF remained positive. This momentum was further enhanced by the pursuit of an accommodative monetary policy. Indeed, the Fed kept the target federal funds rate within a range between 0 and 0.25 percent and expanded its RMBS[1]-buying program and long-term Treasury bonds at a pace of 40 and 45 billion dollars per month.

Reflecting the uptrend in the U.S. economy, labor market indicators continued to improve, as evidenced by the statistics for the first quarter of 2013. Thus, in March, the unemployment rate fell to 7.5 percent, the lowest level since the crisis. Nevertheless, despite this significant improvement, surveys attribute this decline mainly to workforce contraction .

Concerning prices, inflation in the United States dropped in March (1.5 percent) and April (1.1 percent), after the increase registered in February (2 percent). This trend is due to significant lower energy prices and moderate food prices.

Given all these developments, the IMF, in its update of April, forecasts a growth of around 1.9 percent in 2013 and 3 percent in 2014 in the United States. For the euro area, the forecast stood at -0.3 percent and 1.1 percent. Compared with rates reported in the MPR of March, growth projections remained virtually similar.

Uncertainties about growth prospects relatively diminished, given the efforts made by governments in Europe to avoid a collapse of the euro area, and in the United States to counter the dangers of the fiscal cliff. However, downside risks persist. In the short term, the exacerbation of geopolitical tensions can prompt a surge in oil prices. Also, delays in governments' action to fulfill commitments to reduce imbalances could destabilize financial markets, which are still recovering.

In the medium term, the absence of a fiscal adjustment plan able to restore the viability of the U.S. public debt fuels fears about future developments in public finances. In Europe, the very high level of the private sector debt and the governments' increasingly limited margins for maneuver could undermine the prospects for a gradual recovery as of 2014. In addition, the extension of unconventional monetary policy measures could help boost excessive risky lending due to lower financing costs. Finally, the growth slowdown in 2012 in emerging countries could continue because of deeper structural problems, which would certainly impact global trade.

Under these conditions, the weighted growth 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 0.9 percent for 2014. Compared to those projected in the March MPR (-0.4 percent in 2013 and 0.9 percent in 2014), the 2013 forecast was revised downward. The growth rate of the major trading partners is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

With regard to inflation forecasts, the Fed expects, in its latest monetary policy report, inflation rates ranging from 1.3 percent to 1.7 percent in 2013 and between 1.5 percent and 2 percent in 2014 (central trend). The ECB, in its bulletin of May, lowered its inflation forecasts and now predicts rates of 1.7 percent and 1.6 percent respectively in 2013 and 2014 (as against 1.9 percent and 1.7 percent). Taking into account lower interest rates reported by the ECB in May, risks to inflation trends in the euro area remain broadly balanced. In the medium term, the rise in commodity prices, and possible increase in administered prices and indirect taxes are offset by a weaker-than-expected economic growth.

In these context, projections of non-energy import prices, included in the forecast models developed by Bank Al-Maghrib, still show a slight decrease in 2013 and 2014 due to mixed demand forecast from developed countries.

1 Residential mortgage-backed securities

6.1.2 National environment

In line with the projections reported in the previous MPR, the growth prospects of the national economy remain overall positive for 2013. This trend is mainly due to prospects for a good crop year, and therefore, a significant contribution of agricultural value added to the overall output. Although decelerating, domestic demand would continue to support growth, unlike the foreign demand, which is still suffering from persistent sluggish activity in partner countries.

Cereal production in the current year should reach 97 million quintals, according to Ministry of Agriculture and Fisheries estimates, up 91 percent compared to the 2012 crop year and 33 percent compared to the average of the past five years. This uptrend is due to favorable weather conditions, in conjunction with a year-on-year increase of 71 percent in cumulative rainfall at end-April as well as regular and well-distributed precipitations. In this context, Bank Al-Maghrib revised upward its forecast for cereal production for the current year. Concerning the 2013-2014 crop year and given the lack of visibility, an average cereal production of 68 million quintals is maintained in the central scenario.

With regard to nonagricultural activities, the dynamics in various sectors suggest divergent trends. Thus, telecommunications should show a good momentum, while the construction sector would maintain its bearish trend in 2013, as evidenced by lower cement consumption at end-April. However, the positive trend in domestic demand would continue to support nonagricultural growth. As such, households' consumption would improve significantly, owing to prospects for a good crop year and dynamics of consumer loans, which, albeit moderate, remains favorable.

Under these conditions, the nonagricultural value added should grow at a rate between 2.5 percent and 3.5 percent. Compared to the previous MPR, these forecasts were revised downward, due to the sluggish outlook for nonagricultural activities. Indeed, overall growth should stand between 4.5 percent and 5.5 percent, a slight upward revision from the forecast of the last MPR, which projected a rate between 4 percent and 5 percent.

Regarding the labor market, the latest statistics for the first quarter of this year point to a slight decline in the unemployment rate in the first quarter of 2013 (-0.5 percent), year on year, to 9.4 percent. This performance reflects a decline of 0.7 percent in urban areas (from 14.4 percent to 13.7 percent) and 0.4 percent in rural areas (from 4.8 percent to 4.4 percent). These changes cover a net creation of 99,000 jobs, including 243,000 jobs provided by the tertiary sector and 20,000 positions by the industrial sector. Construction and agriculture lost 56,000 and 100,000 jobs, respectively.

Moreover, according to BAM's quarterly business survey, employment prospects in the industrial sector suggest overall a stagnation of workforce employed in the current quarter. Thus, these changes should not weigh on wages levels and no increase in the minimum wage is anticipated in the baseline scenario. Therefore, a minimum wage of 12.24 dirham/hour is assumed over the forecast horizon.

Finally, in a context marked by persistent geopolitical tensions, the IMF, in its May update, revised upward its oil price forecasts for 2013 and 2014. They now stand at \$102.6 a barrel in 2013 and \$97.58 in 2014, as against \$99.71 and \$96.78 reported in the previous year. The World Bank forecasts (May 2013) stand at an average price of \$102.4 per barrel in 2013 and \$101 in 2014, a virtually stagnant level compared to January projections. Finally, the European Commission significantly revised downward its Brent price forecasts, which now amount to \$104.9 per barrel in 2013 and \$99.2 in 2014 as against \$113.7 and \$106.4 reported in the last MPR. Against this backdrop, subsidy costs in 2013, based on an average price of \$105 a barrel, should not exert additional pressures on the fiscal deficit. Thus, the central scenario of this forecast exercise assumes that the diesel price at the pump would remain at 8.15 dirhams per liter.

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 slightly below the average rate of 2 percent projected in the last MPR. Similarly, inflation forecast for 2013 was revised slightly downward to 2.1 percent from 2.2 percent. In the first half of 2014, inflation should stand at around 1.5 percent as against 1.6 percent. Finally, in the third quarter of the same year, inflation should reach 1.6 percent.

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

The fan chart of this forecast exercise is broadly balanced, involving an equal probability that inflation would deviate from the central forecast. This trend arises from the uncertainty surrounding non-energy 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 of 90 percent).

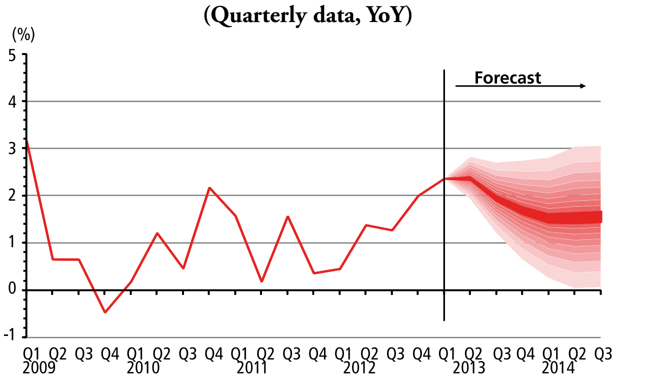
Table 6.1: Inflation outlook for 2013 Q2 –2014 Q3

	2013			2014			Average	HP*
	Q2	Q3	Q4	Q1	Q2	Q3	2013	
Central forecast (%)	2.4	2.0	1.7	1.5	1.5	1.6	2.1	1.8

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2012 Q3 – 2013 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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