BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 26 / 2013

Document prepared for
the Bank Board
March 26, 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, March 26, 2013

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, March 26, 2013.

2. The Board considered recent economic, monetary and financial trends, as well as inflation forecasts up to the second quarter of 2014.

3. The Board noted that inflation remained subdued, despite the increases recorded over the last three months when it reached 2.6 percent in December and January and 2.2 percent in February, mainly as volatile food prices rose 10 percent on average over the period. Core inflation, which reflects the fundamental trend of prices, remained below 1 percent. The prior slowdown in international commodity prices, particularly those of energy and food, continues to feed through to industrial production costs, whose year-on-year growth fell from 1.7 percent in December to 0.6 percent in January.

4. Internationally, economic activity remains weak and uncertainty persists about recovery. The results of the national accounts for the fourth quarter of 2012 show a slowdown in growth to 1.6 percent in the United States and a GDP decline by 0.9 percent in the euro area. Projections for 2013 were revised downward, as the IMF now expects GDP to expand by 2 percent in the United States and to contract by 0.2 percent in the euro area. Furthermore, unemployment rate fell to 7.7 percent in February in the United States, while remaining close to 12 percent in the euro area, based on January data. Credit at end-January posted a slowdown in the United States but remained above 5 percent, while in the euro area it continued the contraction started in May 2012. Stock market indexes to the end of February continue to show significant improvement in the United States and varying trends across countries in the euro area.

5. All these developments suggest the absence of significant external inflationary pressures on the national economy in the coming quarters.

6. Nationally, growth is estimated at 2.6 percent in the fourth quarter and less than 3 percent for the full year 2012. In 2013, despite the uncertainty surrounding growth in our major trading partners and the trend of global energy prices, GDP would expand between 4 and 5 percent, driven mainly by the expected increase in agricultural activity. The nonagricultural output gap, more relevant for the assessment of inflationary pressures, should be negative in the short run, indicating no significant pressure on prices.

7. On the fiscal side, the 2012 data show a widening of the fiscal deficit, excluding privatization proceeds, to 7.6 percent, after 6.7 percent in 2011, due mainly to the increase in subsidy costs. In 2013, the deficit is expected to reach 5.5 percent of GDP, according to the latest forecasts.

8. Most recent data on the external accounts show a 17.5 percent reduction in the trade deficit to 27.5 billion dirhams at the end of February, as imports decreased (-10.8 percent) at a higher rate than exports (-3 percent). Travel receipts rose by 2 percent whereas remittances

shrank by 2.9 percent. Moreover, foreign direct investment inflows reached 10.2 billion dirhams, up from 5.3 billion a year earlier. Under these conditions, the net foreign assets of Bank Al-Maghrib to the end of February represent about 4 months of imports of goods and services.

9. The analysis of monetary conditions to the end of January 2013 suggests a continued moderation of monetary creation. Indeed, money supply grew at an annual rate of 2.4 percent in January, down from 3.8 percent in the fourth quarter of 2012. Credit growth slowed from 5.2 percent to 3.2 percent, and the preliminary figures of February show an acceleration to 3.9 percent. Based on the latest information available, credit in 2013 is expected to grow between 5 and 6 percent. Under these circumstances, the money gap is expected to remain negative, suggesting the absence of monetary inflationary pressures in the medium term.

10. Taking into account all these elements, inflation up to the next six quarters should remain broadly in line with the objective of price stability in the medium term. It would hover around 2.2 percent in 2013 and 1.6 percent in the second 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 in line with the price stability objective, the Board decided to maintain the key rate at 3 percent.

12. The Board also reviewed and approved the Bank accounts, the management report and the allocation of profits for fiscal year 2012.

OVERVIEW

Despite the 2.6 percent increase in December, inflation remained broadly moderate in the fourth quarter with an average of 2 percent year on year, as against 1.3 percent a quarter earlier. In January 2013, it remained unchanged from December. Core inflation fell from 1 percent in November to 0.8 percent in December and 0.9 percent in January. This trend reflects a virtual stagnation of the inflation of tradables at 1.2 percent, in connection with the lower international inflationary pressures, particularly in partner countries. It is also attributable to a 0.6 percent increase in the prices of nontradables, amid continued moderation of domestic demand pressures. Moreover, the earlier slower increase in world commodity prices, particularly energy and food, continues to feed through to industrial producer prices, whose annual increase slowed from 1.7 percent in December to 0.6 percent in January.

Internationally, the latest available data show continued weaker activity and prospects, as well as a relative improvement in financial conditions. Indeed, the results of national accounts for the fourth quarter 2012 show a year-on-year growth slowdown to 1.6 percent in the United States and a 0.9 percent contraction of GDP in the euro area. The unemployment rate in 2012 almost rose in all labor markets, with the exception of the United States and Germany where it dropped from 9 to 8.1 percent and from 5.9 to 5.5 percent, respectively. For 2013, growth prospects remain broadly unfavorable. The most recent projection updates indicate downward revisions, mainly in advanced economies where growth would average 1.4 percent in 2013 according to the IMF and 1.1 percent according to the European Commission. Regarding commodities, despite some tensions in energy prices, most prices are still trending downward, year on year, thus contributing to the moderation of international inflationary pressures. Financial indicators showed divergent trends across the United States and the euro area, particularly with regard to credit and stock markets. In bond markets, sovereign yields stagnated in the United States, while they trended overall upward in the euro area, especially in Italy where the absence of a majority in the last legislative elections largely contributed to the rise in uncertainties.

Nationally, based on the latest available data, overall growth is estimated at 2.6 percent in the fourth quarter of 2012, covering a 4.8 percent increase in nonagricultural GDP and an 8.7 percent decline in agricultural value added. In 2012, growth reached 2.7 percent, with a 4.5 percent increase in nonagricultural GDP and an 8.8 percent drop in agricultural activities. For 2013, growth projections remain unchanged between 4 and 5 percent, both for overall GDP and its nonagricultural component. Consequently, the nonagricultural output gap, which is more relevant for the assessment of inflationary pressures, should be lower than zero in the short term. However, these projections are surrounded by large uncertainties, particularly due to growth prospects in key partner countries as well as fluctuations in global commodity prices.

The data available at end-February 2013 show that external accounts slightly improved compared to the same period of the previous year. After worsening by 30.7 percent in February 2012, year on year, trade deficit narrowed by 17.5 percent, as imports decreased more markedly than exports. Indeed, imports shrank by 10.8 percent, reflecting respective declines of 11.3 percent and 19.3 percent in energy and food purchases. Exports dropped 3 percent, primarily because of the 15.8 percent decline in sales of phosphates and derivatives. Travel receipts rose by 2 percent, while remittances from Moroccans living abroad were down 2.9 percent.

January 2013 data on monetary conditions indicate further slowdown in credit growth and money supply. As a result, the monetary gap remained negative, reflecting the absence of monetary inflationary pressures in the medium term. Indeed, the M3 aggregate grew by 2.4 percent in January year on year, as against an average 3.8 percent in the fourth quarter of 2012. Loans outstanding were up 3.2 percent, as opposed to 5.2 percent. For 2013, the Bank forecasts show that bank credit growth would stand, in the current state of data, within a range of 5 to 6 percent. With regard to lending rates, BAM survey among banks for the fourth quarter of 2012 indicates a 15 basis point decline in the weighted average rate, mainly in connection with a 24 basis point decline of interest rates on cash advances. The effective exchange rate of the dirham appreciated, between the third and fourth quarters of 2012, by 0.39 percent in nominal terms and 0.31 percent in real terms.

Concerning asset prices, the real estate price index, calculated by Bank Al-Maghrib, was up 0.9 percent in the fourth quarter, year on year, compared to 0.5 percent a quarter earlier. Throughout 2012, this index moved up by 1 percent, as against 2.2 percent in 2011.

Based on all these elements, inflation should remain consistent with the price stability objective. The average inflation forecast for 2013 was revised upward to 2.2 percent, from 1.3 percent in 2012. At the end of the forecast horizon, i.e. the second quarter of 2014, inflation would reach 1.6 percent, while it would average 2 percent over the same horizon. Core inflation should remain moderate, not exceeding 2 percent at the end of the forecast horizon.

Finally, 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

According to Bank estimates, growth would have stood at 2.6 percent in the fourth quarter of 2012, a rate similar to the average registered over the first three quarters, covering a nonagricultural GDP growth of 4.8 percent and an 8.7 percent decline in agricultural value added. Regarding demand, this trend would reflect the continued slowdown in household consumption and a decline in investment, with some momentum in public demand, in conjunction with the expansion of Treasury expenditure, particularly in December. For 2013, forecasts, surrounded by large uncertainties mainly due to growth outlook in the major trading partners, indicate some consolidation of domestic demand as well as a mitigation of the negative contribution of foreign demand. Indeed, household final consumption should be stronger, along with the expected improvement in farm income as well as external revenues and transfers. Investment recovery remains dependent upon the perception by manufacturers about the national economic outlook, the implementation rate of budget projections, particularly in terms of capital expenditures, as well as the attractiveness of the national economy in terms of foreign direct investments. Foreign trade indicators show a decline in the trade deficit, as the decrease in imports at end- February 2013 was higher than that of exports. Given these factors, the growth forecast remains within a range of 4 percent to 5 percent for both the overall GDP and its nonagricultural component.

1.1 Output

National growth stood at 2.9 percent in the third quarter of 2012, after 2.3 percent in the second quarter. In the fourth quarter, it would have reached 2.6 percent, covering a slight acceleration of nonagricultural growth from 4.7 percent to 4.8 percent and an 8.7 percent decline in agricultural value added.

In early 2013, the agricultural sector indicators show generally favorable conditions for the current crop year. Based on data as at March 20, 2013, cumulative rainfall is estimated at 320.3 mm, up 73.6 percent, year on year, bringing the filling rate of dams to 92 percent, as against 66 percent a year before. In addition, the vegetation cover status remains satisfactory in almost all grain-producing regions. If these positive trends continue, cereal production should exceed the average of the last five years, 72 million quintals.

Regarding secondary activities, the growth of the mining value added should stand at 1.5 percent in the first quarter of 2013, compared to 1.4 percent in the fourth quarter of 2012. Indeed, end-January 2013 data show in particular that the OCP production and prices for phosphate and derivatives remain high, albeit under slowdown compared to the third quarter of 2012.

Table 1.1: YoY growth of quarterly GDP at 1998 chained prices per major sectors

Activity sectors. in%	2011				2012				2013
	QI	QII	QIII	QIV	QI	QII	QIII	QIV_E	QI_P
Agriculture	5.9	6.1	6.0	4.3	-8.3	-9.6	-8.4	-8.7	6.2
Nonagricultural VA	5.8	4.3	5.0	5.4	4.6	4.3	4.9	5.2	4.8
Extractive industry	14.5	2.8	-1.7	8.2	-7.9	-5.4	3.2	1.4	1.5
Processing industry	3.4	0.8	3.7	4.0	3.5	0.9	1.7	1.9	1.5
Electricity and water	0.4	5.7	5.3	12.8	12.6	10.8	11.5	5.0	2.4
Construction	2.0	1.7	6.1	7.0	5.7	3.5	-1.7	-2.1	-3.2
Trade	3.8	4.1	4.7	4.7	2.8	1.7	1.6	1.6	2.8
Hotels and restaurants	6.3	-2.9	-3.9	-7.0	-4.9	2.3	1.4	1.0	1.8
Transportation	7.4	6.5	5.9	3.9	1.7	2.4	2.1	2.1	2.2
Post and telecommunication	13.0	15.5	24.1	23.0	13.4	12.8	18.1	16.0	15.3
General government and social security	6.5	6.4	5.7	4.5	11.7	11.7	11.8	11.8	7.5
Other services*	7.0	6.3	5.6	4.3	6.0	5.9	5.7	5.7	5.9
Taxes on products net of subsidies	3.6	2.2	3.5	1.4	3.0	3.1	1.9	2.4	2.6
Nonagricultural GDP	**5.6**	**4.1**	**4.8**	**5.0**	**4.4**	**4.2**	**4.7**	**4.8**	**4.5**
Gross domestic product	**5.6**	**4.5**	**5.0**	**4.9**	**2.8**	**2.3**	**2.9**	**2.6**	**4.7**

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

Sources: HCP, and BAM estimates and forecasts.

The value added of the processing industry should continue its deceleration that began in early 2012, showing an increase of 1.5 percent in the first quarter of 2013, as against 1.9 percent in the fourth quarter of 2012.

The slowdown in the industrial sector is mainly attributable to weaker demand, especially the foreign component. The findings of BAM monthly business survey of January 2013 confirms this trend, showing that sales declined and finished goods inventories continued to be higher than normal. Similarly, the order book is considered below its usual level and the capacity utilization rate stood at 68 percent, a level below the historical average.

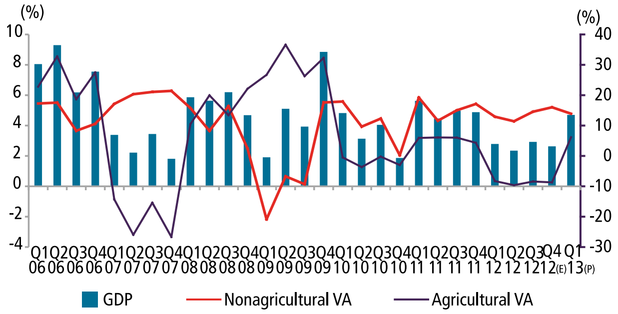
Growth of the "electricity and water" sector should slow from 11.5 percent in the third quarter to 5 percent in the fourth quarter of 2012 and 2.4 percent in the first quarter of 2013. In addition to the base effect, this trend would be attributed to a slower corporate demand, as evidenced by the contraction of 4.9 percent in local net production of the National Electricity Office and 1.8 percent in its high and medium voltage sales in January 2013 compared to the same period of the previous year.

Available indicators on the construction sector shows no improvement compared to the end of 2012, with particularly a significant decline in cement sales and a year-on-year decrease of 4.6 percent in bank loans to property developers at end-January 2013. Its value added should drop by 2.1 percent in the fourth quarter of 2012 and 3.2 percent in the first quarter of 2013.

Tertiary activities should show some improvement in the fourth quarter 2012 and the first quarter of 2013, particularly "posts and telecommunications", "general government and social security" and "other services".

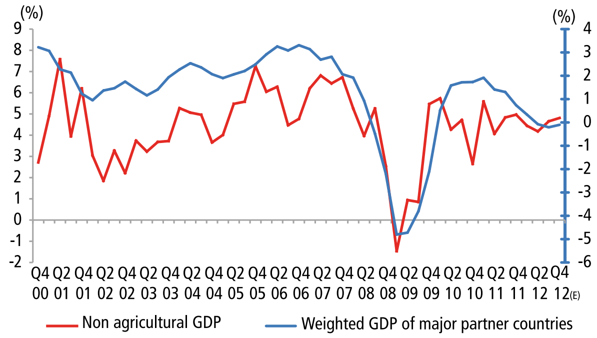
The value added of posts and telecommunications should grow 16 percent in the fourth quarter of 2012 and 15.3 percent in the first quarter of 2013, assuming that trends

Chart 1.1 : YoY change of GDP and its components (chained prices of 1998)



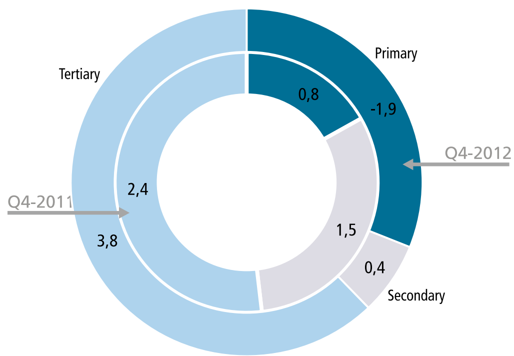
Sources: HCP and BAM calculations and forecasts

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



Sources: HCP, IMF, and Bam calculations and estimates

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



Sources: HCP, and BAM calculations and estimates.

in the sector indicators would continue to be positive at the end of 2012. Indeed, the latest available data, which remain those of the fourth quarter of 2012, indicate a year-on-year increase of 6.7 percent in the number of mobile phone subscribers and 24.4 percent in that of Internet subscribers.

The growth of tourism activity should remain positive at 1 percent in the fourth quarter of 2012 and 1.8 percent in the first quarter of 2013, driven by a favorable base effect as well as some improvement in most indicators of the sector. Indeed, tourist arrivals totaled 550 thousand visitors in January 2013, up 3.2 percent compared to 2012. Meanwhile, overnight stays in classified hotels rose by 13.8 percent, after declining by 16.6 percent over the same period of the previous year, while the occupancy rate stood at 35 percent. In addition, travel receipts moved up by 2 percent at end-February 2013, as against 3.2 percent a year earlier.

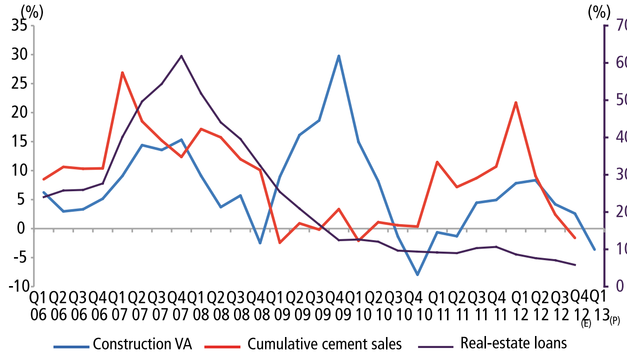
The value added of trade and transport, largely linked to performance in other branches, should trend positively around 2 percent in the first quarter of 2013.

In total, on the basis of the analysis of available data, the forecast annual growth remains unchanged within a range of 4 percent to 5 percent, with a rate of 4.7 percent in the first quarter of 2013. However, these projections are surrounded by large uncertainties about growth prospects in the major partner countries as well as fluctuations in world commodity prices.

1.2 Consumption

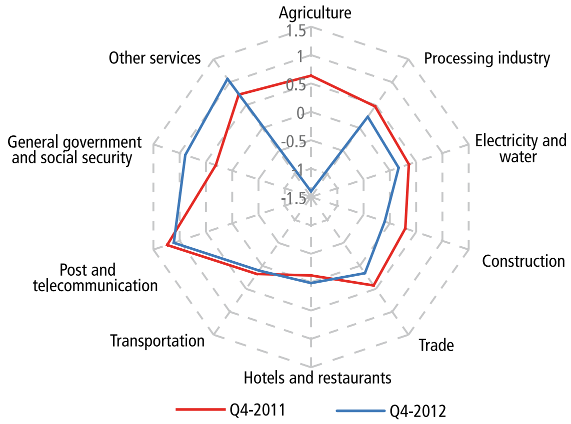
National final consumption recorded a real growth of 3.8 percent in the third quarter of 2012, as against 4.6 percent a quarter earlier and 6.7 percent in the first quarter. This trend reflects slower growth in household final consumption from 4.4 percent to 3.5 percent, quarter on quarter, and to a lesser extent, in government consumption from 5.4 percent to 5 percent.

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



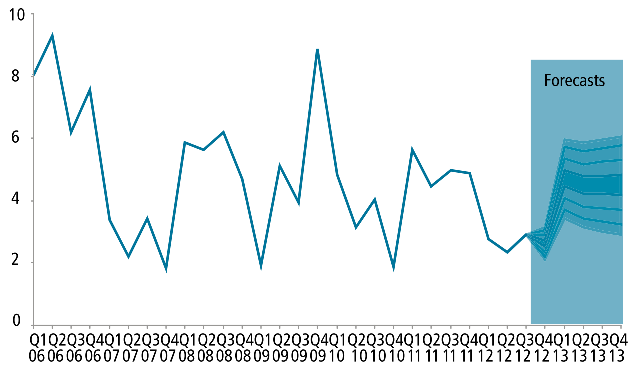
Sources: APC, BAM, BAM calculations and forecasts.

Chart 1.5: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations.

Chart 1.6: Growth forecasts Q4 2012-Q4 2013*



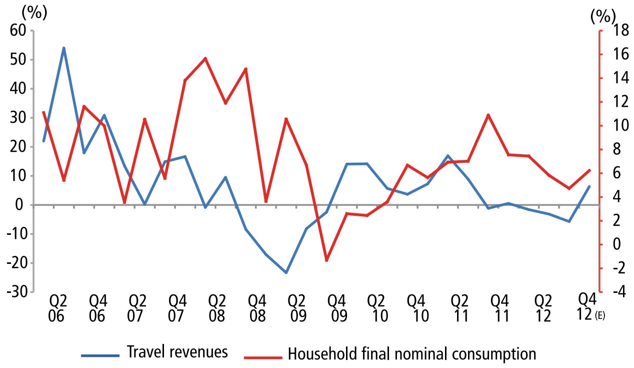
(*) Fan chart based on the standard deviation.
Sources: HCP, and BAM forecasts and estimates.

This deceleration would have continued in the fourth quarter of 2012, albeit with a consolidation of government consumption, as evidenced by the significant increase in current expenditure in December 2012.

For 2013, the analysis of the available data indicates a renewed buoyant trend in consumption, in conjunction with the expected improvement in rural income. Similarly, assuming that the recovery observed at the beginning of the year would continue, remittances from Moroccans living abroad and travel receipts should support private consumption expenditure. However, significant uncertainties persist, particularly in light of lower imports of finished consumer goods and slower consumer loans in January, as well as the recent deterioration of conditions in the labor market.

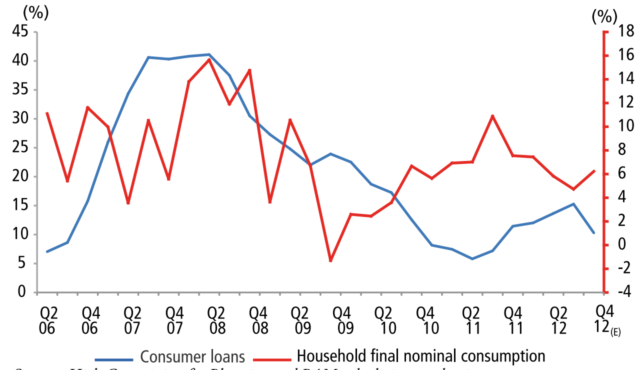
The government consumption should remain significant, while showing some slowdown due to the expected adjustment in light of the 2012 budget overrun and the Finance Act 2013 projections.

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



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

Chart 1.8: YoY change in household final consumption and consumer loans



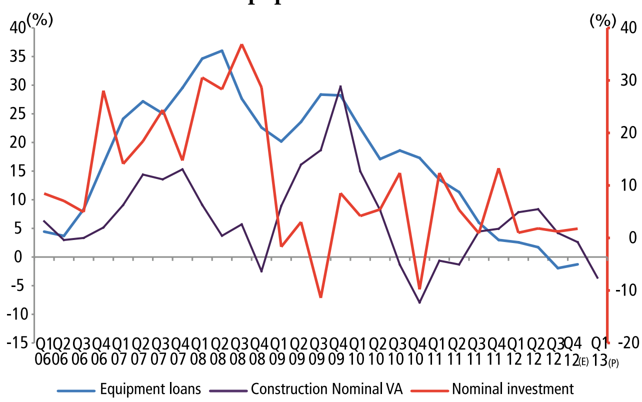
Sources: High Commission for Planning and BAM calculations and estimates

1.3 Investment

Investment fell 0.2 percent in the third quarter of 2012, after an increase limited to 0.8 percent a quarter earlier. In addition, the latest indicators do not show significant recovery, with the exception of revenues under foreign direct investments, which doubled to 10.2 billion dirhams at end-February 2013.

Thus, the findings of BAM monthly business survey of the fourth quarter of 2012 show a business climate considered generally unfavorable for the second consecutive quarter. They also indicate that a significant proportion of 61 percent of manufacturers report stagnation of investment expenditures in the fourth quarter, as against 42 percent in the third quarter.

Chart 1.9: YoY change in total investment, construction VA and equipment loans



Sources: High Commission for Planning, and BAM calculations and forecast.

In addition, monetary data show year-on-year declines of 1.9 percent and 4.6 percent in equipment loans and loans to property developers at end-January 2013, suggesting a drop of both the corporate investment and residential one. Similarly, foreign trade indicators show a contraction of 6.7 percent in imports of finished equipment goods in the same month.

Government investment should decrease from one year to another, as revealed in the Finance Act 2013 forecasts, which expect a contraction of 2.2 percent compared to the achievement of 2012.

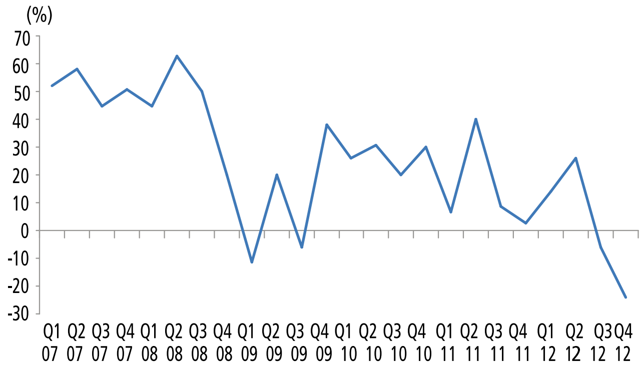
1.4 Foreign trade

The data available to end-February 2013 indicate a year-on-year decline in the trade deficit, due to significantly lower imports than exports.

Indeed, the trade balance posted a deficit of 27.5 billion dirhams, down 17.5 percent from one year to another, while it worsened by 30.7 percent in the previous year. This trend is attributed to a decline of 10.8 percent or 6.7 billion dirhams of imports, larger than that of 3 percent or 841 million dirhams of exports. The import coverage was 50.1 percent as opposed to 46.1 percent in February 2012.

The decline in exports is mainly due to a 15.8 percent decrease of sales of phosphates and derivatives, standing at 5.3 billion dirhams. Sales of the aeronautics sector also moved down 25.4 percent to 904 million dirhams. Meanwhile, exports of the electronics sector fell 12.7 percent to 1 billion dirhams. In contrast, shipments of the automotive sector grew by 8.2 percent to 4.7 billion, which covers a 10.6 percent decrease of the wiring segment and a 69.3 percent increase in the car-manufacturing sector. Similarly, shipments of the textile and leather sector were up 2.3 percent to 5.3 billion dirhams. Deliveries of the agri-food sector also rose by 1.2 percent to 5.4 billion dirhams, covering a 13.2 percent

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 in the industry

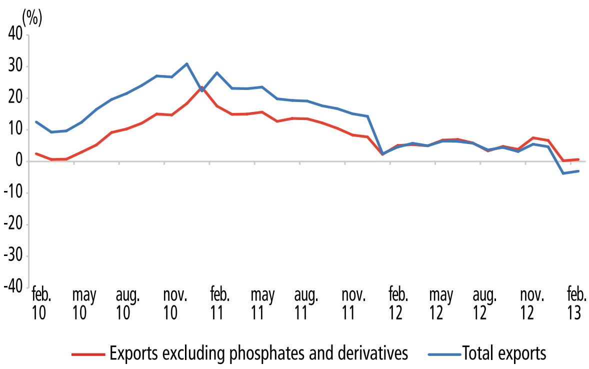
Table 1.2: Change in the trade balance in February 2013

(In millions of dirhams)	Feb. 2012	Feb. 2013*	Change Amount	Change %
Exports	**28 474**	**27 633**	**- 841.0**	**-3.0**
Phosphate and derivatives' exports	6 325	5 324	- 1001	-15.8
Exports excluding phosphates and derivatives	22 149	22 309	+160	+0.7
Textile and leather	5 202	5 324	+122	+2.3
Agriculture and food industry	5 382	5 449	+67	+1.2
Automotive industry	4 319	4 673	+354	+8.2
Electronics	1 162	1 015	-147	-12.7
Aviation	1 212	904	-308	-25.4
Imports	**61 830**	**55 138**	**-6 692**	**-10.8**
Energy goods imports	16 032	14 228	-1 804	-11.3
Non-energy imports	45 798	40 910	-4 888	-10.7
Consumer goods	10 621	9 761	-860	-8.1
Food products	6 361	5 133	-1 228	-19.3
Capital goods	12 119	11 417	-702	-5.8
Trade deficit	**33 356**	**27 505**	**-5 851.0**	**-17.5**

** Provisional data*

Source: Foreign Exchange Office.

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

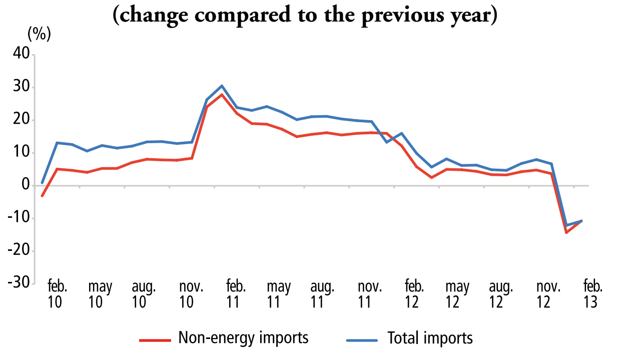


Source: Foreign Exchange Office.

increase in sales of the food industry and respective declines of 10.2 percent and 8.8 percent in those of citrus and fishing.

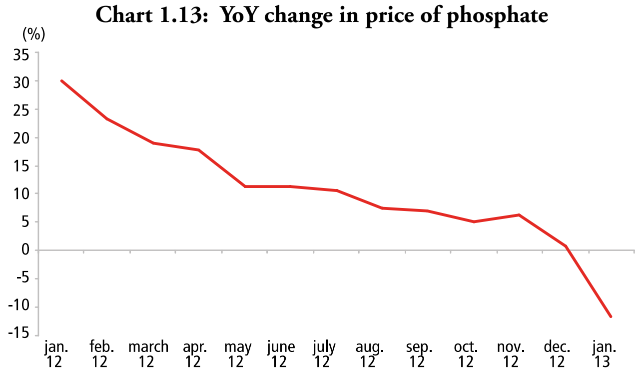
The trend in imports is attributed to the decline of all product groups. Indeed, purchases of energy products fell by 11.3 percent due to the respective declines of 26.3 percent and 22 percent in purchases of crude oil and petroleum gas. Similarly, imports of food, equipment goods and consumer ones fell 19.3 percent, 5.8 percent and 8.1 percent, respectively. They contributed to the contraction of imports by 2, 1.1 and 1.4 percentage points, respectively. Wheat, sugar, corn and soybean supplies registered respective decreases of 28.8 percent, 22.4 percent, 29.3 percent and 19.6 percent, to 1.1 billion, 823, 561 and 562 million dirhams. Meanwhile, purchases of passenger cars and related spare parts, respectively, totaling 1.4 billion and 958 million dirhams, declined by 10.1 percent and 14.1 percent. Similarly, imports of iron and those of tubes and pipes, amounting to 485 million and 125 million dirhams, were down 40.5 percent and 67.9 percent.

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



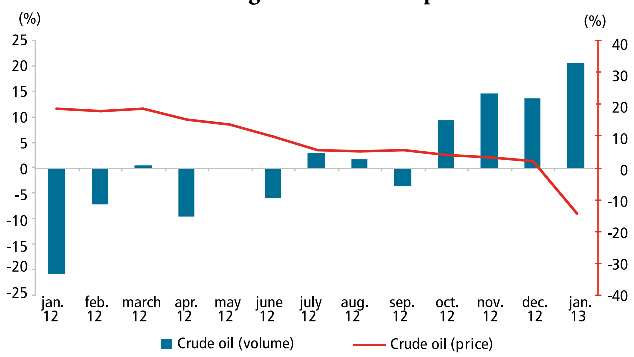
Source: Foreign Exchange Office.

Chart 1.13: YoY change in price of phosphate



Source: Foreign Exchange Office.

Chart 1.14: YoY change in volume and price of crude oil



Source: Foreign Exchange Office.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

In a context marked by a decline in international economic activity, particularly in our key partner countries and some slowdown in domestic demand in 2012, nonagricultural output gap would have stood below zero in the first quarter of 2013, according to estimates by Bank Al-Maghrib. Meanwhile, the BAM monthly business survey shows a decline in the capacity utilization rate from 70 percent in December 2012 to 68 percent in January 2013, a level lower than the historical average (72 percent).

In the labor market, the unemployment rate stood at 8.7 percent in the fourth quarter of 2012, as against 8.5 percent a year earlier. Over the same period, private sector wages increased anew by nearly 3 percent in real terms. Thus, despite some pressures on production costs, the analysis of all factors indicates the absence of significant pressure on prices in the coming quarters.

2.1 Pressures on output capacity

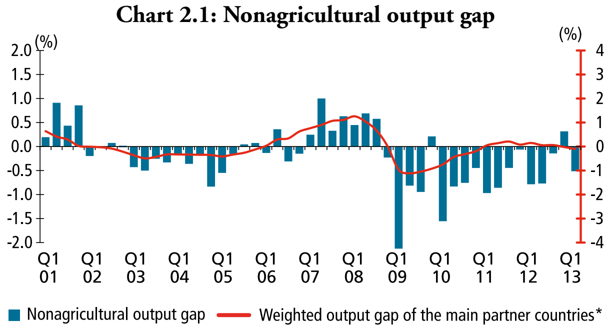
According to estimates by Bank Al-Maghrib, nonagricultural output gap would have stood at -0.3 percent in the first quarter of 2013, from -0.5 percent on average in 2012, thus showing the absence of significant demand pressures.

As reported by Bank Al-Maghrib monthly industrial survey, capacity utilization rate (CUR) fell from 70 percent in December 2012 to 68 percent in January 2013, as against an average of 72 percent observed since 2007 (Chart 2.2). This decrease in the CUR affected all sectors except food industries and electrical and electronics industries, where the CUR increased slightly.

In terms of costs, the results of the BAM survey reveal higher unit production cost in the fourth quarter of 2012, mainly due to the rising non-energy commodity prices, according to manufacturers. This trend affected all sectors, with the exception of textile and leather industries, in which the increase in energy commodity prices was the main factor behind higher costs (Chart 2.3).

Apparent labor productivity in nonagricultural activities registered a year-on-year increase of 4.4 percent in the fourth quarter of 2012, as against 3.6 percent in the third quarter. This trend is attributable to an increase in urban employment (0.4 percent) at a rate lower than that of nonagricultural GDP, as estimated by BAM (4.8 percent).

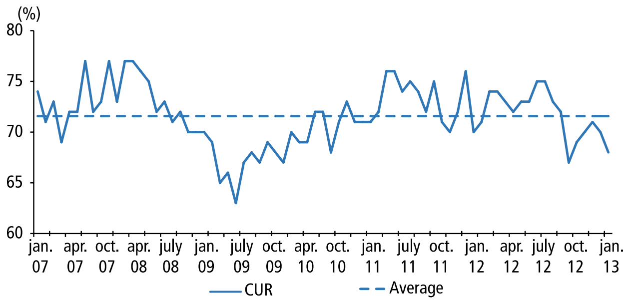
Chart 2.1: Nonagricultural output gap



(*) Calculated based on the GDP of the 5first economic partners weighted by their respective shares in the total exports of Morocco.

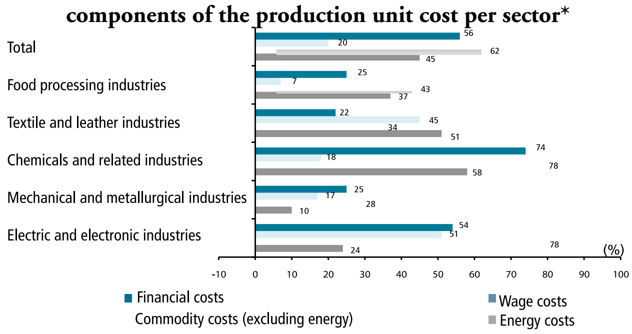
Sources: HCP, and BAM estimates.

Chart 2.2: Industrial capacity utilization rate



Source: BAM monthly business survey.

Chart 2.3: Balance of opinion regarding the change in the components of the production unit cost per sector*



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

Source: BAM monthly business survey.

2.2 Pressures on the labor market

At the end of the fourth quarter of 2012, the labor force aged 15 and over fell by 0.8 percent to 11.5 million people, covering a decline of 2.4 percent in rural areas and an increase of 0.6 percent in urban areas. This trend resulted in a drop of 1.1 percentage points in the labor force participation rate to 48.1percent (Table 2.1).

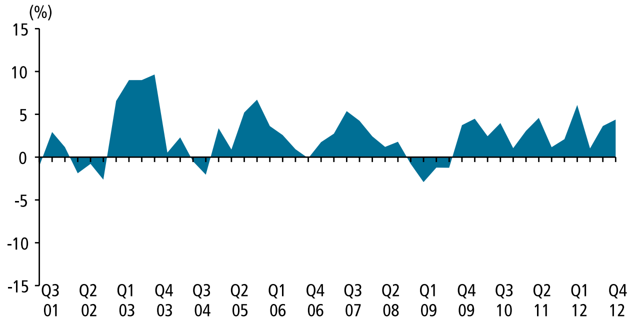
In terms of job creation, 115,000 positions were lost in the fourth quarter of 2012, while 289,000 jobs were created over the same period of 2011. This situation results from a loss of 196,000 unpaid jobs and a creation of 81,000 paid jobs. At the sectoral level, services provided 171,000 jobs, while losses, totaling 286,000 jobs, were registered particularly in the sectors of agriculture (191,000), industry including crafts (42,000) and construction (51,000) (Chart 2.5).

Under these conditions, employed labor force declined in the fourth quarter 2012 by 1.1 percent to 10.5 million individuals, as opposed to an increase of 2.0 percent a year earlier. Meanwhile, the employment rate fell from 45.1 percent to 43.9 percent, resulting from a decrease of 0.6 percentage points in urban areas and 1.9 percentage points in rural areas (Table 2.1).

In total, the unemployment rate rose 0.2 percentage points, year on year, to 8.7 percent, up 0.2 points to 13.2 percent in urban areas and 3.6 percent in rural areas. The unemployment rate among young people aged 15 to 24 years remains high at 18.1 percent (Table 2.1).

With regard to recent trends in labor costs, the wage index, based on CNSS data, recorded in the fourth quarter of 2012 a year-on-year increase of almost 5 percent in nominal terms, and 2.9 percent in real terms. This trend is confirmed by

Chart 2.4: YoY apparent labor productivity (Nonagricultural GDP/urban employment)



Sources : HCP, and BAM estimates.

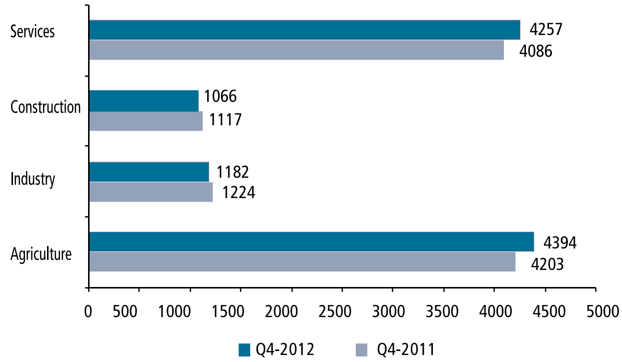
Table 2.1 : Indicators in quarterly of activity and unemployment

In million / in %	Q4 - 2011 Urban	Q4 - 2011 Rural	Q4 - 2011 Total	Q4 - 2012 Urban	Q4 - 2012 Rural	Q4 - 2012 Total
Labor force and employment						
Labor force (1)	6135	5494	11629	6169	5363	11532
Rate activity (%)(2)	43.3	58.2	49.2	42.6	56.4	48.1
Labor force participation rate	5335	5305	10640	5357	5168	10525
Employed labor force(%)(3)	37.6	56.2	45.1	37	54.3	43.9
Unemployment						
Unemployed labor force	800	189	989	812	195	1007
Unemployment rate (in %) (4)	13.0	3.4	8.5	13.2	3.6	8.7
By age						
.15 - 24 years	33.0	8.5	18.3	32.8	8.6	18.1
.25 - 34 years	18.3	3.6	12.1	19	3.2	12.4
.35 - 44 years	6.5	1.3	4.4	7.2	2.1	5.2
By degree						
. Non-graduates	5.8	1.9	3.4	6.5	2.0	3.7
. Graduates	18.6	10.1	16.7	18.1	10.1	16.2

(1) Population aged 15 years and above (in millions of persons)
(2) Labor force/total population.
(3) Employed labor force/total population aged 15 years and above.
(4) Unemployed labor force/labor force aged 15 years and above(2) Population active / Population totale

Source : HCP.

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

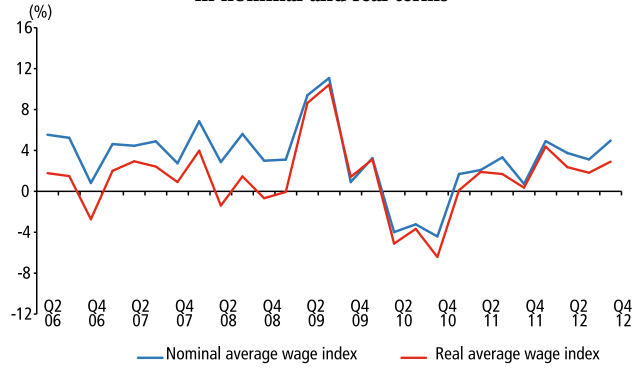


Source: HCP.

the BAM's quarterly business survey of December, which indicates a rise in wages.

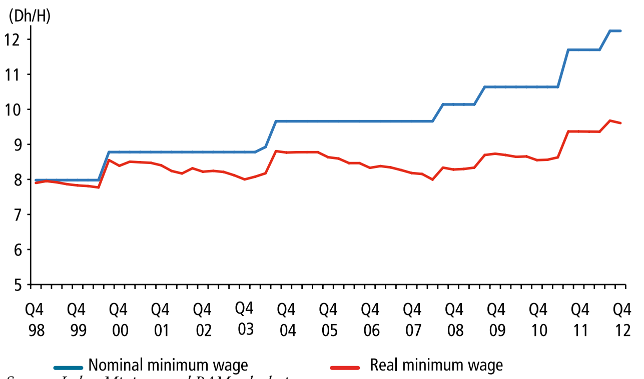
The hourly minimum wage grew in the fourth quarter of 2012 by 5 percent, year on year, in nominal terms, while in real terms it rose by 3 percent.

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: Quarterly change in real and nominal minimum wage



Sources: Labor Ministry, and BAM calculations.

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The latest available data do not suggest a significant improvement in the international environment. The results of the national accounts for the fourth quarter of 2012 highlight a marked slowdown in growth in the United States to 1.6 percent, year on year, from 2.6 percent a quarter earlier, as well as a further decline of 0.9 percent of GDP in the euro area, as against 0.6 percent in the third quarter. Similarly, with the exception of some countries, such as Germany and, to a lesser extent, the United States, the labor market in advanced economies is still marked by a high unemployment rate in late 2012. During the first two months of 2013, the trend of real and financial indicators, significantly divergent across countries and markets, confirms the low recovery of economic activity. With regard to short-term outlook, after downward revisions forecast by the OECD in November 2012 and the IMF in January 2013, the European Commission also revised down its growth projections in February, especially for advanced countries.

On commodity markets, prices continue to show some volatility from one month to another, but broadly decline or slow, year on year. Overall, the trends observed contributed to the moderation of inflation internationally, suggesting the absence of significant external inflationary pressures on the national economy in the coming quarters.

3.1 Global financial conditions and economic activity

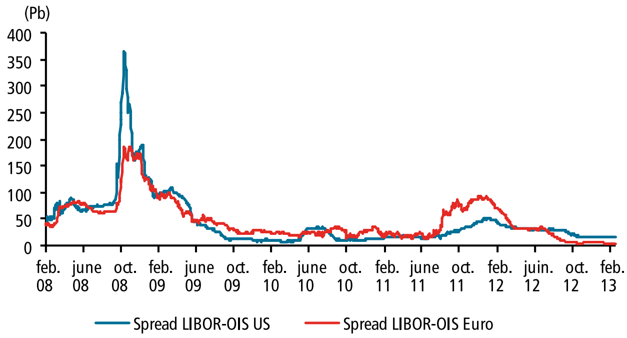
3.1.1 Financial conditions[1]

During the first two months of 2013, financial conditions were marked by divergent trends across compartments, with a significant difference between the United States and the euro area, especially with regard to credit and stock markets.

In money markets, rates and spreads continued to drop, as the 3-month Euribor stood at 0.22 percent in February from 0.23 percent in the previous month, while the 3-month Libor reached 0.29 percent, as against 0.30 percent. The euro Libor-OIS spread fell from 4.4 points in January to 3.9 points in February 2013 and the dollar Libor-OIS spread was down from 16.6 to 15.7 percentage points over the same period.

In bond markets, 10-year sovereign yields stagnated at 2 percent in the United States, while it trended broadly upward in the euro area countries. Thus, it rose from 5.1 percent to 5.2 percent in Spain and from 6.2 percent to 6.3 percent in Portugal. Similarly, French and German bond yields rose by 10 basis points to 2.3 percent and 1.6 percent, respectively. In Italy, yields increased slightly from

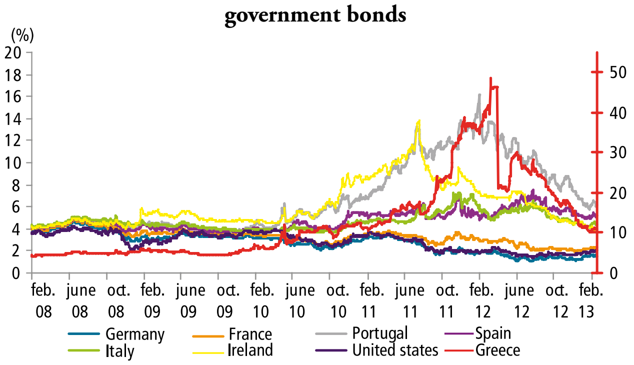
Chart 3.1: Change in the OIS-LIBOR spread*



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

Source: Datastream.

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



Source: Datastream.

1 *The monthly observation of financial indicators is the average of daily observations.*

4.2 percent to 4.5 percent, while, from one month-end to the next, it moved significantly up from 4.3 percent to 4.8 percent. This trend is attributed to the market concerns about political uncertainty caused by the lack of a majority in the last legislative elections.

Moreover, credit growth in the United States was 5.3 percent in January 2013, year on year, from 5.8 percent a month earlier, while in the euro area, credit fell to 0.7 percent in December, from 0.8 percent in November.

The divergent trends are also significant in stock markets. Indeed, the Dow Jones scored a monthly increase of 2.8 percent in February, while the EUROSTOXX50 recorded a decline of 2.8 percent. Regarding other indexes of advanced economies, the NIKKEI225 rose by 5.2 percent and the FSTE100 by 2.4 percent, while the CAC40 and DAX 30 showed respective declines of 1.6 percent and 1.2 percent. Meanwhile, volatility settled down in the U.S. market, as the VIX1 dropped from 13.7 basis points to 13.1 points, while it rose in the European market, as evidenced by the increase in the VSTOXX2 to 18.9 basis points in February from 16.3 points a month earlier. Moreover, the MSCI EM, main stock index of emerging economies, fell by 0.8 percent in February compared to January.

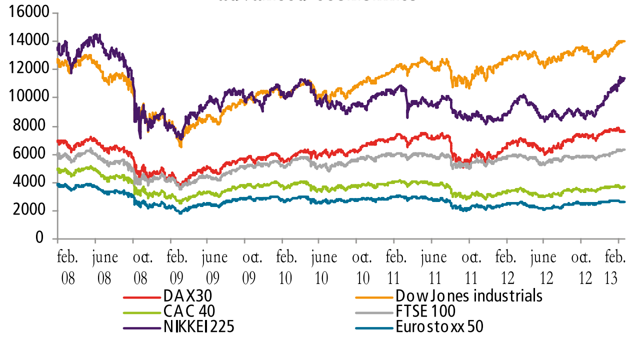
On the international exchange markets, the euro traded at $1.35 on average in February, an appreciation of 1.4 percent from the previous month. It also appreciated 6.7 percent vis-à-vis the Japanese yen and 3.7 percent against the pound sterling.

With regard to monetary policy decisions, the ECB and the Bank of England, at their meetings of March 2013, kept their key rates unchanged at 0.75 percent and 0.5 percent, respectively. Similarly, the Fed

1 VIX is the volatility index of the American financial market. It is calculated by the Chicago Board Options Exchange (CBOE), using the average volatilities of calls and puts on Stand&Poor's 500.

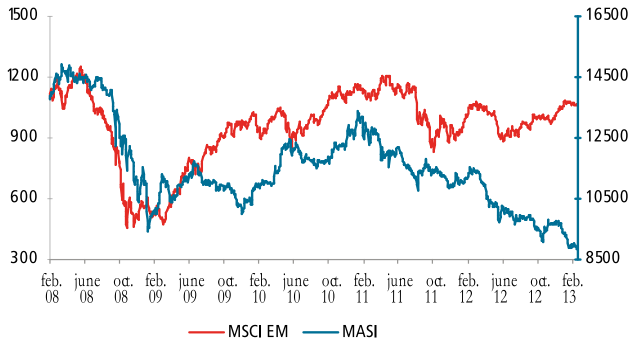
2 VSTOXX is an index of implied volatility of options on the Euro Stoxx 50, which is a stock index comprising 50 companies by market capitalization in the euro area.

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



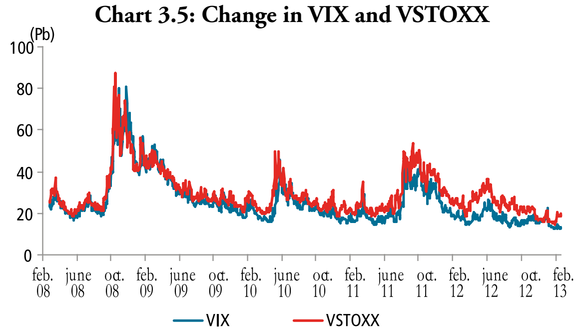
Source: Datastream.

Chart 3.4: Change in the MSCI EM and MASI



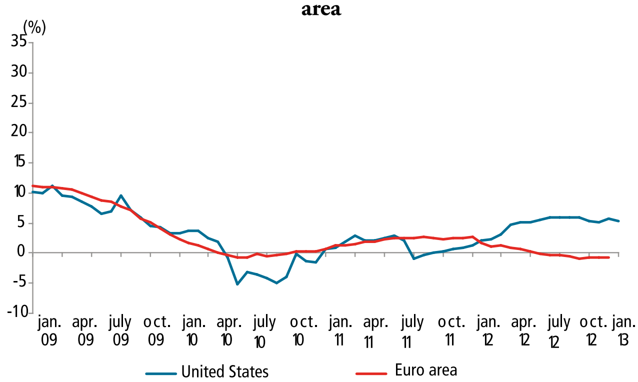
Source: Datastream.

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.

maintained its key rate within a range of 0 percent to 0.25 percent, while announcing that it would keep these levels as long as the unemployment rate did not go below 6.5 percent and that the inflation rate did not exceed 2.5 percent over a period of one to two years.

3.1.2 Global economic activity

National accounts for the fourth quarter of 2012 indicate a generalized slowdown in growth. Indeed, the year-on-year change in GDP slowed in the United States to 1.6 percent in the fourth quarter from 2.6 percent one quarter earlier, while the euro area GDP fell by 0.9 percent year on year, as against 0.6 percent in the previous quarter. Growth in Germany slowed from 0.9 percent to 0.4 percent, mainly because of a significant underperformance of exports, while in France, GDP contracted by 0.3 percent, due to lower inventories and corporate investment. In Morocco's other key partner countries, GDP was down 1.9 percent and 2.7 percent in Spain and Italy, respectively, and stagnated in the UK for the second consecutive quarter. In Japan, growth slowed in the fourth quarter to 0.1 percent from 0.5 percent a quarter earlier.

Regarding high-frequency indicators for February 2013, the ISM manufacturing index of the United States rose by 8.4 percent compared to the threshold of "stagnant activity", thus reaching 53.2. In contrast, in the euro area, the composite PMI and manufacturing PMI registered respective declines of 5 percent and 4.2 percent, compared to the threshold of 50 points, indicating some contraction of activity.

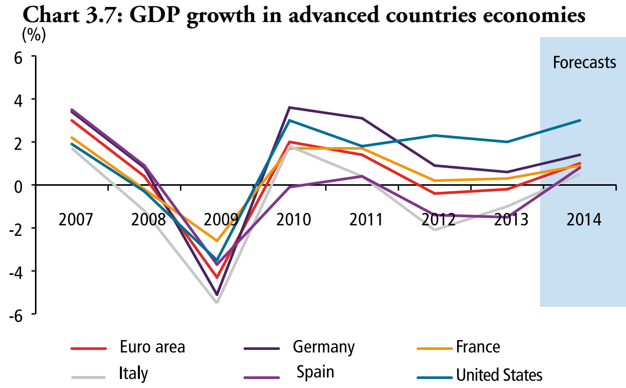
Regarding the short-term outlook, the IMF, in its update of January 2013, again revised down its growth projections. It indicated that global growth should stand at 3.5 percent from 3.2 percent in 2012, reflecting a growth around 1.4 percent in developed countries and 5.5 percent in emerging and developing countries. By country, the growth would be around

Table 3.1: YoY change in quarterly growth

	2011			2012			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	1.9	1.6	2.0	2.5	2.1	2.6	1.6
Euro area	1.6	1.3	0.6	-0.1	-0.5	-0.6	-0.9
France	1.8	1.5	1.1	0.2	0.1	0.0	-0.3
Germany	3.0	2.7	1.9	1.2	1.0	0.9	0.4
Italy	1.0	0.4	-0.5	-1.4	-2.3	-2.4	-2.7
Spain	0.5	0.6	0.0	-0.7	-1.4	-1.6	-1.9
China	9.5	9.1	8.9	8.1	7.6	7.4	7.9

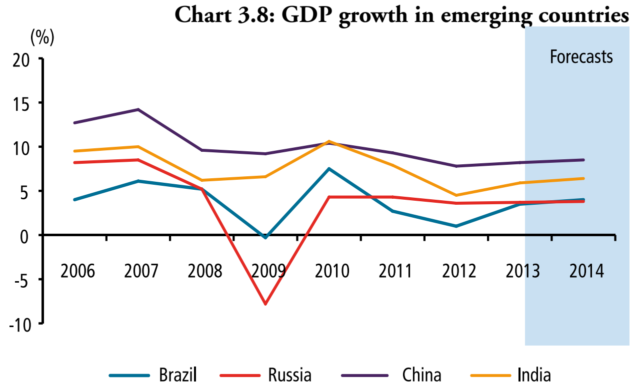
Source: Eurostat.

Chart 3.7: GDP growth in advanced countries economies



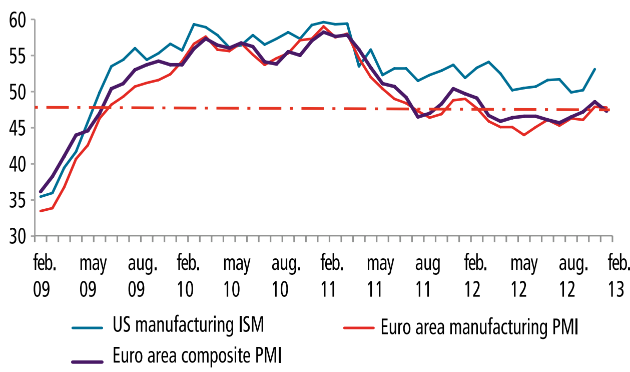
Source: IMF.

Chart 3.8: GDP growth in emerging countries



Source: IMF

Chart 3.9: ISM growth in the United States and euro area



Sources: Datatstream

2 percent in the United States, 1.2 percent in Japan and -0.2 percent in the euro area. In addition, the IMF forecast a growth of around 8.2 percent in China, 5.9 percent in India and 3.5 percent in Brazil in the same year.

The European Commission expected in its forecasts of February 2013 a slower recovery in global growth, which should stand at 3.2 percent in 2013 and 3.9 percent in 2014. By group of countries, growth would be, respectively in 2013 and 2014, around 1.1 percent and 2.1 percent in advanced economies, and 5.4 percent and 5.7 percent in emerging and developing countries.

3.1.3 Job market

With the notable exception of the United States and Germany, where the unemployment rate fell respectively from 9 percent to 8.1 percent and from 5.9 percent to 5.5 percent, the international labor markets were generally marked by higher unemployment rates between 2011 and 2012. Thus, the unemployment rate rose from 9.6 percent to 10.2 percent in France, from 8.4 percent to 10.6 percent in Italy and from 21.7 percent to 25.1 percent in Spain.

In the United States, the unemployment rate was down to 7.7 percent in February 2013, from 7.9 percent in December 2012, with the creation of 236,000 new jobs. In the euro area, the data remain those of January and indicate a slight increase in the unemployment rate to 11.9 percent in the euro area, from 11.8 percent in the previous month. In partner countries, it rose in January to 10.6 percent, 11.7 percent and 26.2 percent, respectively, in France, Italy and Spain, from 10.5 percent, 11.3 percent and 26.1 percent a month earlier. In contrast, in Germany, the unemployment rate remained stable at 5.3 percent from one month to another.

Regarding prospects, persistent uncertainty surrounding the growth should continue to weigh on the labor

Table 3.2: Global growth outlook

	Forecasts (%)					
	European Commission		IMF		OECD	
	2013	2014	2013	2014	2013	2014
Global GDP	3.2	3.9	3.5	4.1	2.8	4.7
United States	1.9	2.6	2.0	3.0	2.2	2.0
Euro area	-0.3	1.4	-0.2	1.0	-0.4	-0.1
Germany	0.5	2.0	0.6	1.4	0.9	0.6
France	0.1	1.2	0.3	0.9	0.2	0.3
Italy	-1.0	0.8	-1.0	0.5	-2.2	-1.0
Spain	-1.4	0.8	-1.5	0.8	-1.3	-1.4
United Kingdom	0.9	1.9	1.0	1.9	-0.1	0.9
China	8.0	8.1	8.2	8.5	7.5	8.5
India	5.8	6.6	5.9	6.4	4.4	6.5
Brazil	3.5	4.0	3.5	4.0	1.5	4.0
Russia	3.7	3.9	3.7	3.8	3.4	3.8

Sources: IMF January 2013, European Commission February 2013, OECD november 2012

Table 3.3: Change in unemployment rate in the United States, the euro aera and partner countries

	2011	2012	dec. 2012	jan. 2012	feb. 2013
United States	9.0	8.1	7.8	7.9	7.7
Euro area	10.2	11.4	11.8	11.9	NA
France	9.6	10.2	10.5	10.6	NA
Italy	8.4	10.6	11.3	11.7	NA
Germany	5.9	5.5	5.3	5.3	NA
Spain	21.7	25.1	26.1	26.2	NA
United Kingdom	8.0	NA	NA	NA	NA

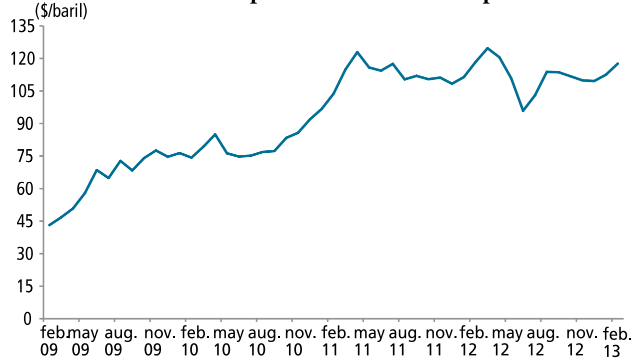
Sources: Eurostat

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

	IMF		OECD		European Commission		
	2012	2013	2013	2014	2012	2013	2014
United States	8.2	8.1	7.8	7.5	8.1	7.6	7.0
Euro area	11.2	11.5	11.9	12.0	11.4	12.2	12.1
Germany	5.2	5.3	5.5	5.6	5.5	5.7	5.6
France	10.1	10.5	10.7	10.9	10.3	10.7	11.0
Italy	10.6	11.1	11.4	11.8	10.6	11.6	12.0
Spain	24.9	25.1	26.9	26.8	25	26.9	26.6
United Kingdom	8.1	8.1	8.3	8.0	7.9	8.0	7.8

Sources: EC-February 2013, OECD-November 2012, and IMF- October 2012.

Chart 3.10: World price of Brent in dollar per barrel



Source: Datastream

market in 2013. Indeed, just as the OECD in its projections of November 2012 and the IMF WEO of last October, the new projections of February of the European Commission indicate a nearly generalized increase in unemployment rates in 2013, with the exception of the United States where it should decline to 7.6 percent. In the euro area, this rate would rise to 12.2 percent, with respective levels of 5.7 percent, 10.7 percent, 11.6 percent and 26.9 percent in Germany, France, Italy and Spain.

3.2 Commodity prices and inflation

Since the beginning of the year, the majority of global commodity prices are still trending downward year on year, despite some tensions in energy prices. Inflationary pressures, further impacted by the worsening economic situation and outlook, showed some mitigation in January.

3.2.1 Energy commodity prices

In February 2013, the Brent price increased 4.5 percent from one month to another, reaching an average price of $117.6 per barrel, its highest level since April 2012. This trend is due in particular to the depreciation of the dollar and political tensions in the Middle East. However, this price is still down 0.7 percent from one year to another.

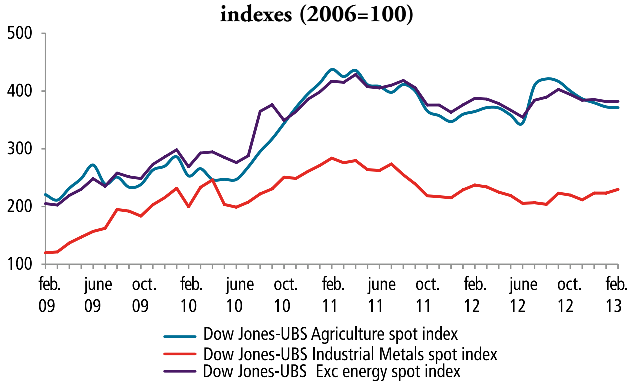
Regarding the outlook for 2013[1], the World Bank revised down its estimates in January from $105.8 to $102 a barrel. Similarly, the IMF, in its WEO of October 2012, revised down its forecast from $105.1 to $99.71 per barrel expected in the WEO of January 2013. However, the European Commission revised up its Brent price forecast, now assuming a price of $113 per barrel, up 1.7 percent in 2013 compared to 2012, and close to the price on the futures market for contracts maturing in 2013 (113.84).

Table 3.5: Futures prices of Brent in US Dollars

	Q1:13	Q2:13	Q3:13	Q4:13	2013	2014	2015
Oil	115.53	115.46	113.22	111.22	113.84	106.91	101.19

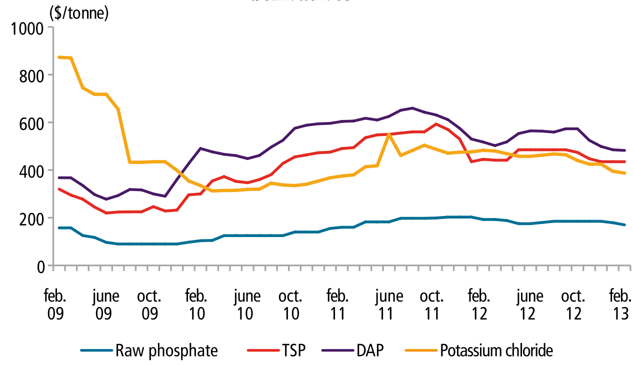
Data as at September 2012
Source : Bloomberg.

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



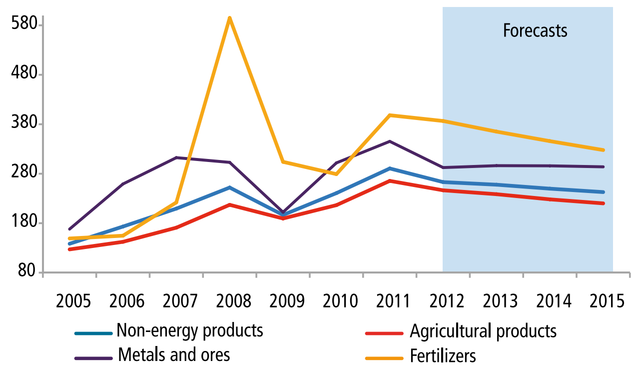
Source: Datastream.

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



Source: World Bank.

Chart 3.13: Outlook for commodity price indexes



Source: World Bank.

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.*

3.2.2 Non energy commodity prices

Non-energy commodity prices in February 2013 trended downward, year on year. Indeed, the relevant Dow Jones index declined 1.3 percent, covering a 3.2 percent decline in the index of industrial metal prices and a 1.8 percent increase of that of agricultural commodities.

In the world market of phosphate and derivatives, the price of crude continued its decline that began in the previous month, thus falling 5 percent between January and February 2013. Similarly, Potassium Chloride and DAP prices were down 1.9 percent and 0.6 percent, respectively.

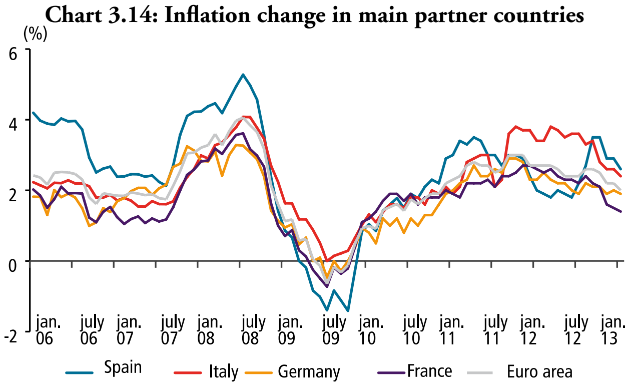
The price for Urea rose by 4.6 percent from one month to another, while that for TSP remained unchanged at $435 per tonne. Year on year prices for Potassium Chloride, crude phosphate, DAP and TSP recorded respective declines of 19.8 percent, 11.7 percent, 6.8 percent and 2.2 percent. In contrast, prices the urea increased 7.5 percent from one year to another.

3.2.3 Inflation in the world

In January 2013, inflation in the United States declined slightly to 1.6 percent, year on year, recording its lowest level in six months. According to estimates by Eurostat, inflation would have decreased in the euro area to 1.8 percent in February after having stood at 2 percent in January. In Morocco's main partners, inflation stagnated in January at 2.7 percent in the United Kingdom, while it slowed from 1.5 percent to 1.4 percent in France, from 2 percent to 1.9 percent in Germany, from 2.6 percent to 2.4 percent in Italy and from 2.9 percent to 2.6 percent in Spain. In emerging and developing countries, inflation reached 6.2 percent in Brazil from 5.8 percent in December 2012 and fell in China from 2.5 percent to 2 percent over the same period.

Regarding the outlook, according to the IMF forecasts of January 2013, inflation would reach 6.1 percent in 2013 and 5.5 percent

Chart 3.14: Inflation change in main partner countries



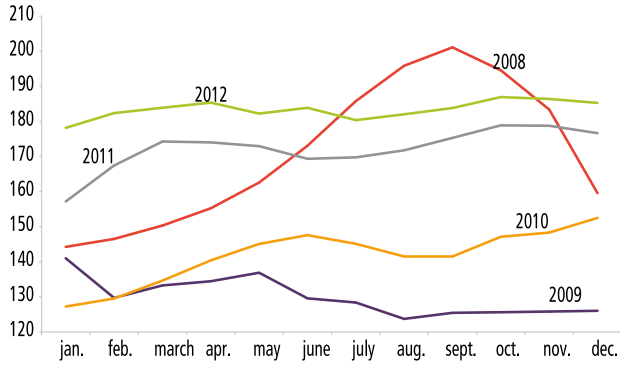
Source: World Bank

Table 3.6: Recent trend in world inflation, YoY

	nov. 2012	dec. 2012	jan. 2013	Forcasts 2013	2014
United States	1.8	1.7	1.6	1.8	2.2
Euro area	2.2	2.2	2.0	1.8	1.5
Germany	1.9	2.0	1.9	1.8	1.7
France	1.6	1.5	1.4	1.6	1.5
Spain	2.9	2.9	2.6	1.7	1.0
Italy	2.6	2.6	2.4	2.0	1.7
Japan	-0.2	-0.1	n.a	0.2	0.4

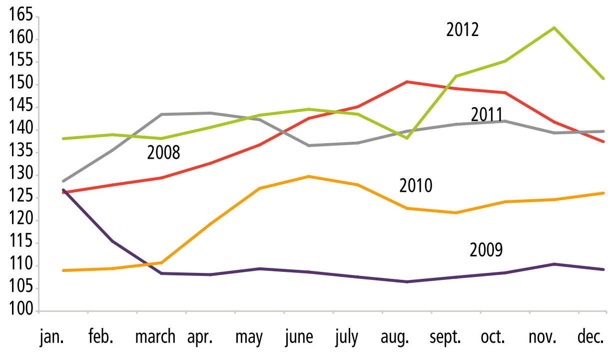
Sources : FMI, Eurostat.

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



Sources: Foreign Exchange Office, and BAM calculations.

Chart 3.16: Import price index of semi finished goods (1996=100)



Sources: Foreign Exchange Office, and BAM calculations.

in 2014 in emerging countries. However, it should be limited to a rate of around 1.7 percent in developed countries. Moreover, according to the latest forecasts by the European Commission, inflation in the euro area should stand at 1.8 percent in 2013 and 1.5 percent in 2014.

3.3 Morocco's import unit price index

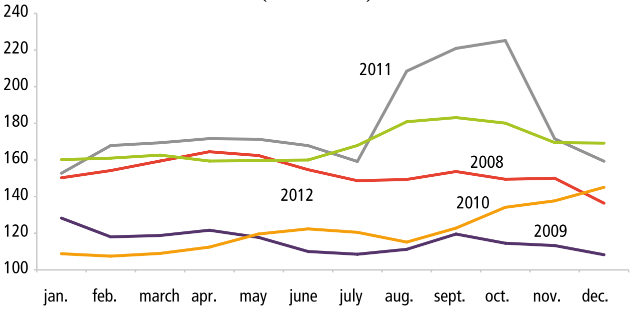
According to the latest available data, the non-energy import price index (IPI) showed in December 2012 a monthly decline of 0.6 percent, as opposed to 0.3 percent a month earlier. By product category, the IPI of semi-finished goods fell 6.9 percent after rising 4.7 percent in November, in conjunction with the 28 percent decline in the average import unit price of wires and bars, offset by respective increases of 1.3 percent and 1.1 percent of the average unit price of paper and cardboard, and plastics.

Similarly, the food IPI declined by 0.2 percent, as against 5.9 percent in November, largely as a result of the 0.8 percent decrease in the average import unit price of corn.

The mining IPI fell 0.6 percent as opposed to 6.6 percent in the previous month. This trend is mainly due to the 0.4 percent decline in the average import unit price of crude sulfur.

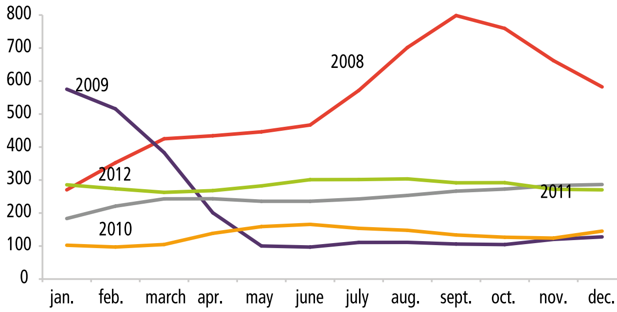
Year on year, the non-energy IPI rose by 4.9 percent, as against 15.9 percent a year earlier. The IPI of semi-finished goods rose by 8.4 percent, mainly as a result of an 8 percent increase in the average import unit price of plastics. Meanwhile, the food IPI increased by 6.2 percent, following a 20.9 percent increase in the average import unit price of wheat. While the mining IPI dropped by 5.3 percent due to the decline of 14.1 percent in the average import unit price of crude sulfur.

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



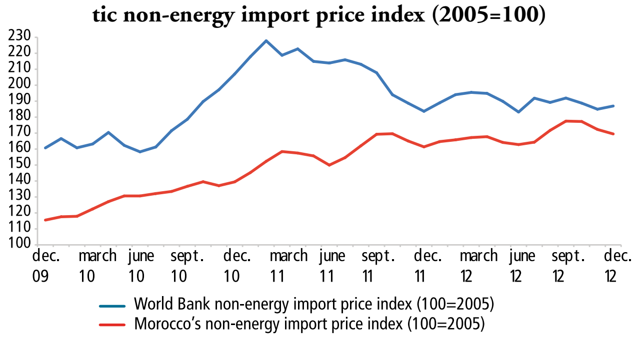
Sources: Foreign Exchange Office, and BAM calculations.

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



Source: Foreign Exchange Office and BAM calculations

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



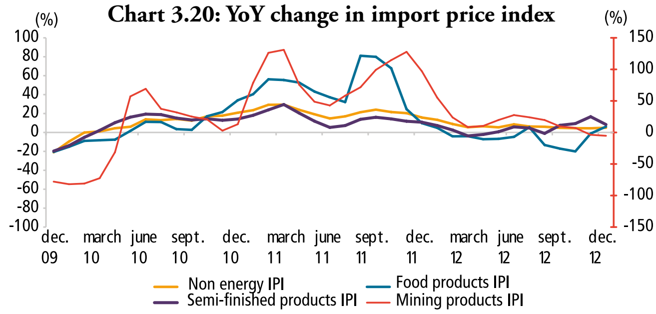
Sources: Foreign Exchange Office, World Bank. and BAM calculations

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

	Monthly change in %			Annual change in %		
	oct. 12	nov. 12	dec. 12	oct. 12	nov. 12	dec. 12
Non energy IPI	1.7	-0.3	-0.6	4.5	4.3	4.9
Food IPI	-1.7	-5.9	-0.2	-20.0	-1.2	6.2
Semi-finished products IPI	2.2	4.7	-6.9	9.4	16.6	8.4
Mining IPI	0.1	-6.6	-0.6	7.2	-3.7	-5.3

Indexes calculated on the basis of unit prices in Dirhams.

Chart 3.20: YoY change in import price index



Sources: Foreign Exchange Office, and BAM calculations.

4. MONETARY CONDITIONS AND ASSET PRICES

The most recent data of January 2013 show a further slowdown in the annual growth of monetary aggregates and credit, while monetary gap remained negative. Thus, M3 growth slowed year on year from 3.8 percent in the fourth quarter of 2012 to 2.4 percent in January 2013, reflecting slower bank lending and lower external net assets. More particularly, bank credit increased by 3.2 percent, as against 5.2 percent in the previous quarter, mainly reflecting a slower growth of cash advances to 6.4 percent and a 1.9 percent contraction of equipment loans. For 2013, given the current available data, the Bank forecasts indicate that bank credit growth should stand within a range of 5 percent to 6 percent. As to lending rates, Bank Al-Maghrib's survey with banks for the fourth quarter of 2012 shows a decline of 15 basis points in the weighted average rate, due to the contraction of rates on cash facilities. The dirham's effective exchange rate appreciated by 0.39 percent from one quarter to another, in nominal terms, while in real terms it appreciated by 0.31 percent, due to an inflation differential slightly in favor of Morocco. Regarding the real estate market, the real estate prices stagnated from one quarter to the next, while, year on year, they rose by 0.9 percent from 0.5 percent a quarter earlier.

Overall, recent developments of monetary conditions and asset prices, especially real-estate ones , indicate show an absence of monetary and financial inflationary pressures in the medium term.

4.1 Monetary conditions

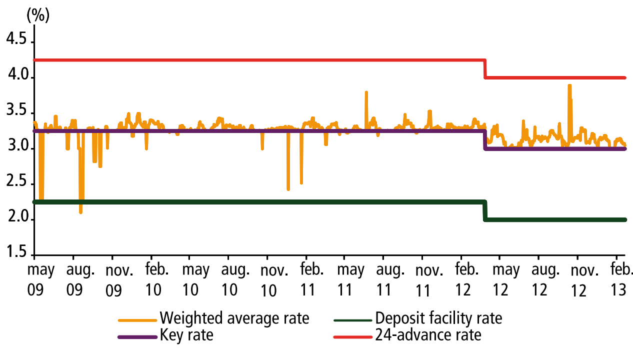
4.1.1 Interest rates

In a context marked by a neutral balance of risks and an inflation central forecast in line with the price stability objective, the Board of Bank Al-Maghrib decided, at its last meeting on December 18, 2012, 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 during January and February 2013, down 8 basis points from the fourth quarter of 2012.

Meanwhile, the rates of short, medium and long-term primary market Treasury bonds recorded in January 2013 increases of up to 50 basis points compared to the previous quarter. In the secondary market, the same trend pattern characterized the various maturity rates.

Concerning deposit rates, the weighted average rate of 6 and 12-month deposits rose by 14 basis points between the fourth quarter of 2012 and January 2013, to 3.89 percent. This change reflects an increase of 21 basis in the one-year deposit rates and a decrease of 2 basis points in the 6-month deposit rates.

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



Source : BAM.

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

	2011			2012				
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	jan. 13
21 days	-	3.28	-	-	-	-	-	-
24 days	-	-	-	-	-	-	3.71	-
35 days	-	-	-	-	-	-	3.78	4.12
43	-	-	-	-	-	3.48	-	-
44 days	-	-	-	-	-	3.59	-	-
45 days	-	-	-	-	-	-	3.97	-
13 weeks	3.30	3.30	3.34	3.42	3.21	3.31	3.40	3.90
26 weeks	-	3.33	3.33	3.55	3.39	3.42	3.57	4.06
52 weeks	3.45	3.46	3.49	3.65	3.53	3.74	3.84	4.14
2 years	3.61	3.61	3.71	3.88	3.71	3.93	4.24	4.57
5 years	3.84	3.85	3.91	4.05	4.00	4.32	4.52	4.75
10 years	4.12	4.13	4.20	4.32	4.29	4.51	4.84	-
15 years	4.33	4.34	4.45	4.46	4.52	4.74	5.08	5.38
20 years	4.42	-	-	-	-	5.01	-	-

Source : BAM.

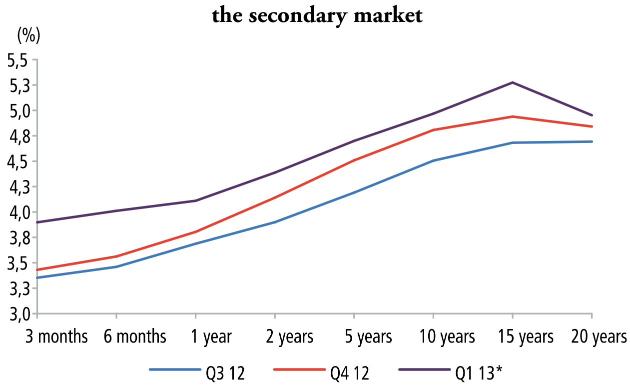
As to lending rates, the findings of BAM survey with banks for the fourth quarter of 2012 show a decline of 15 basis points in the weighted average rate of bank loans, to 6.2 percent, due to the contraction of rates on cash loans.

4.1.2 Money. credit and liquid investments

M3 growth

The growth of the money supply continued to decelerate in January 2013 to 2.4 percent, year on year, from 3.8 percent on average in the fourth quarter of 2012. As a result, the money surplus remained negative, thus confirming the absence of monetary inflationary pressures in the medium term.

Chart 4.2: Change in maturity structure of TB interest rates on the secondary market



**Observation of the first quarter of 2013 corresponds to the arithmetic average of data from January 1 to February 21. 2013.*

Source : BAM.

Table 4.2: Rates on time deposits

	2011			2012				jan. 13
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
6 months	3.34	3.33	3.35	3.49	3.43	3.49	3.55	3.49
12 months	3.72	3.78	3.74	3.84	3.83	3.83	3.84	4.08
Weighted average	3.55	3.63	3.59	3.68	3.69	3.71	3.73	3.89

Source : BAM.

Box 4.1: Liquidity and monetary policy implementation

During the fourth quarter of 2012, bank liquidity deficit significantly narrowed by 10.9 billion dirhams compared to the end of the previous quarter (from 75 to 64.1 billion dirhams), mainly due to the receipt by the Treasury of nearly 12.6 billion, the equivalent in dirham of the dollar-denominated issuance on the international financial market, as well as the structural liquidity injection (1.6 billion dirhams) resulting from the decline in the required reserve ratio from 4.43 percent1 to 4 percent.

Indeed, Treasury operations (excluding interventions on the money market) contributed significantly to improving liquidity conditions by 17.3 billion dirhams due to the difference between:

- On the one hand, the acceleration in implementing the Finance Act at the end of the year, the repayment of domestic debt maturities to the banking system (30.2 billion dirhams), the settlement of civil servants' salaries (16.1 billion dirhams) and subsidization expenses (13.4 billion dirhams).
- On the other hand, bank subscriptions to T-bills' auction (22.2 billion dirhams) and the collection of tax revenues.

In contrast, foreign exchange transactions led to a liquidity drain of 7.1 billion dirhams, due to the continued faster pace of foreign exchange purchases by commercial banks from Bank Al-Maghrib (14.2 billion dirhams), partially offset by the foreign banknotes sales, which reached 7.1 billion dirhams. In addition, net withdrawals of currency in circulation reached 2.8 billion dirhams due to the advent of Eid Al-Adha during this period.

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

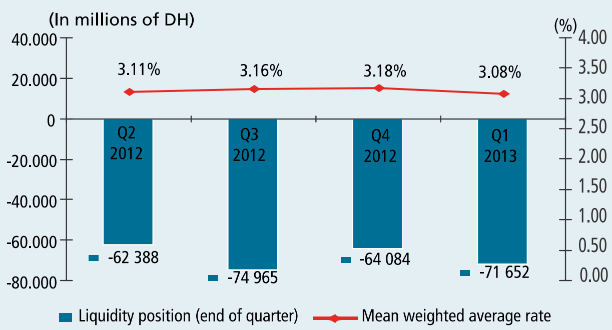
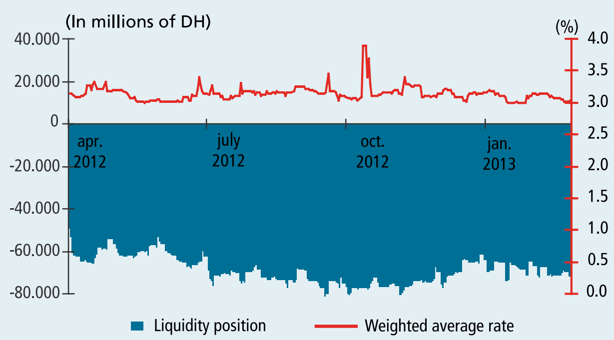


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



1 Following the decision of the Board of Bank Al-Maghrib, on September 25, 2012, to decrease required reserve ratio by 2 percentage points, to 4 percent as of September 26, 2012; the weighted coefficient for the monetary reserve, which was applied during to the transitional observation period from September 20 to October 17, 2012, is 4.43 percent.

Chart B 4.1.3: Change in reserve requirements

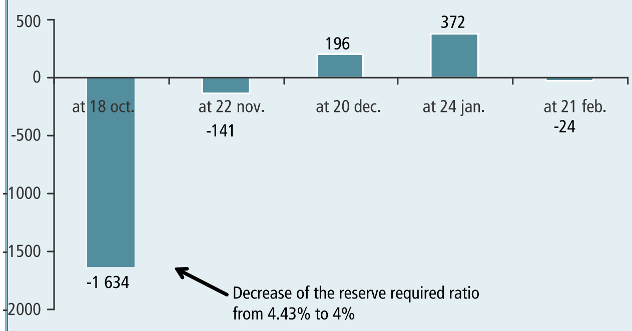
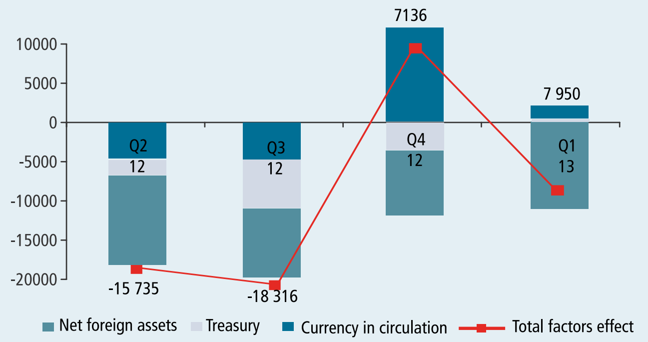


Chart B 4.1.4: Change in liquidity factors' effect



During the first quarter of 20132, the bank liquidity shortage widened by 7.6 billion dirhams from the previous quarter to 71.7 billion dirhams owing to the restrictive impact of Treasury operations (excluding interventions on the money market).

Indeed, these operations led to a liquidity drain of 9.4 billion dirhams: the restrictive effect related to bank subscriptions to T-bills' auction (32.3 billion dirhams) and the collection of the 4th installment of corporate tax for 2012, was only partially offset by the repayments of domestic debt maturities to the banking system (23.2 billion dirhams), the payment of civil servants' salaries (5.8 billion dirhams) and of subsidization costs (5.2 billion dirhams).

However, foreign assets operations caused a liquidity injection of 1.4 billion dirhams due to foreign banknotes sales (3.2 billion dirhams), which were only partially offset by currency purchases by commercial banks, which were limited to 1.4 billion dirhams. Meanwhile, currency in circulation transactions had no impact on bank treasuries.

Outstanding money market Treasury investments remained unchanged from the last quarter of last year, at 1.5 billion dirhams on daily average.

To fill the shortage in bank liquidity, Bank Al-Maghrib intervened primarily through 7-day advances with an average daily amount of 50.1 billion dirhams, as against around 56 billion dirhams in the previous quarter.

Bank Al-Maghrib also maintained its outstanding 3-month refinancing operations at 17.4 billion dirhams. Under these conditions, money market weighted average rate was down to 3.08 percent on average during this quarter, as against 3.18 percent in the fourth quarter of 2012. Similarly, its volatility declined significantly to only 6 basis points, as opposed to 16 basis points in the previous quarter.

Chart B 4.1.5: BAM interventions on the money market

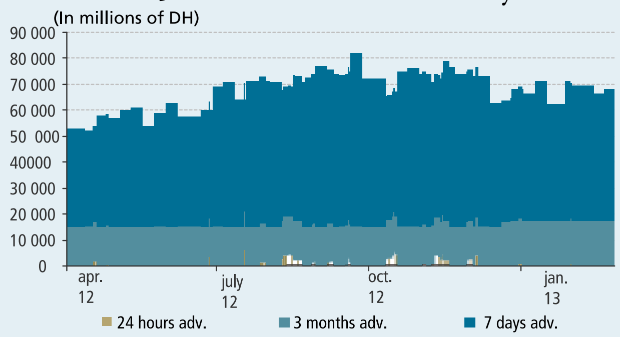
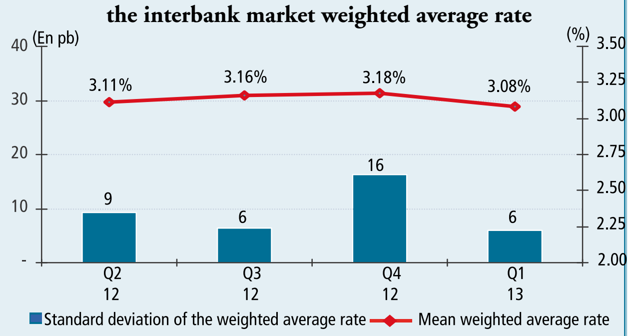


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate

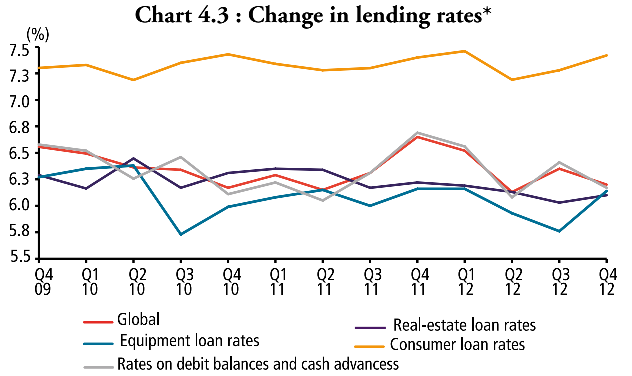


2 From January 1 to February 26, 2013.

This change, which continues to reflect lower net foreign assets and slower bank lending, covers divergent trends across the main components of the M3 aggregate. Thus, currency in circulation recorded a monthly decline of 0.4 percent, bringing its annual growth to 3.4 percent in January, as against 4.5 percent in the fourth quarter of 2012. Following the downward adjustment of demand deposits with banks and Morocco's General Treasury, bank money contracted by 3.6 percent from one month to another and posted a year-on-year increase of 2.8 percent, from 4.6 percent in the previous quarter. Similarly, time deposits showed an annual decrease of 1.7 percent, continuing the downward trend that began in November 2011. The outstanding of money market securities stood in January at a lower level by 12.8 percent compared to the previous year. Demand deposits rose by 8.4 percent year on year, a rate almost similar to that of the previous quarter.

By economic unit, the slower growth of deposits is mainly due to an 8.3 percent decrease of assets of nonfinancial private corporations, as against a 5.8 percent decline in the previous quarter. These assets contributed negatively by 1.5 percentage points to the increase in deposits. However, after a downward trend for several quarters, assets of financial corporations moved up by 2.3 percent year on year, thus contributing 0.1 points to growth of deposits. Similarly, the public sector deposits were up by 26 percent, from 20 percent on average in the previous quarter, contributing 0.7 percentage points to the growth of deposits. Household deposits increased by 5.3 percent, a rate similar to that of the previous quarter, with a contribution of 3.9 points.

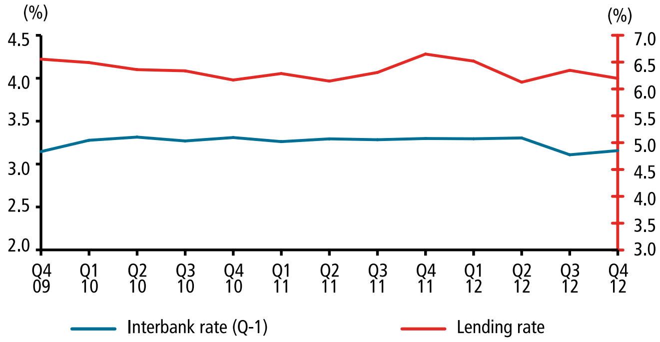
Chart 4.3 : Change in lending rates*



** 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).*

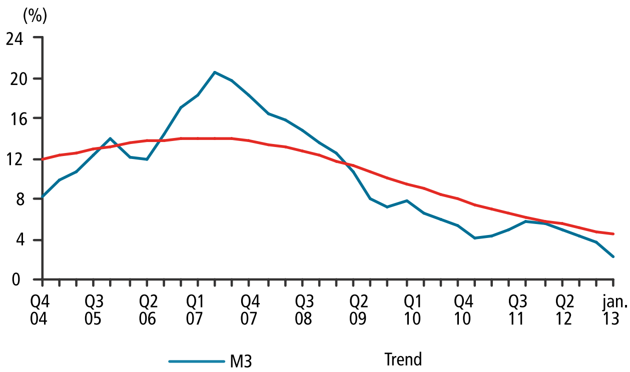
Source: BAM quarterly survey among banks.

Chart 4.4: Change in interbank rate and lending rates



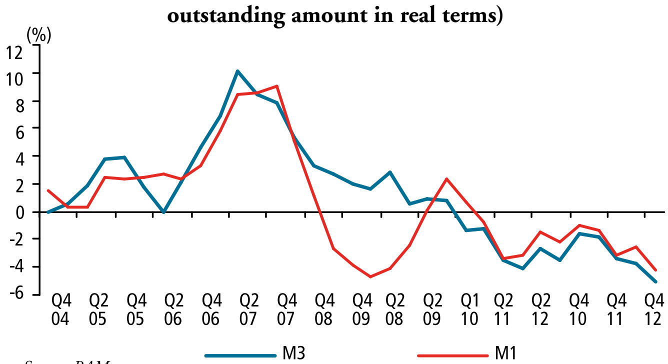
Source: BAM.

Chart 4.5: YoY M3 growth and its trend



Source: BAM.

Chart 4.6: Money gap[1] (in percentage of M3 and M1 balance outstanding amount in real terms)



Source: BAM.

**Monetary surplus is the difference between the money surplus recorded and its balance level. The latter, defined based on the quantity equation of money, corresponds to the evolution rate of the potential economic activity in real terms, minus the average rhythm of money circulation velocity decrease.*

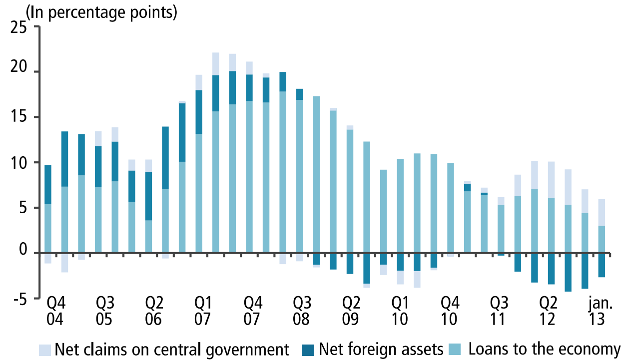
Credit

The latest available data show a further slowdown in the annual growth of bank lending, which stood at 3.2 percent in January 2013, from 5.2 percent in the fourth quarter of 2012 and 6.9 percent on average in the past year.

By economic purpose, this slowdown affected almost all bank credit categories. Thus, the annual growth of cash facilities decelerated from 9.5 percent in the fourth quarter of 2012 to 6.4 percent in January 2013. At the same time, equipment loans contracted by 1.9 percent year on year, after a decline of 1.3 percent in the fourth quarter of 2012. The growth of real-estate loans remained unchanged at 5.8 percent compared to the fourth quarter of the previous year, covering both a 10.2 percent increase in housing loans and a 4.6 percent decline in loans to developers. Meanwhile, consumer loans recorded a monthly increase of 0.2 percent, and their year-on-year growth slowed to 9.2 percent in January from 10.3 percent in the fourth quarter of 2012. Miscellaneous loans to customers showed an annual decline of 3.9 percent. Nonperforming loans grew 6.7 percent year on year in January, from 8.3 percent in the last quarter of 2012.

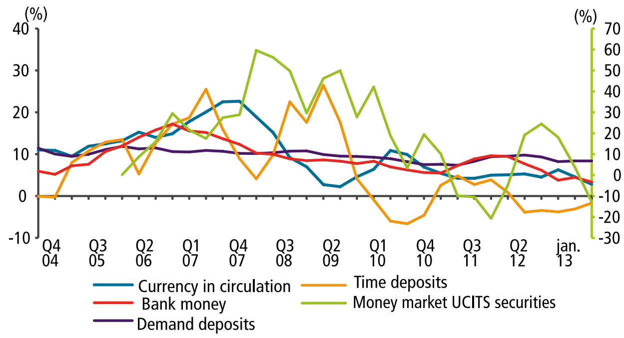
The breakdown of bank credit by institutional unit shows a slowdown in the annual growth of loans to the public sector, a decline in loans to other financial corporations and an increase in loans to the private sector. Indeed, the annual growth of loans to the public sector decelerated to 10.6 percent in January, from 27.4 percent in the fourth quarter of 2012. Loans to other financial corporations decreased by 11 percent in January 2013, year on year, as against a decline of 0.9 percent on average in the fourth quarter, while loans to the

Chart 4.7: Contribution of the major components to money supply growth



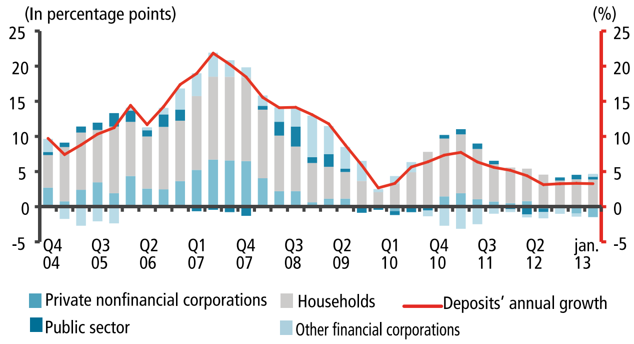
Source : BAM.

Chart 4.8: YoY change in the major M3 components



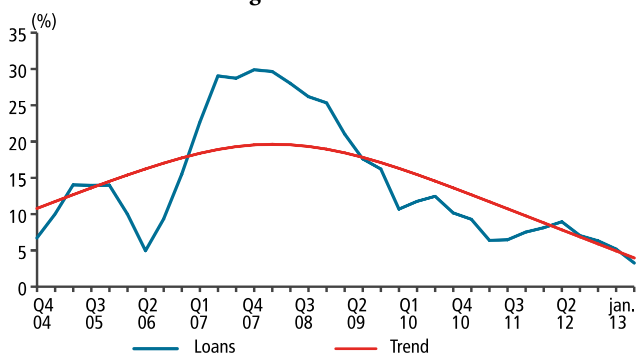
Source : BAM.

Chart 4.9: Institutional sectors' contribution to total deposits' growth



Source : BAM.

Chart 4.10: YoY growth and trend of bank loans



Source : BAM.

private sector recorded an annual growth of 5.1 percent in January. This trend reflects a slightly rapid annual growth of loans to nonfinancial corporations and a virtual stagnation in loans to households, which rose by 7.4 percent in January, year on year. The change in loans to households reflects a continued growth of loans to individuals and Moroccans living abroad to around 8.4 percent and a decline from 4 percent to 3.2 percent of loans to individual corporations. Meanwhile, loans to nonfinancial corporations rose by 3.9 percent in January, from 3.4 percent in the last quarter of 2012.

Other sources of money creation

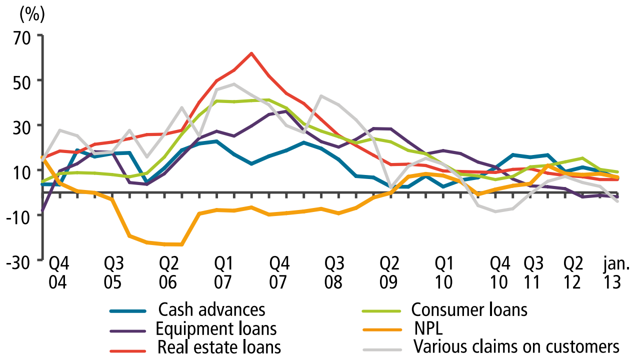
In January 2013, net foreign assets decreased by 15.4 percent year on year, as opposed to 21.4 percent in the fourth quarter of 2012, thus maintaining the downward trend that began since August 2011. This change reflects the contraction of net foreign assets of both Bank Al-Maghrib and other depositary corporations.

Net claims on central government increased year on year by 23.3 percent in January, as against 23.9 percent in the previous quarter, mainly reflecting a slower growth of 23.4 percent in net claims of other depositary corporations.

Liquid investments

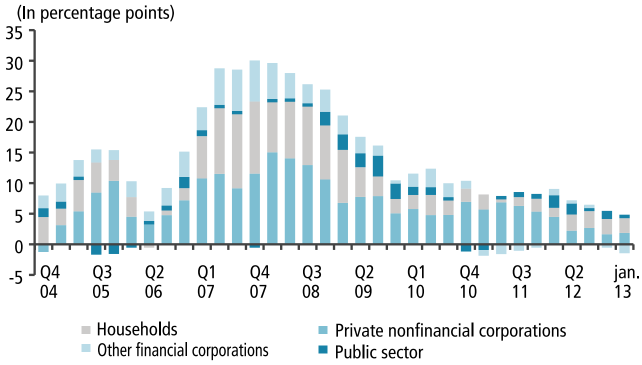
In January 2013, liquid investment aggregates grew by 6.9 percent, year on year, as against 5.2 percent in the previous quarter, primarily due to an accelerated growth of the LI1 aggregate. The latter edged up by 11.9 percent from 9.6 percent in the fourth quarter of 2012, mainly in connection with an 11.4 percent increase in marketable Treasury bonds. Meanwhile, bond UCITS securities, which constitute the LI2 aggregate, rose by 2.4 percent from 1.1 percent in the previous quarter, due to higher demand for this type of investment.

Chart 4.11: YoY growth of major bank loan categories



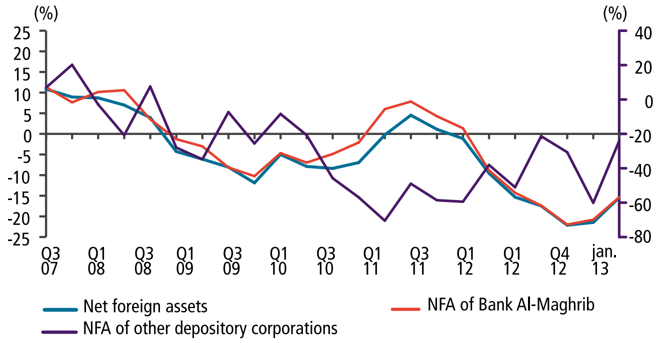
Source : BAM.

Chart 4.12: Contribution of institutional sectors to credit change



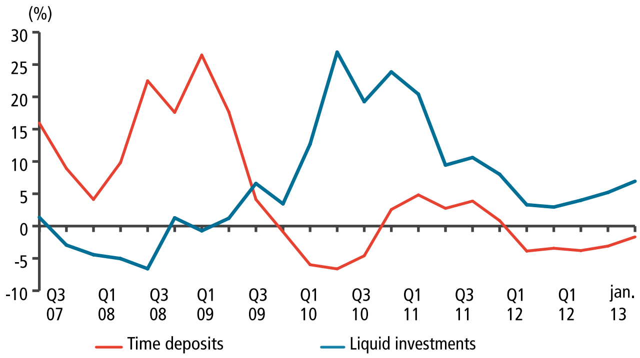
Source : BAM.

Chart 4.13: Annual growth of net foreign assets



Source : BAM.

Chart 4.14: Annual change of liquid investments and time deposits



Source : BAM.

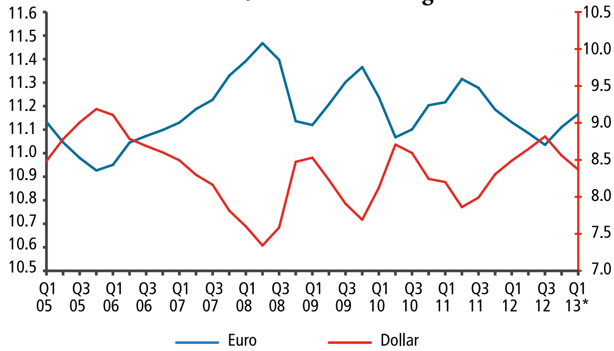
Securities of equity and diversified UCITS, which compose the LI3 aggregate, fell by 13.7 percent year on year, after a decline of 11.3 percent in the past quarter, as a result of falling prices on the Casablanca Stock Exchange.

Exchange rate

At the end of the fourth quarter of 2012 and compared with the previous quarter, the national currency depreciated 0.68 percent against the euro. However, it appreciated 3 percent, 1.32 percent and 6.43 percent vis-à-vis the U.S. dollar, the pound sterling and the Japanese yen. In January and February 2013, the dirham depreciated fell on average by 0.5 percent against the euro and appreciated 2.28 percent, 4.2 percent and 14.66 percent, against the dollar, the pound sterling and the Japanese yen, respectively.

The dirham's effective exchange rate, calculated on the basis of bilateral exchange rates with Morocco's major trading partners and competitors, appreciated 0.39 percent in nominal terms over the fourth quarter of 2012. In real terms, the national currency appreciated 0.31 percent, due to an inflation differential slightly in favor of Morocco.

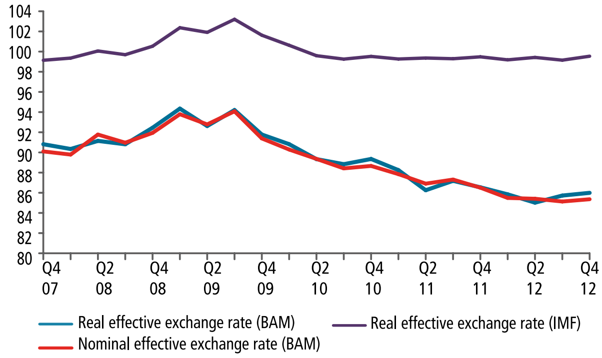
Chart 4.15: Dirham exchange rate



**Observation of first quarter of 2013 corresponds to the arithmetic average from January 1st to February 22, 2013.*

Source : BAM.

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



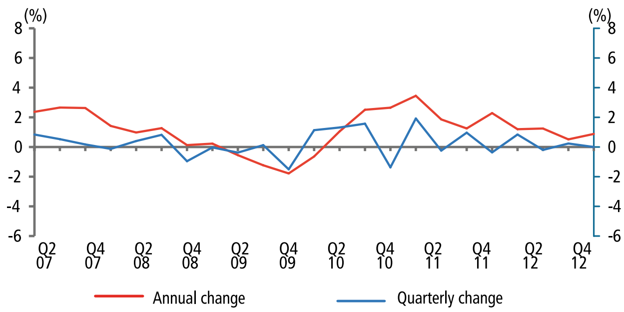
Source : BAM.

4.2. Asset prices

4.2.1 Real estate assets

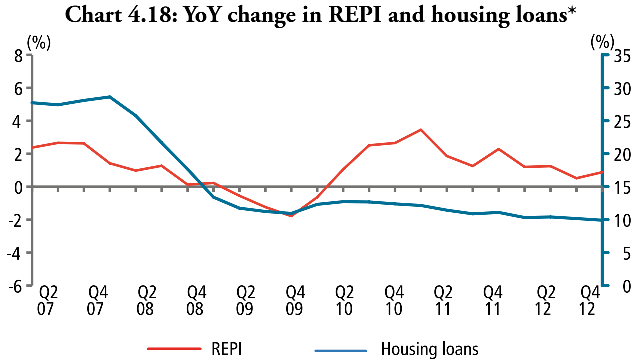
In the fourth quarter of 2012, prices of real-estate assets stagnated from one quarter to another, covering respective declines of 1.2 percent and 0.7 percent in residential property prices and commercial ones, and a 2.6 percent increase in land property prices. Year on year, these prices rose by 0.9 percent, from 0.5 percent a quarter earlier. This trend reflects a virtual stability of residential property prices, a 3.2 percent increase in land property prices and a 1.8 percent decline in commercial ones.

Chart 4.17: Change in REPI



Source : BAM.

Chart 4.18: YoY change in REPI and housing loans*



**Excluding loans granted for property development*

Source : BAM and Casablanca stock exchange.

Property transactions, registered at the land Registry Office (ANCFCC), fixed 35 days after the end of the fourth quarter, rose 7.2 percent from one quarter to the next, while they were virtually stable year on year at 27,425.

By structure, residential properties represent nearly 68 percent of all property sales, with a predominance of apartments. Urban lands accounts for nearly 25.2 percent of transactions, while the share of commercial property transactions stands at 7 percent.
Housing loans increased by 9.9 percent, year on year, a rate almost similar to the 10.2 percent growth registered in the previous quarter, thus amounting to 149.7 billion dirhams in the fourth quarter.

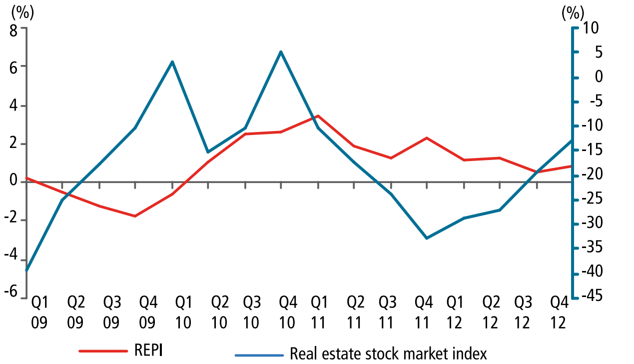
4.2.2 Share prices

The MASI depreciated 1.2 percent, quarter on quarter, from 5.8 percent in the previous quarter, thus continuing its downward trend that began since 2011. In 2012, the underperformance reached 15.1 percent, as against 12.8 percent in 2011. The latest data available at the end of February 2013 also indicate that the MASI continued its downward trend, with a decrease of 5.6 percent since the beginning of the year and 22.5 percent compared to the same period of last year. Similarly, after a decline of 12.7 percent in 2012, the real estate sector index fell in February by 7.1 percent since the beginning of the year and by 22.4 percent, year on year.

Regarding other sectoral indexes, increases ranged from 1.6 percent for the mining sector to 5.2 percent for beverages, while decreases ranged from 3.7 percent for the leisure and hotels industry to 19.3 percent for construction and building materials.

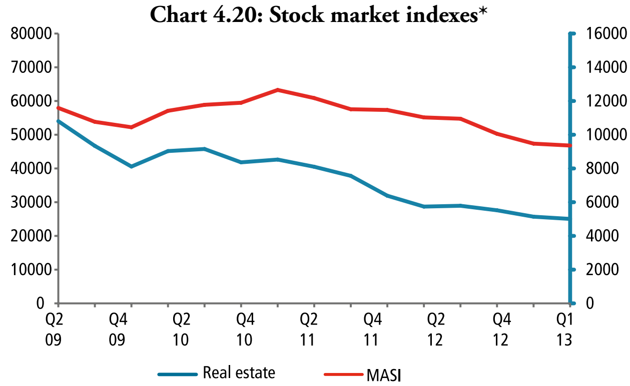
Meanwhile, capital increase operations in the fourth quarter of 2012 offset the effect of the stock price decline, leading

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



Sources: BAM, ANCFCC, and the Casablanca stock exchange.

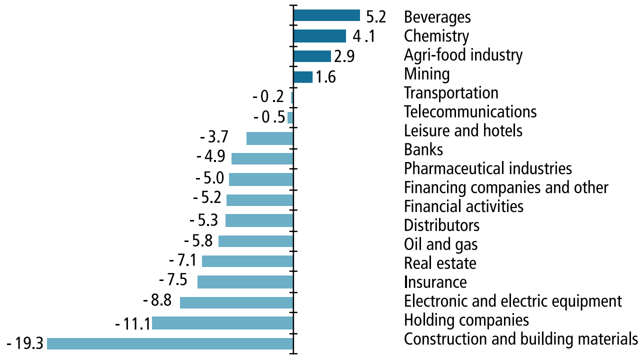
Chart 4.20: Stock market indexes*



**Data as at February 22, 2013.*

Source: Casablanca stock exchange.

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



**Data as at February 22, 2013.*

Source: Casablanca stock exchange.

to a virtually stable capitalization at 445.3 billion dirhams. At the end of February 2013, it remains, however, at 5.2 percent since the beginning of the year and 20.4 percent compared to February of last year.

Against this backdrop, the valuation indicators of the Casablanca stock market, mainly the PER1 and BP2, fell respectively to 14.6 and 2.2 in February 2013, as against 15.1 and 2.3 in December 2012.

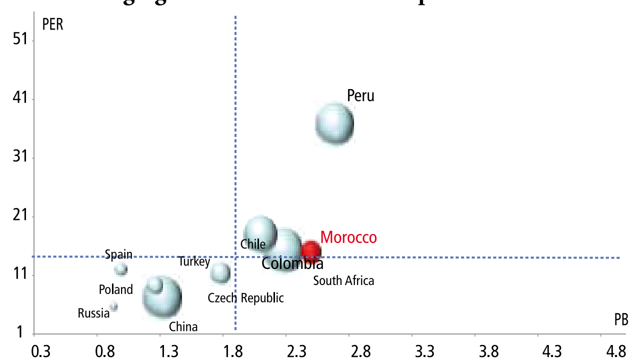
The average monthly volume of transactions in the fourth quarter stood at 7.9 billion dirhams, as against 3.5 billion in the previous quarter, in connection with portfolio reallocation operations registered at the end of the year. Since the beginning of 2013, it stood around 5.8 billion, of which more than half was carried out on the equity market, while it totaled only 3.6 billion over the same quarter of the previous year.

Table 4.3: Equity market valuation

	PER Q3:11	Q4:11	Q1:12	Q2:12	Q3:12	Q4:12	feb-13
			PER				
Argentina	9.8	8.5	9	7.2	7.1	7.7	9.6
China	8.4	7.5	9	7.1	7.1	8.2	8.8
Mexico	12.5	13.5	17.7	16.6	18.4	20	20.4
Turkey	10.2	10.1	11.2	9.5	11.2	11.9	12
Morocco	**16.9**	**16.3**	**15.1**	**14.2**	**14.9**	**15.1**	**14.6**
			PB				
Argentina	2.2	1.8	1.82	1.3	1.27	1.39	1.72
China	1.4	1.3	1.6	1.32	1.32	1.59	1.7
Mexico	2.4	2.5	2.7	2.63	2.76	3.1	3.17
Turkey	1.5	1.5	1.62	1.52	1.79	1.99	2.01
Morocco	**3.9**	**3.1**	**3.1**	**2.9**	**2.5**	**2.32**	**2.24**

Sources : Datastream, CFG.

Chart 4.22: Stock market valuation in Morocco and in some emerging countries* to the fourth quarter of 2012



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

Sources: Datastream, CFG, and BAM calculations .

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1 PER : Price Earnings Ratio 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 year-on-year increase in the consumer price index (CPI) stood at 2.6 percent in December and January, from 1.6 percent in November, with an average of 2.0 percent in the fourth quarter of 2012. Excluding volatile food and administered products, core inflation (CPIX) remained moderate at 0.9 percent in the fourth quarter of 2012 and January 2013. Its trend reflects lower rates of both the inflation of tradables, due to the decline in inflationary pressures in partner countries, and that of nontradables, in a context of moderate pressures of domestic demand. Moreover, the previous slowdown of rising world commodity prices, mainly food and energy, continues to feed through to industrial producer prices, whose year-one-year increase slowed from 1.7 percent in December to 0.6 percent in January.

5.1 Inflation trends

After averaging 1.2 percent over the first eleven months of 2012, inflation rose to 2.6 percent in December and January 2013. This trend is mainly due to the significant increase in "volatile food" prices which jumped from 3.6 percent in November to 11.7 percent in December and 10.7 percent in January (Table 5.1). The largest increases concerned "fresh vegetables" and "chicken and rabbit", with respective rates of 11.5 percent and 17.4 percent in January, as against 26.1 percent and 5.2 percent in December 2012.

Administered products' prices remained virtually unchanged since June 2012, when fuel prices at the pump rose, with an annual increase of 17.2 percent for "fuels and lubricants" and 1 percent for other administered products.

The underlying price trend, as measured by core inflation, remained moderate, from 1 percent in November to 0.8 percent in December, before standing at 0.9 percent in January.

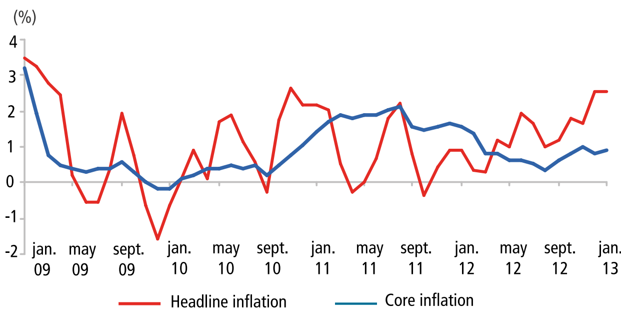
With the exception of "education" fees and "restaurants and hotels" prices, up 6.1 percent and 2.4 percent respectively in January 2013, all components contributed to keeping core inflation

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	nov. 12	dec. 12	jan. 13	nov. 12	dec. 12	jan. 13
Headline inflation	**-0.1**	**0.4**	**0.2**	**1.6**	**2.6**	**2.6**
Including:						
- Volatile food products excluded from core inflation	-1.7	2.9	-0.1	3.6	11.7	10.7
- Fuels and lubricants	0.0	0.3	0.0	16.8	17.2	17.2
- Administered goods excluding fuels and lubricants	0.1	0.1	0.1	1.0	1.0	1.0
Core inflation	**0.5**	**0.1**	**0.2**	**1.0**	**0.8**	**0.9**
Including:						
- Food products	**0.4**	**0.1**	**0.3**	**1.8**	**1.6**	**1.6**
- Clothing and footwear	0.5	0.3	0.2	1.5	1.4	1.1
- Housing. water. gas. electricity and other fuels*	0.3	0.0	0.5	1.0	1.0	1.4
- Furniture. household appliances and common house maintenance	0.0	-0.1	0.4	-0.4	-0.5	-0.1
- Health*	-0.4	0.2	-0.1	0.7	0.7	-0.3
- Transportation*	0.1	0.0	0.7	0.4	0.3	0.8
- Communication	0.0	0.0	-0.2	-16.0	-16.0	-16.0
- Entertainment and culture	0.1	0.0	-0.1	0.8	0.9	0.8
- Education	0.0	0.0	0.0	6.1	6.1	6.1
- Restaurants and hotels	1.1	0.0	0.2	2.6	2.4	2.4
- Miscellaneous goods and services	0.1	0.1	0.2	0.6	0.7	0.9

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

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

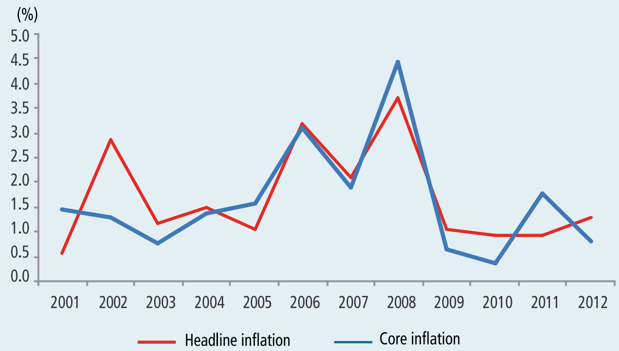
Box 5.1: Inflation change in 2012

Inflation rose from 0.9 percent on average in 2011 to 1.3 percent in 2012, while posting a slightly lower monthly volatility, with a standard deviation of 0.7 percent, as against 0.9 percent in 2011. By major component, the inflation trend covers a 3 percent increase in volatile food prices, an upward adjustment of 1.6 percent of administered products' prices and a net slowdown in core inflation (CPIX) from 1.8 percent to 0.8 percent.

The downward trend in core inflation reflects the combined effect of a slowdown in inflation of tradables (CPIXT), in conjunction with the slight decline in inflation in partner countries and a drop in the prices of nontradables (CPIXNT), due to moderate pressure of domestic demand and lower prices for certain services.

Moreover, in 2012, domestic prices of certain fuels rose, following the persistently high oil prices internationally and the resulting increase in subsidy expenses. This adjustment concerned the headings of "fuels and lubricants" and "road transport of passengers", which jointly contributed by 0.3 percentage points to the increase in consumer prices.

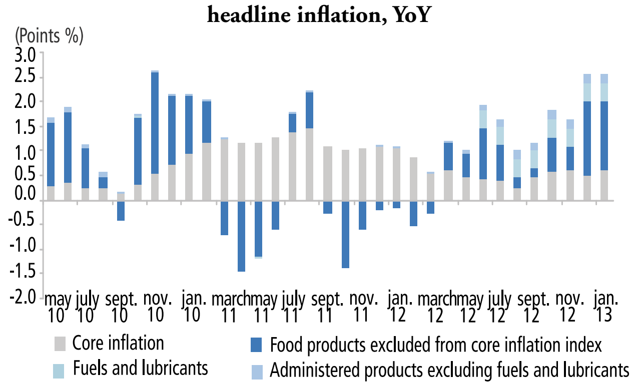
Chart B5.1: YoY change in inflation and core inflation



Sources: HCP, and BAM calculations.

at low levels. Despite its relatively low weight, the effect of the "communication" heading, down 16 percent from one year to another, was particularly significant, as its contribution to core inflation was negative at -0.6 percentage points (Table 5.1).

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



Sources: HCP, and BAM calculations.

5.2 Tradable and nontradable goods

Price analysis by tradable and nontradable goods shows that the month-on-month change in core inflation is more determined by the price change of nontradables.

After declining in the second and third quarters of 2012, prices of nontradables began a year-on-year upward trend to 0.6 percent in January, from 0.4 percent in December and 0.5 percent in November. January's increase was mainly due to the higher prices of fresh meat, whose annual growth rose from 0.5 percent in December to 0.9 percent in January.

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	aug. 2012	sept. 2012	oct. 2012	nov. 2012	dec. 2012	jan. 2013
Premium gasoline	12.18	12.18	12.18	12.18	12.18	12.18
Diesel 350/50	8.15	8.15	8.15	8.15	8.15	8.15
Industrial fuel (Dh/Ton)	4 666	4 666	4 666	4 666	4 666	4 666

Source: Ministry of Energy and Mining.

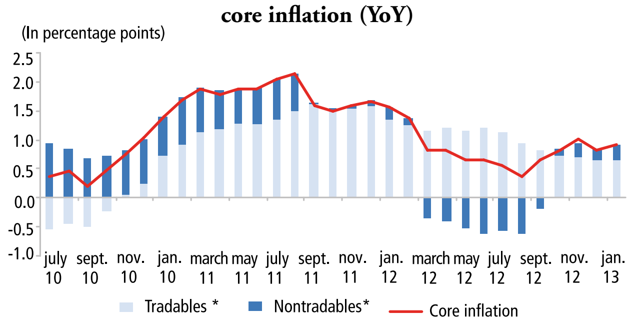
In conjunction with moderate inflation internationally, particularly in Morocco's main partner countries, the growth of tradables' prices remained unchanged at 1.2 percent since last October. By component, the main changes in January 2013 affected food staples, mainly oil products with 6.8 percent and cereal products with 0.5 percent. Prices for passenger cars also rose by 0.6 percent, as against a 0.4 percent drop in December 2012.

Overall, the contribution of tradables to core inflation remained stable at 0.7 percentage points between December 2012 and January 2013, while that of nontradables rose from 0.2 to 0.3 over the same period.

5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that inflation remains primarily influenced by changes in the prices of goods. The prices of unprocessed goods, dependent upon changes in volatile food prices, recorded a growth rate of 7.2 percent in December and 6.6 percent in January, contributing up to 1.5 percentage point to inflation, as against 1.6 a month earlier. Prices of processed goods went up by 1.1 percent from 1 percent in December, contributing 0.5 percentage points to the annual change in the CPI. Prices of fuels and lubricants maintained the same annual growth pace recorded in December, that is 17.2 percent. Service prices rose to an almost unchanged rate of 0.8 percent, in a context of persistently negative contribution of "telephony and fax" services.

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



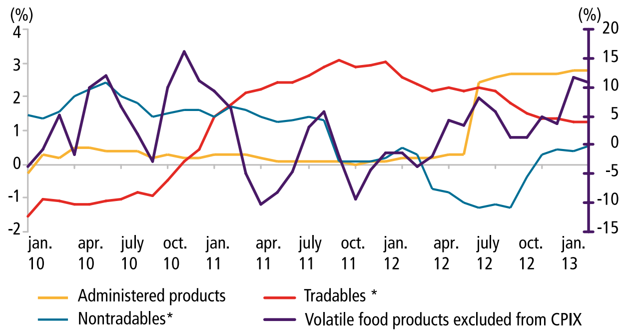
** Excluding volatile food products and administered goods.*
Sources: HCP, and BAM calculations.

Table 5.3: Change in the price index of tradables and non tradables included in the CPIX

	Monthly change (%)			YoY change (%)		
	nov. 12	dec. 12	jan. 13	nov. 12	dec. 12	jan. 13
Tradables*	0.3	0.2	0.2	1.3	1.3	1.2
Nontradables*	0.3	0.0	0.2	0.5	0.4	0.6

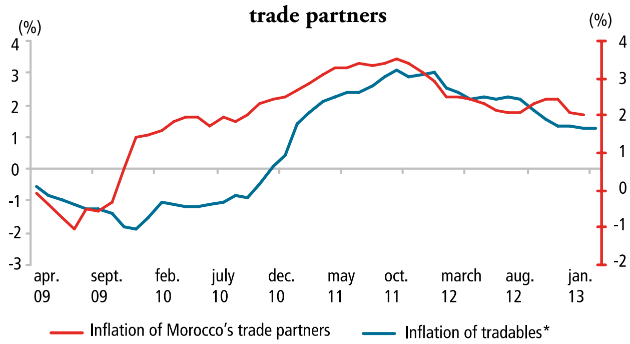
** Excluding volatile food and administered products.*
Sources: HCP, and BAM calculations.

Chart 5.4: YoY change of tradables, non tradables, volatile food products and administered products



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

Chart 5.5: YoY change of inflation of tradable goods and in trade partners



** Excluding volatile food and administered products.*
Source: HCP, IFS, and BAM Calculations

5.4 Industrial producer price index

The earlier decline in world commodity prices continues to impact producer prices whose overall index posted another monthly drop of 0.7 percent in January 2013, similar to that registered in December. This decrease is due solely to the 2.7 percent decline in prices of coking and refining industry, following -2 percent a month earlier. Excluding coking and refining, producer prices rose 0.3 percent in January, driven by the 0.9 percent increase of prices in "food industry".

Year on year, growth of the index slowed again from 2.3 percent and 1.7 percent respectively in November and December to 0.6 percent in January. Prices of coking and refining industry showed an annual drop of 1.8 percent, after rising 2.5 percent in December and 3.9 percent in November. In contrast, the growth of the index (excluding refining) accelerated slightly from 1.3 percent in December to 1.7 percent in January.

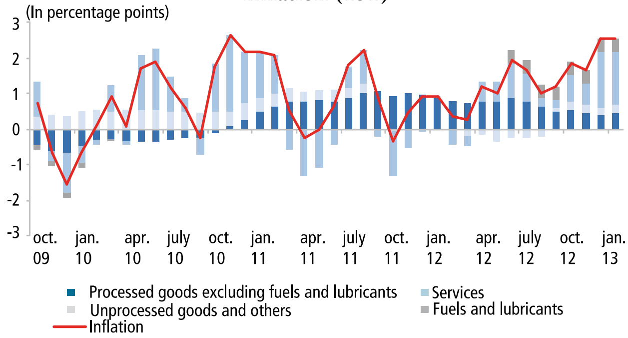
5.5 Inflation expectations

Based on the results of BAM business survey for January 2013, industrial producer prices should remain unchanged over the next three months1. Indeed, 87 percent of corporate managers expect a stagnation of prices, as against 6 percent projecting an increase and 7 percent anticipating a decline, with a negative balance of opinion of one percentage point (Chart 5.9).

Furthermore, the findings of the same survey do not suggest a change in the perception of the consumer price inflation

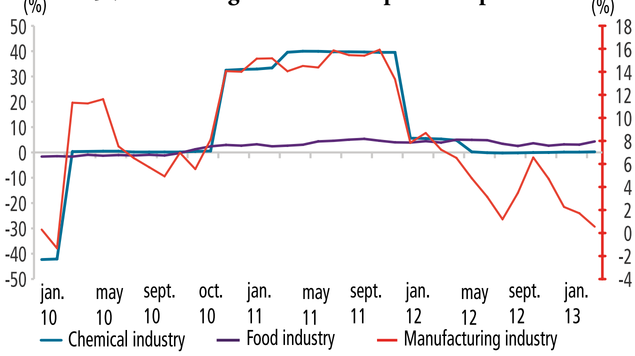
1 The expectations horizon of BAM business survey relate to the three months following the month under review.

Chart 5.6: Contribution of goods and services prices to inflation (YoY)



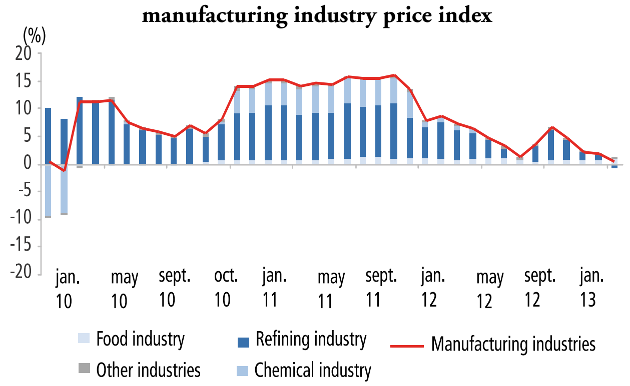
Source: HCP and BAM calculations

Chart 5.7: YoY change in industrial producer price indexes



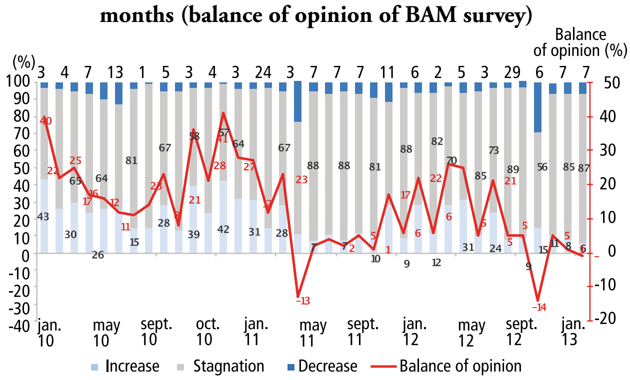
Sources: HCP, and BAM calculations.

Chart 5.8: YoY contribution of the main branches in the manufacturing industry price index



Sources: HCP. and BAM calculations.

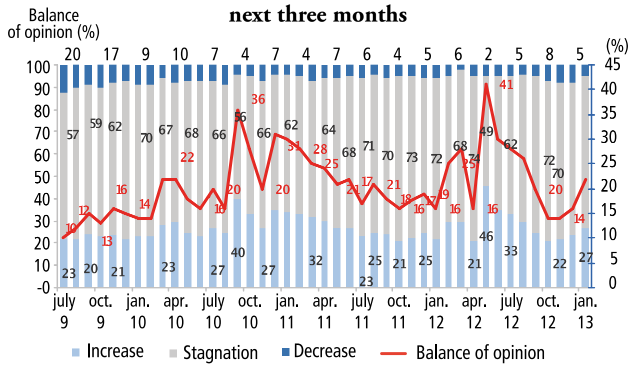
Chart 5.9: Trend in industrial producer prices in the next three months (balance of opinion of BAM survey)



Source : BAM monthly business survey

by manufacturers. Thus, the percentage of corporate managers anticipating a rise in inflation over the next three months stood at 27 percent in January, while it averaged 28 percent in 2012. Meanwhile, the share of corporate managers expecting stagnation increased slightly from 66 percent to 68 percent over the same period (Chart 5.10).

Chart 5.10: Corporate managers' inflation expectations for the next three 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 trends envisaged 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 coming six quarters should remain in line with the price stability objective, with an average forecast of about 2 percent, a level higher than the average rate of 1.7 percent set in the last Monetary Policy Report. Over2013, inflation should be around 2.2 percent. Assuming that prices of subsidized goods would remain at their current level, the balance of risks to this forecast exercise is broadly at equilibrium, due to uncertainties surrounding the change in non-energy commodity prices and economic growth in the main partner countries.

6.1 Baseline scenario assumptions

6.1.1 International environment

In light of recent developments, the efforts made by public authorities of the euro area and the United States contributed to the relative stability of financial markets and the significant improvement in the corporate managers' confidence. However, economic growth in developed countries would remain, in the medium term, mixed, vulnerable and differentiated, mainly due to the persistence of constraints related to lending conditions and plans to reduce government expenditure. In contrast, growth in emerging economies should continue to show positive momentum, particularly in countries that have implemented accommodating policies.

In the fourth quarter of 2012, economic recession intensified in the euro area, owing to a persistently weaker domestic demand and the trend towards stock depletion. Indeed, household spending continues to show underperformance, as evidenced by lower retail sales volumes and new vehicle registrations. Regarding investment, the situation hardly seems more favorable, as the last survey conducted by the European Commission shows a further contraction of investment (excluding construction activity). In addition, despite the progress made in the third quarter, construction investment also dropped in the fourth quarter. Only foreign trade follows a positive pattern, as pointed out by indexes of new export orders which continue to improve, benefiting from stable global growth.

During the last quarter of 2012, the U.S. economy grew relatively below the levels recorded during the first three quarters of the year. This slowdown in activity results from the sharp decline in government expenditure, especially in national defense, the turnaround of the storage cycle in the private sector after the peak reached in the third quarter as well as the negative contribution of exports. However, the fundamentals of the U.S. economic recovery continue to show good momentum, as evidenced by the positive household consumption spending, driven by an increase in real disposable income as well as a significant growth in residential and non-residential investment.

On international financial markets, the stability of key indicators suggests that concerns fueled by the crisis in the euro area peripheral countries seem to dissipate. Indeed, the bond spreads in those countries were significantly reduced, while the prices of many risky assets, including those of equity prices, posted gains. Although significant progress has been made, uncertainties surrounding governments' ability to accelerate the pace of both stimulus measures and structural reforms continue, however, to undermine the expansion of the international financial activity.

Regarding the labor market, the latest statistics for December show a stagnation of unemployment in the euro area, albeit at a high level (11.7 percent), and in the United States, where this rate remains, however, relatively moderate (7.8 percent). In our major partner countries, this indicator stabilized between November and December in Germany and Italy at 5.3 percent and

11.2 percent, respectively, while it increased slightly in France (from 10.5 percent in November to 10.6 percent in December) and relatively decreased in Spain (from 26.2 percent to 26.1 percent over the same period).

6.1.2 National environment

Against this backdrop, activity in the euro area underwent a recession of about 0.9 percent in the fourth quarter of 2012, as against -0.6 percent in the previous quarter. This underperformance is mainly attributed to persistently slower growth in Germany (0.4 percent in the fourth quarter as against 0.9 percent in the third quarter), and the continuing recession in France (-0.3 percent in the fourth quarter), Italy (-2.7 percent), Spain (-1.8 percent) and in the euro area peripheral countries, mainly Greece (-6 percent) and Portugal (-3.8 percent). The U.S. economy recorded a growth of 1.5 percent, down from 2.6 percent observed in the third quarter of the same year.

Regarding the growth outlook, the latest forecasts of the International Monetary Fund, in its January report, expect for 2013 respective growth rates of around 2 percent and -0.2 percent for the United States and the euro area. For the year 2014, these rates stand at 3 percent and 1 percent, respectively. Compared to the figures reported in the MPR of December, 2013 projections for the U.S. economy were not readjusted significantly, while those for the euro area were revised downward (a contraction of 0.3 percent).

Downside risks to economic activity remain significant. Indeed, within the euro area, worries about a persistently sluggish domestic demand, a lower-than-expected export growth and delays in implementing structural reforms could contribute to destabilizing the still-fragile confidence climate and thus slowing the expected economic recovery. Meanwhile, a possible excessive tightening of fiscal policy in the United States, albeit necessary, would negatively impact the U.S. economic growth, and subsequently, world trade.

Under these conditions, the weighted growth rates of major trading partners (Germany, Spain, France, Italy and the United Kingdom), assumed in this forecast exercise, reach -0.4 percent for this year and 0.9 percent for 2014. Compared to those projected in the December MPR (-0.3 percent in 2013 and 1.1 percent in 2014), these expectations were revised downward in line with the continued recession in the euro area. It should be noted that 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 price trends in the euro area, inflation stabilized at 2.2 percent in November and December before declining moderately in January to 2 percent. This trend reflects mainly lower prices of energy and non-energy industrial goods and services. The ECB expects, in its latest bulletin of February, inflation rates of 1.9 percent in 2013 and 1.7 percent in 2014. Compared to the figures reported in the last MPR, the ECB forecasts were not revised.

Risks to inflation trends in the euro area remain broadly balanced. Indeed, the rise in oil prices and possible increase in administered prices and indirect taxes (due to the need for fiscal adjustments) are offset by a weaker-than-expected economic growth and a possible continuation of the recent appreciation of the euro.

Finally,projections of non-energy import prices, included in the forecast models developed by Bank Al-Maghrib, still show a decline in 2013. This trend should continue through 2014, albeit at a more moderate rate, due to the expected gradual economic recovery in developed countries.

In conformity with the assumptions of the previous MPR, the Moroccan economy should return to more favorable growth prospects in 2013. This change is due to both a rebound in agricultural activities and an uptrend of nonagricultural activities. Domestic demand would still drive such momentum, while the foreign component would have difficulties to improve due to the mixed recovery in partner countries.

With a cumulative rainfall up 22.3 percent at February 20, 2013 compared to the same period of last year, the trend of the 2012-2013 crop year remains positive, although it continues to depend on spring rainfall. Under these conditions, the BAM forecasts were revised upwards, compared to December projections, and a cereal production of 70 million quintals is now expected. Regarding the 2013-2014 crop year and given the lack of signs, the assumption of an average cereal production is maintained.

The weaker growth of domestic demand in 2012 should give way to a renewed momentum in 2013, thus supporting the uptrend of the nonagricultural growth during the year. As such, household final consumption would see a positive growth, driven mainly by improved rural income, continued growth of consumer loans and inflation-control. The overall investment trend could be hampered particularly by lower equipment loans observed at the end of January 2013.

Under these conditions, the nonagricultural value added should grow at a rate between 4 percent and 5 percent in 2013. Hence, Bank Al-Maghrib forecasts about overall growth were maintained within a range of 4 percent to 5 percent, in line with the projections of the previous MPR.

Regarding the labor market, the latest statistics for the fourth quarter of 2012 show a slight worsening of 0.2 percent in the national unemployment rate, which stood at 8.7 percent, as against 8.5 percent a year earlier. By place of residence, the urban unemployment rate also rose by 0.2 percent between the two periods, from 13 percent to 13.2 percent. In rural areas, it stood at 3.6 percent from 3.4 percent, observed earlier.

In fact, this trend arises from the loss of 115,000 jobs in the labor market. With the exception of the services sector, which generated 171,000 jobs, all other sectors suffered losses. In this respect, the most significant losses affected the sectors of agriculture, forestry and fisheries with 191,000 jobs lost as opposed to 26,000 jobs created annually on average over the period 2009-2011. After record job creations over the last three years (63,000 jobs on average over the last three years), the construction industry also lost 51,000 jobs in the fourth quarter of 2012. The sector of industry, including handicrafts, suffered as well a loss of 42,000 jobs, thus confirming the downward trend observed since 2009 (29,000 jobs lost annually).

Furthermore, and according to BAM's quarterly business survey, manufacturers anticipate a virtual stagnation of the workforce employed in the current quarter, covering an increase in the workforce in the food industry, a virtual stagnation in chemical and related industries and a decline in other sectors. Indeed, these prospects should not weigh on future change in salaries and no increase in the minimum wage is anticipated within the framework of the baseline scenario. Therefore, a minimum wage of 12.24 dirham/hour is assumed over the forecast horizon.

In light of the historically high oil stock levels in OECD countries and recent trends in global production of fossil fuels which would moderate some energy prices, the IMF, in its January 2013 update, revised downward its oil price forecasts. They now stand at $99.71 a barrel in 2013 and $96.78 in 2014. The World Bank forecasts in its January report stand at $102 a barrel in 2013 and $102.2 in 2014, down from the level of $105 a barrel reported in the previous MPR. The European Commission, in its February report, revised upward its Brent price forecasts, which now stands at around $113.7 a barrel in 2013 and $106.4 in 2014. In this context, subsidy costs in 2013, based on an average price of $105 a barrel, should continue to exert pressure on the fiscal deficit. However, the central scenario of this forecast exercise assumes that the diesel price at the pump will 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 2 percent, a level higher than the average rate of 1.7 percent, projected in the last MPR. Similarly, inflation forecast for 2013 showed an average rate of around 2.2 percent, a level higher than expected in the previous exercise (1.7 percent). In 2014, inflation should stand at around 1.6 percent in the first quarter, as against 1.5 percent reported in the last MPR. In the second quarter, 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 development 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 uncertainties 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).

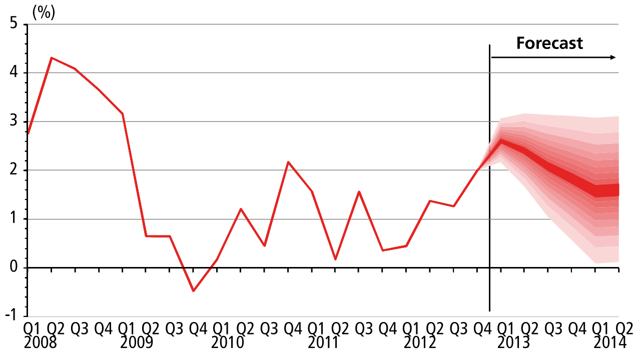
Table 6.1: Inflation outlook for 2013 Q1 – 2014 Q2

	2012				2013		Average	FH*
	Q1	Q2	Q3	Q4	Q1	Q2	2013	
Central forecast (%)	2.6	2.4	2.1	1.8	1.6	1.6	2.2	2.0

(Quarterly data. YoY)

**Forecast horizon.*

Chart 6.1: Inflation forecast, 2013 Q1 – 2014 Q2 (Quarterly data, YoY)



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

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