



## ◆ MONETARY POLICY REPORT ◆

N° 24 / 2012

Document prepared for  
the Bank Board  
September 25, 2012





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بنك المغرب

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## LIST OF ABBREVIATIONS

|        |   |  |
|--------|---|--|
| APC    | : | Cement manufacturers professional association                        |
| BAM    | : | Bank Al-Maghrib  |
| CFG    | : | Casablanca Finance Group   |
| CNSS   | : | Caisse nationale de sécurité sociale (National Social Security Fund) |
| CPI    | : | Consumer Price Index   |
| CPIX   | : | Core inflation indicator   |
| CPIXNT | : | Consumer price index of nontradables                                 |
| CPIXT  | : | Consumer price index of tradables                                    |
| CUR    | : | Capacity utilization rate  |
| DH     | : | Dirham   |
| ECB    | : | European Central Bank  |
| FDI    | : | Foreign direct investments   |
| FISIM  | : | Financial intermediation services indirectly measured                |
| GDP    | : | Gross domestic product   |
| HCP    | : | High Commission for Planning   |
| IMF    | : | International Monetary Fund  |
| IPI    | : | Import price index   |
| IPPI   | : | Industrial producer price index                                      |
| MASI   | : | Moroccan All Shares Index  |
| MPR    | : | Monetary Policy Report   |
| NPL    | : | Nonperforming loans  |
| OCP    | : | Office chérifien des phosphates (Moroccan Phosphates Office)         |
| OECD   | : | Organization for Economic Cooperation and Development                |
| ONE    | : | Office national d'électricité (National Electricity Office)          |
| OPEC   | : | Organization of the Petroleum Exporting Countries                    |
| PER    | : | Price Earning Ratio  |
| REPI   | : | Real estate price index  |
| SMIG   | : | Salaire Minimum Interprofessionnel Garanti (minimum wage)            |
| YoY    | : | Year-on-year   |
| UCITS  | : | Undertakings for collective investment in transferable securities    |
| UPC    | : | Unit production cost   |
| VA     | : | Value added  |

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## PRESS RELEASE

### BANK AL-MAGHRIB BOARD MEETING

**Rabat, September 25, 2012**

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday September 25, 2012.
2. The Board reviewed recent economic, monetary and financial trends, and inflation forecasts up to the fourth quarter of 2013.
3. The Board noted that inflation remained modest, in line with the assessment made at its June meeting. After 1.9 percent in June and 1.7 percent in July, year-on-year inflation reached 1 percent in August, although prices for “fuels and lubricants” increased by 16.8 percent in conjunction with the rise in pump prices last June. Similarly, core inflation stood at 0.4 percent in August, down from 0.5 percent in July and 0.6 percent in June. The decline in global commodity prices until late June, particularly food and energy, continue to feed through to industrial producer prices, which rose at a year-on-year rate of 1.1 percent in July, from 3.2 percent in June and 4.8 percent in May.
4. Internationally, the unprecedented policy action taken by the ECB and the Fed in terms of liquidity management should somewhat ease pressure on the various financial market segments. However, economic activity and outlook remain broadly weak in advanced countries, notably euro area countries, while a relative slowdown is seen in the major emerging economies. Commodity prices, especially energy and food, have started to trend upward since early July. Despite these developments, world inflation remains broadly moderate.
5. At national level, the growth forecast for 2012 is maintained at less than 3 percent, particularly in connection with the materialization of risks relating to activity in key partners and the crop year. External accounts continue to be impacted by changes in the global economy. Indeed, the trade deficit as at end August widened by 6.1 percent year on year, while expatriate remittances and travel receipts were down 1.8 percent and 5 percent, respectively. GDP in 2013 is expected to expand between 4 and 5 percent, on the basis of an average cereal production and still mixed international economic outlook.
6. The analysis of monetary conditions as at end July 2012 shows a stable annual growth in money supply, at 4.9 percent. Bank credit grew by 7.5 percent, up from 7.1 percent in the previous quarter, while loans to the nonfinancial private sector accelerated from 5.7 percent to 7.8 percent, driven mainly by cash advances and, to a lesser extent, by housing loans. For the full year, bank credit growth is expected to hover around 8 percent, close to its long-term rate. Based on these elements, the money gap would remain negative, indicating the absence of inflationary pressures.
7. Based on all these elements, the central inflation forecast is consistent with the objective of price stability. At the end of the forecast horizon (fourth quarter of 2013), headline inflation is projected at about 1.4 percent and would average 2 percent. Core inflation would remain moderate, not exceeding 2 percent.

8. In this context where the balance of risks is broadly neutral and the central inflation forecast is permanently consistent with the price stability objective, the Board decided to keep the key rate unchanged at 3 percent.
9. Noting the scope and sustained nature of liquidity shortage in the money market, and taking into consideration the outlook for liquidity factors, the Board decided to reduce the required reserve ratio by 2 percentage points to 4 percent as of September 26, 2012.
10. The Board, after taking note of the Audit Committee report, reviewed the report on the Bank's internal control system for the year 2011 and approved draft amendments to the Internal Control Charter as well as the Internal Audit Charter.

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## OVERVIEW

In line with the analyzes and forecasts published in the Monetary Policy Report of June 2012, change in inflation remained subdued. Indeed, year-on-year headline inflation stood at 1 percent in August 2012, down from 1.7 percent in July and 1.9 percent in June, while the price of “fuels and lubricants” increased 16.8 percent, in conjunction with rising pump prices in last June. Core inflation stood at 0.4 percent in August, down from 0.5 percent in July and 0.6 percent in June. This trend reflects a slowdown in inflation of tradable goods, in conjunction with the slight easing of pressures on world staple food prices and consumer prices in key partner countries. It is also attributed to a sharp decline in nontradables’ price index which continues to evolve into negative territory in a context of moderate demand pressures internally. Moreover, the declines recorded until end-June in global commodity prices, mainly food and energy ones, continue to feed through to industrial producer prices, whose increase slowed from 4.8 percent in May, to 3.2 percent in June and 1.1 percent in July.

Internationally, easing measures taken by the ECB and the Fed helped improve financial conditions. However, the economic activity and its prospects remain overall sluggish in advanced countries, particularly in the euro area, while a relative slowdown is registered in the main emerging countries. Indeed, the latest indicators confirm the deterioration of economic activity in the euro area, with a GDP contraction of 0.4 percent in the second quarter of 2012, after stagnating in the first quarter. Similarly, the latest available data on the labor market reveal that the unemployment rate remains high in the euro area, with the exception of Germany. The U.S. economic growth slowed down only slightly from 2.4 percent to 2.2 percent in the second quarter of 2012. Growth in emerging and developing countries, though being slow, continues to remain at significant rates. Commodity prices, especially energy and food ones, began an upward trend since early July. Despite these changes, global inflation remained overall moderate.

Nationally, on the basis of available indicators, overall growth should grow by 2.4 percent during the second quarter of 2012 and by 2.6 percent in the third quarter. Domestic demand should continue to support growth, albeit to a lesser extent compared to 2011. Throughout the year, growth forecast is maintained below 3 percent, particularly due to the materialization of risks emanating from the economy of key partners and the crop year. Nonagricultural output gap, more relevant to the assessment of internal inflationary pressures, should therefore be close to zero in the second and third quarters of 2012. For 2013, overall growth is expected to be between 4 percent and 5 percent on the basis of an average cereal production and international economic outlook that remains mixed.

The foreign trade available data to the end of August 2012 revealed that the trade balance continues to deteriorate by 6.1 percent compared to the same period of the previous year, representing a deficit of 128.6 billion dirhams. Exports rose 3.3 percent, with a 2.4 percent increase in exports excluding phosphates and derivatives as against 19.1 percent in 2011. Imports, meanwhile, were up 4.7 percent overall, with respective increases of 7.6 percent and 3.7 percent in purchases of energy products and non-energy ones, as against 40.2 percent and 15.7 percent in 2011. Similarly, the continued economic slowdown in major trading partners resulted in the decline of remittances from Moroccans living abroad and travel receipts in the first eight months of 2012, as their growth rate, in one year, fell from 7.8 percent to 1.8 percent and from 6.5 percent to -5 percent, respectively.

The July 2012 data on monetary conditions show a stable annual growth of M3 aggregate, which stood at 4.9 percent, up from 4.8 percent in the second quarter, thus keeping a negative monetary gap. At the same time, the annual growth of bank credit rose from 7.1 percent in the second quarter to 7.5 percent in July, mainly reflecting dynamic cash advances, consumer loans and, to a lesser extent, increased housing loans. Concerning lending rates, BAM survey among banks for the second quarter of 2012 indicates a 39 basis points decrease in loans' weighted average rate, due to lower rates on various bank loan categories. The effective exchange rate of the dirham remained virtually unchanged in nominal terms from one quarter to the next, and appreciated by 0.37 percent in real terms, due to an inflation rate in Morocco slightly higher than that of major trading partners and competitors.

The real-estate price index virtually stagnated in the second quarter, covering a 0.9 percent increase in residential property prices and respective declines of 1.5 percent and 2 percent in the prices of land and commercial properties. Year on year, the overall index increased to 1.6 from 1.2 percent in the previous quarter.

Based on all these elements, the baseline inflation forecast is consistent with the price stability objective. The average inflation forecast was maintained at 1.4 percent in 2012 and should reach 1.9 percent in 2013. At the end of the forecast horizon, which is the fourth quarter of 2013, headline inflation would be around 1.4 percent, while on average over the same horizon, it should be around 2 percent. Core inflation should remain moderate, not exceeding 2 percent at the end of the forecast horizon.

Finally, the balance of risks surrounding the central forecast seems broadly neutral, considering the divergent effect of uncertainty about second round effects of higher fuel prices at the pump and minimum wage, internally, and the anticipated unfavorable international environment and rising commodity prices, externally.

## 1. AGGREGATE SUPPLY AND DEMAND

*In the first quarter of 2012, the national growth registered a marked deceleration compared to the fourth quarter of 2011, standing at 2.8 percent from 4.9 percent. It covers, nevertheless, a 4.4 percent increase in nonagricultural GDP and a negative contribution of agricultural activity. The latest economic indicators point to a further slowdown in growth in the second quarter. It should be 2.4 percent, covering a 4.2 percent increase in nonagricultural GDP and a 9.4 percent contraction of agricultural value added. Indeed, the difficult international environment negatively impacts external demand for Morocco, remittances from Moroccans living abroad, travel receipts and foreign direct investments. Thus, imports of goods rose by 4.7 percent, as against a 3.3 percent growth of exports at end-August 2012. As a result, the coverage ratio fell to 48.3 percent from 48.9 percent at the end of August 2011. Travel receipts and remittances from Moroccans living abroad declined by 5 percent and 1.8 percent, respectively. Despite its resilience, the trends in nonagricultural activities and domestic demand remain dependent on the magnitude and durability of the crisis in the euro area, particularly in key partner countries. Given these developments, the GDP growth for the full year 2012, as published in the last Monetary Policy Report, should not exceed 3 percent. Regarding aggregate demand, the domestic component should continue to support growth, but to a lesser extent compared to 2011. In contrast, the contribution of net external demand should be negative again. For 2013, the national growth should stand between 4 percent and 5 percent, based on an average cereal production and mixed global economic outlook. Overall, prices in the current economic environment should remain moderate.*

### 1.1 Output

Based on the latest available data, the national growth would have again decelerated to 2.4 percent in the second quarter compared to 2.8 percent a quarter earlier and 5 percent in 2011, reflecting a steady growth of 4.2 percent of nonagricultural GDP and a decline of 9.4 percent of the agricultural one.

The latest available economic indicators show contrasting trends of economic activities. In the primary sector, according to the final estimate of the Ministry of Agriculture, cereal production in the current crop year stood at 51 million quintals, down 39 percent compared to the previous year. As a result, the agricultural value added should shrink by 9.4 percent as against 12.5 percent projected in the Monetary Policy Report of June 2012. However, the good quality of this year's harvest may increase the availability of seeds for the next year.

The inshore and small-scale fisheries activity would have trended favorably in the second quarter of 2012, as evidenced by the respective increases of 48.4 percent and 7.1 percent in the volume and value of landings at end-June. This trend should continue in the third quarter, as landed fish rose at end-

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

| Activity sectors.<br>in%               | 2010       |            |            |            | 2011       |            |            |            | 2012             |                  |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------------|------------------|
|  | TII        | TIH        | TIV        | TI         | TIH        | TIH        | TIV        | TI         | TIH <sub>E</sub> | TIH <sub>P</sub> |
| Agriculture                            | -3.7       | -0.2       | -3.0       | 5.9        | 6.1        | 6.0        | 4.3        | -8.3       | -9.4             | -7.4             |
| Nonagricultural VA                     | <b>3.9</b> | <b>4.5</b> | <b>2.0</b> | <b>5.8</b> | <b>4.3</b> | <b>5.0</b> | <b>5.4</b> | <b>4.6</b> | <b>4.2</b>       | <b>3.8</b>       |
| Extractive industry                    | 50.4       | 30.1       | 14.7       | 14.5       | 2.8        | -1.8       | 8.2        | -7.8       | -4.0             | 0.6              |
| Processing industry                    | 1.9        | 3.8        | 3.8        | 3.4        | 0.8        | 3.7        | 4.0        | 3.4        | 3.2              | 3.3              |
| Electricity and water                  | 7.9        | 9.5        | 6.9        | 0.4        | 5.7        | 5.3        | 12.8       | 12.6       | 7.3              | 8.0              |
| Construction                           | 4.9        | 0.9        | -1.4       | 2.0        | 1.7        | 6.1        | 7.0        | 5.7        | 4.8              | 3.8              |
| Trade                                  | -0.5       | 3.6        | -7.0       | 3.8        | 4.1        | 4.7        | 4.7        | 2.8        | 3.1              | 3.1              |
| Hotels and restaurants                 | 7.0        | 8.5        | 6.3        | 6.3        | -2.9       | -3.9       | -7.0       | -4.9       | -2.9             | -2.4             |
| Transportation                         | 6.7        | 6.2        | 4.4        | 7.4        | 6.5        | 5.9        | 3.9        | 1.7        | 2.0              | 2.1              |
| Post and telecommunication             | 2.6        | 3.4        | 9.6        | 13.0       | 15.5       | 24.1       | 23.0       | 13.4       | 10.2             | 9.1              |
| General government and social security | 2.6        | 2.4        | 2.9        | 6.5        | 6.4        | 5.7        | 4.5        | 11.7       | 6.5              | 6.4              |
| Other services*                        | 3.3        | 3.3        | 1.6        | 7.0        | 6.3        | 5.6        | 4.3        | 6.0        | 6.0              | 6.0              |
| Taxes on products net of subsidies     | 6.6        | 6.5        | 7.0        | 3.6        | 2.2        | 3.5        | 1.4        | 3.0        | 4.2              | 3.8              |
| Nonagricultural GDP                    | <b>4.3</b> | <b>4.7</b> | <b>2.6</b> | <b>5.6</b> | <b>4.1</b> | <b>4.8</b> | <b>5.0</b> | <b>4.4</b> | <b>4.2</b>       | <b>3.8</b>       |
| Gross domestic product                 | <b>3.1</b> | <b>4.0</b> | <b>1.9</b> | <b>5.6</b> | <b>4.5</b> | <b>5.0</b> | <b>4.9</b> | <b>2.8</b> | <b>2.4</b>       | <b>2.6</b>       |

(\*) 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

July by 43 percent in volume and by 8 percent to 3 billion dirhams in value.

Nonagricultural growth would have maintained a sustained growth in the current international environment, albeit with a slowdown compared to the previous quarter, from 4.4 percent in the first quarter to 4.2 percent. In the third quarter, it should continue to decelerate to 3.8 percent.

By sector, the value added of secondary activities would have increased 3.5 percent in the second quarter as opposed to 4.1 percent in the previous quarter, contributing 1 percentage point to overall growth. This slowdown is due to the negative impact of the international economic downturn on certain industries, particularly export-oriented branches.

By industry, mining activities are expected to register a slowdown in the decline observed in the first quarter. Indeed, their value added should stand at -4 percent from -7.9 percent in the first quarter, with prospects for improvement as of the third quarter, partly due to a base effect. The market output of the Moroccan Phosphates Office (OCP) and its sales recorded at end-July respective contractions of 5.1 percent and 5.4 percent, year on year, as against increases of 6.9 percent and 5.9 percent in 2011. Exports of phosphates and derivatives at end-August stood at 32.6 billion dirhams, up 5.8 percent, in conjunction with increased foreign demand for fertilizers and continued high prices internationally.

The value added of the processing industry should slow slightly, reflecting weaker foreign demand. Thus, its growth would be 3.2 percent and 3.3 percent respectively in the second and third quarters of 2012 as against 3.5 percent in the first quarter. Bank Al-Maghrib's business survey of July 2012 confirms this trend, indicating a decline in industrial production and a decrease in orders received and a level of the inventory of finished goods deemed below normal. Though rising, sales were mainly oriented towards the local market. For the next three

Chart 1.1: Growth forecasts Q2 2012-Q2 2013\*

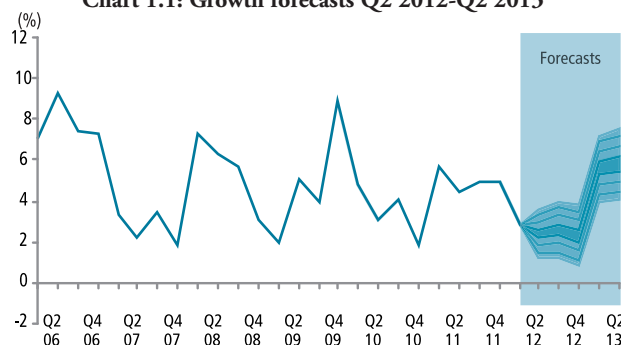


Chart 1.2: Nonagricultural growth forecasts Q2 2012-Q2 2013\*

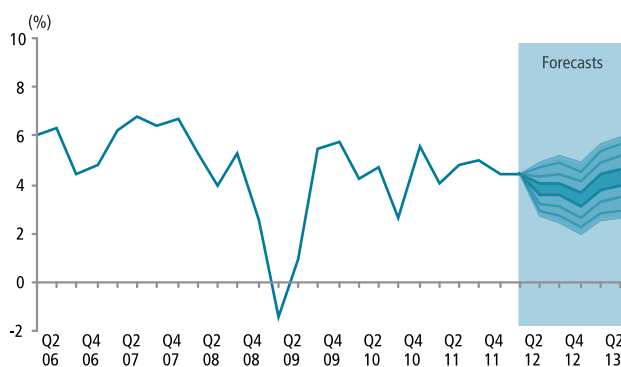
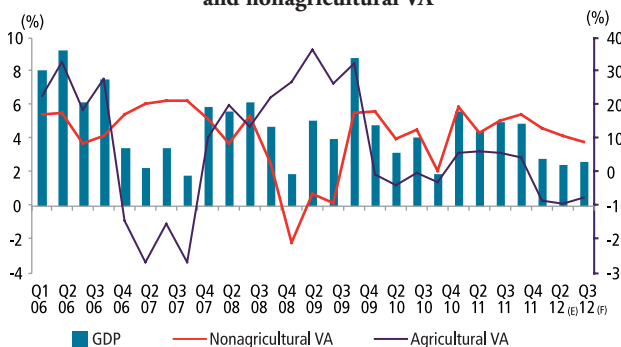


Chart 1.3: Quarterly change in the GDP and the agricultural and nonagricultural VA





months, the outlook for activity is generally favorable, but with an anticipated fall in sales and a projected increase in the prices of finished products.

“Electricity and water” sector would have maintained its uptrend, with a growth estimated at 7.3 percent in the second quarter as opposed to significant increases of 12.6 percent and 12.8 percent in the first quarter of 2012 and the fourth quarter of 2011, respectively. At the end of July, the net production of the National Electricity Office grew 11.6 percent as against 4.9 percent over the same period of the previous year, thus reducing the import trend from 35.3 percent to 3.2 percent. Meanwhile, sales rose 8.1 percent, reflecting a 7.8 percent increase in the sales of high-voltage electricity, directed primarily at the industrial sector, and a 9.4 percent growth of low-voltage electricity, oriented to domestic use. This momentum should continue in the third quarter of 2012, with growth projected at 8 percent, mainly due to the high consumption registered in recent months, due to recurrent heat waves.

The construction sector should slow in the second and third quarters, mainly due to lower activity during periods of high temperature and coincidence this year of the month of Ramadan with August. High-frequency indicators show a 1.7 percent decline of cement sales in the second quarter. At the end of July, they slowed to 5.6 percent from 8.7 percent over the same period a year earlier. However, real-estate loans trended positively by 7.6 percent, with an increase of 10.4 percent of housing loans and 2.1 percent of loans to real-estate developers. Thus, this sector should grow 4.8 percent and 3.8 percent in the second and third quarters of 2012, respectively, after increasing 5.7 percent in the first quarter.

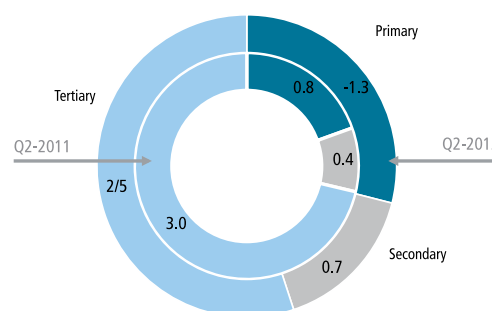
The growth of the tertiary sector should slow slightly to around 5.3 percent in the second and third quarters, down nearly 0.6

**Chart 1.4: YoY quarterly change in domestic non agricultural GDP and in partner countries' GDP**



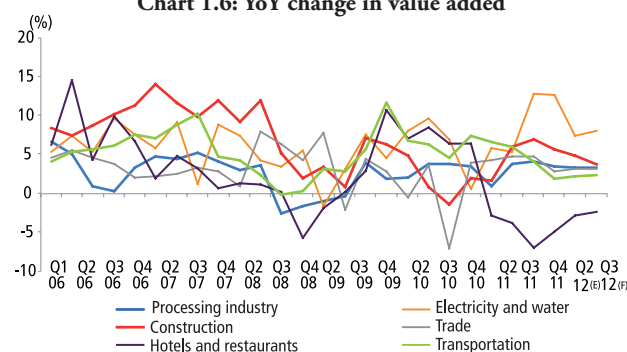
Sources: IMF, HCP, and BAM forecasts

**Chart 1.5: Contribution of the primary, secondary and tertiary sectors to overall growth, in percentage points**



Sources: HCP, and BAM calculations and forecasts

**Chart 1.6: YoY change in value added**



Sources: HCP, and BAM forecasts



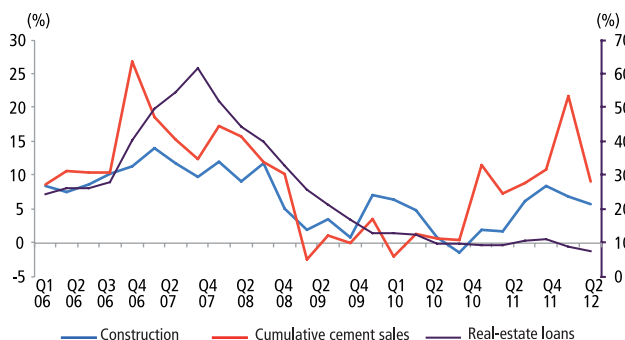
percentage points compared to the first quarter of 2012.

The growth of the value added of trade and transport sectors would be around 3 percent and 2 percent, respectively, in the second half, reflecting a moderate growth in other nonagricultural sectors and a contraction of agriculture (Table 1.1).

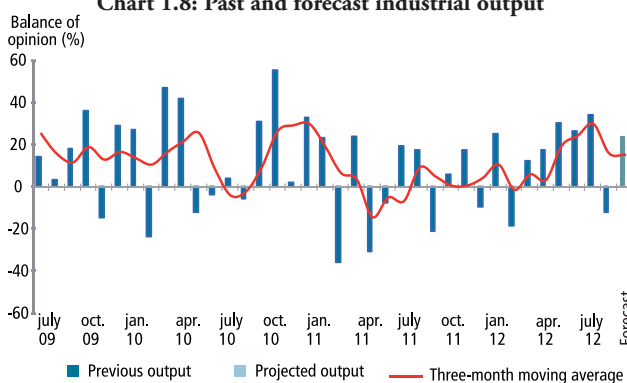
The activity of posts and telecommunications would have grown 10.2 percent in the second quarter, thus continuing its strong momentum since the fourth quarter of 2010. Thus, apart from the number of fixed phone subscribers, which declined again by 5.5 percent in the second quarter, the number of mobile phone subscribers increased by 7 percent as against 8.6 percent in the first quarter. Meanwhile, the number of Internet subscribers rose by 60.2 percent in the second quarter as opposed to 56.5 percent in the previous quarter.

However, the value added of the tourism sector would have continued its contraction observed since the second quarter of 2011. Nevertheless, its decline should slow compared to the first quarter of 2012, standing at -2.9 percent and -2.4 percent in

**Chart 1.7: YoY change in the construction sector's value added, cement cumulative sales and real-estate loans**



**Chart 1.8: Past and forecast industrial output**



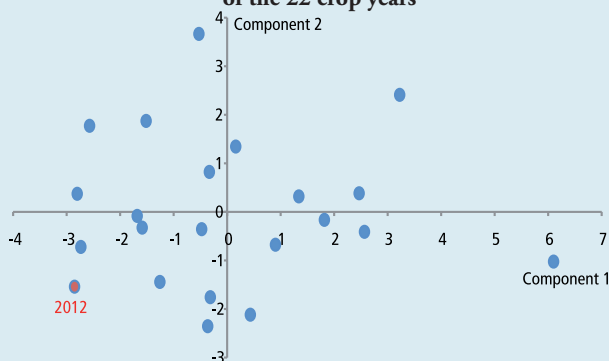
### Box 1.1: Characteristics of the 2011-2012 crop year and cereal production forecast

The 2011-2012 crop year was marked by a period of drought for about four and a half months (from December to March) with an exceptional two-month period of cold (January and February). The combination of these two factors hampered the growth of cereal crops. However, spring precipitation helped improve the yield potential of cultivated fields, which remained in good condition thanks to supplemental irrigation and early planting.

These conditions made this crop year specific compared to the last 21 years (Chart B1.1.1). Thus, the gap between the latest cereal production forecast by the Bank (about 40 million quintals) and the estimate by the Ministry of Agriculture (51 million quintals), while remaining at an acceptable threshold according to international standards for this type of exercise, is mainly due to atypical climatic conditions that prevailed during the year.

To improve the accuracy of cereal production forecast, a new tool that integrates vegetation index data, generated by the Royal Centre for Remote Sensing, will complement the already-established arrangements. The index calculated through these observations has, inter alia, the advantage of providing direct information on the conditions of crops and not data, whose proved influence on crops, can vary for various reasons, as is the case of climate variables.

**Chart B 1.1.1 : Characteristics of climatic conditions of the 22 crop years**



Basic variables: 3 variables relating to rainfalls and 5 variables to temperatures. The two axes resulting from the analysis by major components represent 88% of available weather data.

Source: Ministry of Agriculture, Agricultural development and Fisheries, National meteorological Department, Royal Centre for Remote Sensing and Bank Al-Maghrib calculations

the second and third quarters, respectively. According to the latest indicators available to the end of June, the tourist flow and overnight stays in classified hotels dropped 1.6 percent 4 percent, respectively, bringing the occupancy rate to 39 percent from 41 percent over the same period of 2011.

The growth forecast for 2013 remains surrounded by uncertainty about the performance of the agricultural sector and the sustainability of the crisis in our major partner countries. Based on an average scenario of cereal production, GDP growth would be between 4 percent and 5 percent

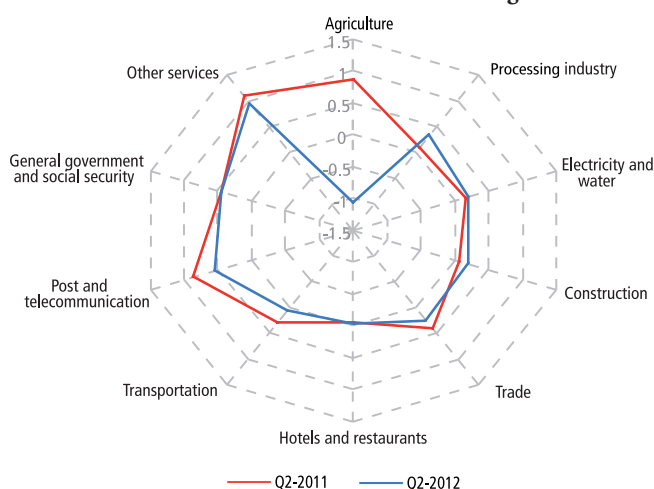
## 1.2 Consumption

National final consumption recorded a real-term growth of 4.9 percent in the first quarter of 2012 as against 8.6 percent in the fourth quarter of 2011. This trend covers a slowdown in household final consumption from 9.7 percent to 4.8 percent, and an improvement of general government one from 4.7 percent to 5.6 percent.

Albeit under deceleration compared to the growth pace of 2011, particularly due to weaker activity in major trading partners and sluggish current transfers, the final national consumption should maintain a sustained growth in the rest of the year.

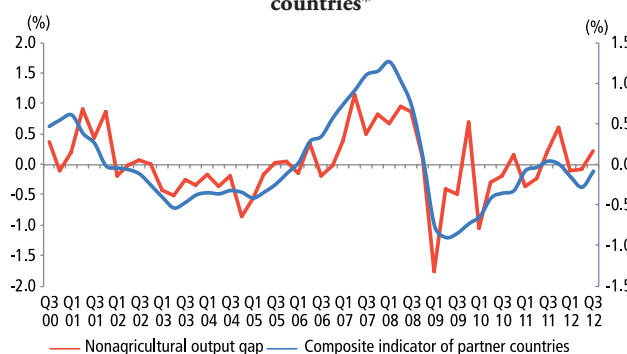
Indeed, the latest available data show mixed trends of key consumer indexes. Remittances from Moroccans living abroad and travel receipts were down 1.8 percent and 5.0 percent, respectively at end-August 2012, after an increase of 7.7 percent and 7.1 percent over the same period a year earlier. On the other hand, the household confidence index, published by the HCP, rose by 5.1 percentage points in the second quarter of 2012 compared to its rate of last year, indicating deteriorated households' perception about change in the main unemployment indexes, regarding general living standard and their financial situation.

Chart 1.9: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations

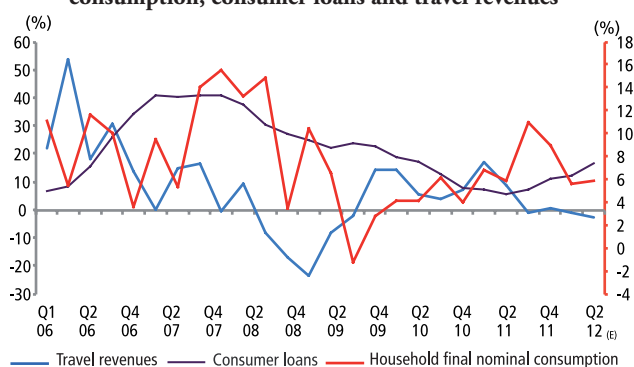
Chart 1.10: Weighted composite leading indicator of partner countries\*



\*The weighted composite indicator of partner countries is based on the cyclical component of the OECD composite leading indicators in Morocco's main partner countries (France, Spain, Germany and Italy), weighted by the share of these countries in Morocco's exports.

Sources: OECD, and BAM calculations

Chart 1.11: YoY quarterly change in household final consumption, consumer loans and travel revenues



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

Meanwhile, imports of finished consumer goods grew by 8.5 percent at end-August 2012, as against 9.4 percent a year earlier. Inflation remained moderate and wages appreciated overall (Chapter 2). Similarly, consumer loans were up 22.4 percent at end-July 2012, as against 5.4 percent a year earlier. In terms of employment, 112,000 jobs were created in one year in the second quarter of 2012.

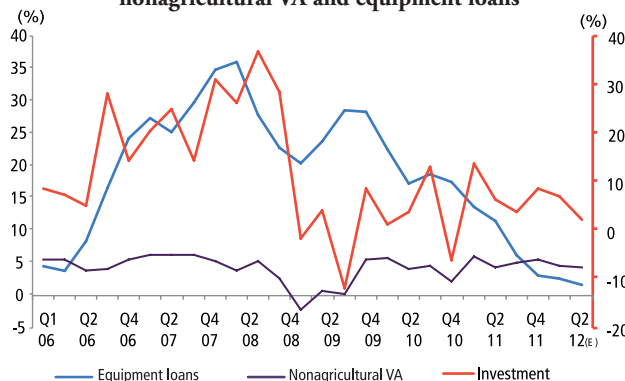
The general government consumption should continue its momentum observed in the first quarter. Indeed, operating expenses increased by 12.4 percent at the end of July, as against a 1.3 percent decline over the same period a year earlier, covering an increase of 13.4 percent of personnel costs and 10.2 percent of expenses of miscellaneous goods and services.

### 1.3 Investment

In a context of slowing national growth, investment decelerated slightly to 6.1 percent in real terms in the first quarter of 2012, from 6.8 percent in the fourth quarter of 2011. This trend should continue in the coming quarters, as evidenced by the latest available data. Indeed, equipment loans fell 2.9 percent at end-July as opposed to an increase of 7.3 percent a year earlier. Similarly, receipts from investments and private loans slowed to 3.4 percent at end-August 2012, after an increase of 9.5 percent over the same period a year earlier.

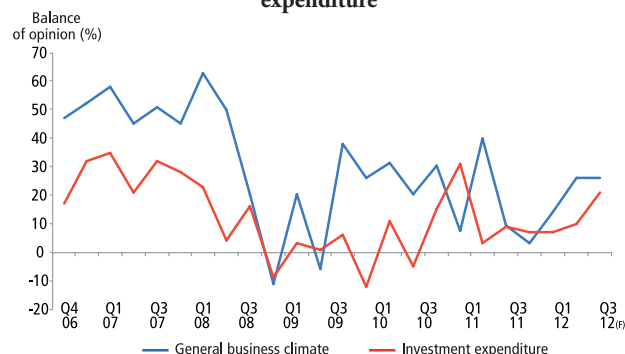
However, investment remains supported by the uptrend in the construction sector. In the same vein, the quarterly results of the monthly business survey of Bank Al-Maghrib reveal a business climate deemed good overall. The same results show an increase in investment expenditure in the second quarter of 2012 compared to the previous quarter, with generally favorable expectations regarding their short-term trends. Meanwhile, imports of finished equipment goods at the end of August grew 9.5 percent as against a decline of 2.3 percent in 2011.

Chart 1.12: YoY quarterly change in total investment, nonagricultural VA and equipment loans



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

Chart 1.13: Change in general business climate and investment expenditure



Source: BAM monthly business survey in the industry

### Box 1.2: Fiscal developments at end-July 2012

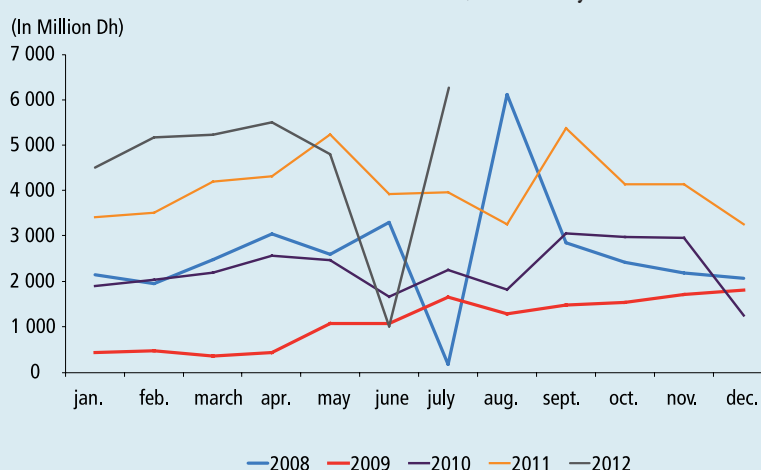
Budget execution at end-July 2012 reveals a deficit of 24.6 billion dirhams, compared to 21.4 billion at end-June and 18.3 billion a year earlier. This trend reflects a 5.9 percent increase in current revenues, which is a slower pace than 12.1 percent observed in ordinary expenses. Investment expenditure fell again by 7.6 percent. In view of the change in commodity and energy prices internationally, budget execution for July was marked by a monthly flow of 6.3 billion dirhams of subsidization costs as against an average of 4.4 billion since the beginning of the year. The Treasury also resorted heavily to domestic debt, along with an external negative net flow.

The Treasury's current revenues, totaling 130.7 billion, were up 5.9 percent, covering a 7 percent increase in tax revenues and a 2.5 percent decrease in nontax revenues excluding privatization to 12.3 billion compared to end-July 2011. The increase in tax revenues reflects higher receipts from direct and indirect taxes, and revenues from registration and stamp fees, as well lower customs

Direct tax revenues rose by 9.9 percent to 45.5 billion, mainly reflecting a 5.4 percent increase to 25.6 billion of corporate tax revenues and a 20.5 percent rise to 19 billion of income tax receipts. Indirect tax revenues were up 6 percent to 58.8 billion dirhams. The VAT revenue grew 7.3 percent to 45.9 billion, due to respective increases of 8.2 percent and 6 percent of revenues from import and domestic VAT. Similarly, domestic consumer tax generated 12.9 billion, up 1.6 percent, covering an increase in receipts from taxes on manufactured tobacco, and on energy products, as well as a drop of 55 million dirhams of miscellaneous domestic consumer taxes. Revenue from customs duties, totaling 5.5 billion, was down 7.4 percent at end-July 2012. Registration and stamp fees rose by 5.6 percent to 7.2 billion.

Nontax revenues, excluding privatization, decreased by 2.5 percent, with a total of 12.3 billion dirhams. Receipts from monopoly and holdings were 8.7 billion, up 7.6 percent compared to end-July 2011, coming mostly from the OCP with an amount of 4 billion, Maroc Telecom with 2.2 billion, National Land Registry and Cartography Agency with 1 billion and Bank Al-Maghrib with 743 million dirhams.

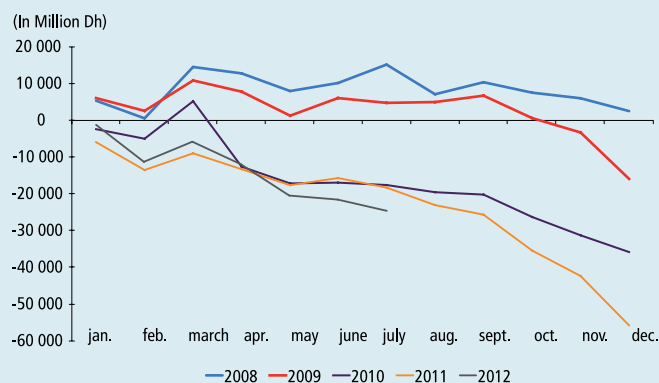
Chart B1.2.1: Subsidization costs, in monthly flows



Source: Ministry of Economy and Finances

Overall spending amounted to 160.6 billion dirhams, up 8.7 percent. This trend covers a 7.6 percent drop in investment expenditure to 23.4 billion and an increase of 12.1 percent of current expenditure to 137.3 billion dirhams. Indeed, operating expenses rose 12.4 percent to 78.6 billion, reflecting respective increases of 13.4 percent to 55.9 billion and 10.2 percent to 22.7 billion in staff costs and costs of other goods and services. Similarly, debt interest charges rose by 11.6 percent to 12.4 billion. Subsidy costs increased by 13.6 percent compared to the end of July 2011 to 32.5 billion, including 6.3 billion for the month of July alone, as against a monthly average of about 4.4 billion over the first six months of 2012.

Chart B1.2.2: Accumulated fiscal balance, at the end of a month



Source: Ministry of Economy and Finances

Under these conditions, the current balance showed a deficit of 6.6 billion from 3.4 billion at end-June 2012, as against a surplus of 990 million at the end of July 2011. Following the repayment of arrears amounting to 6.9 billion, the stock of arrears stabilized at 18.4 billion as opposed to 25.3 billion in December 2011. Given this arrears trend and the positive balance of Treasury special accounts of 5.4 billion, the cash deficit stood at 31.5 billion as against 15.8 billion at the end of the same period a year earlier. The Treasury financed its requirement exclusively from domestic resources for an amount of 34.4 billion, of which 25 billion were raised through auction on the Treasury bond market and 2.2 billion from deposits with the Treasury. In contrast, the external net flow was negative at 3 billion dirhams.

Table B 1.2.1 : Fiscal developments at end-July

|  | July<br>2009   | July<br>2010   | July<br>2011   | July<br>2012   | Change %<br>2012/2011 | Fiance Act<br>2012 | Execution rate, % |
|--|----------------|----------------|----------------|----------------|-----------------------|--------------------|-------------------|
| <b>Current receipts</b>                  | <b>116 099</b> | <b>115 966</b> | <b>123 407</b> | <b>652 130</b> | <b>5.9</b>            | <b>213 171</b>     | <b>61.3</b>       |
| Current receipts                         | 103 884        | 103 923        | 109 335        | 018 117        | 7.0                   | 193 610            | 60.4              |
| Tax receipts                             | 27 735         | 21 642         | 24 269         | 579 25         | 5.4                   | 41 543             | 61.6              |
| Corporate tax                            | 16 330         | 15 092         | 15 756         | 993 18         | 20.5                  | 28 959             | 65.6              |
| Income tax                               | 33 851         | 39 659         | 42 741         | 856 45         | 7.3                   | 76 367             | 60.0              |
| <b>Value added tax</b>                   | <b>124 372</b> | <b>136 739</b> | <b>147 749</b> | <b>625 160</b> | <b>8.7</b>            | <b>262 986</b>     | <b>61.1</b>       |
| <b>Overall expenditure</b>               | <b>94 443</b>  | <b>108 586</b> | <b>122 417</b> | <b>224 137</b> | <b>12.1</b>           | <b>216 994</b>     | <b>63.2</b>       |
| Personnel                                | 42 767         | 44 885         | 49 294         | 894 55         | 13.4                  | 93 508             | 59.8              |
| Other goods and services                 | 24 891         | 25 928         | 20 592         | 683 22         | 10.2                  | 47 807             | 47.4              |
| Interest on public debt                  | 11 169         | 10 767         | 11 109         | 395 12         | 11.6                  | 20 244             | 61.2              |
| Subsidization                            | 5 461          | 15 108         | 28 600         | 495 32         | 13.6                  | 32 525             | 99.9              |
| <b>Current balance</b>                   | <b>21 656</b>  | <b>7 381</b>   | <b>990</b>     | <b>-6 572</b>  |                       | <b>-3 823</b>      |                   |
| Primary balance                          | 15 925         | -6 703         | -7 201         | 188 -12        |                       | -26 571            |                   |
| Investment                               | 29 929         | 28 153         | 25 332         | 401 23         | -7.6                  | 45 992             | 50.9              |
| Roads special fund balance               | 13 029         | 3 302          | 6 033          | 390 5          | -10.7                 | 3 000              |                   |
| <b>Overall deficit / surplus</b>         | <b>4 756</b>   | <b>-17 470</b> | <b>-18 309</b> | <b>583 -24</b> |                       | <b>-46 815</b>     |                   |
| Change in arrears                        | 218            | 1 438          | 2 552          | 877 -6         |                       | -17 000            |                   |
| <b>Financing requirements or surplus</b> | <b>4 974</b>   | <b>-16 032</b> | <b>-15 757</b> | <b>460 -31</b> |                       | <b>-63 815</b>     |                   |
| Domestic financing                       | -8 103         | 10 969         | 8 573          | 432 34         |                       | 47 267             |                   |
| External financing                       | 3 130          | 5 028          | 1 866          | 972 -2         |                       | 13 348             |                   |

Source: Ministry of the Economy and Finance

As to the general government, the latest data on Treasury expenses and revenues show a contraction of 7.6 percent of Treasury investment expenditure at the end of July 2012, as against a decline of 10 percent over the same period a year earlier and 23.7 percent on average in the first six months of the year.

Overall, the growth of investment should slow compared to the previous year, particularly in connection with the decline in public investment.

## 1.4 Foreign trade

The data available to the end of August indicate a further widening of trade deficit, year on year, due to the faster increase of imports compared to exports.

Indeed, trade balance posted a deficit of 128.6 billion dirhams, up 6.1 percent from the same period of the previous year, as against a worsening of 21.7 percent a year earlier. This trend is attributed to an increase of 4.7 percent or 11.2 billion dirhams of imports, faster than 3.3 percent or 3.8 billion of exports. Thus, the coverage ratio stood at 48.3 percent.

Export trends are mainly attributable to an increase in sales of energy products, which almost doubled in one year, totaling 6.3 billion dirhams and representing a 5.3 percent share in total exports, as against 2.7 percent in the previous year. This rise is essentially due to improved provisioning of foreign-flag ships with diesel and fuel, and petroleum oil, whose deliveries increased significantly from 556.3 million and 2.5 to 2.2 and 3.8 billion dirhams, respectively. Shipments of phosphates and derivatives rose by 5.8 percent to 32.6 billion dirhams. In contrast, other exports<sup>1</sup> totaled nearly 81 billion dirhams, down 1.3 percent year on year. This change is in particular due to the respective declines of 2.8 percent, 5.7 percent and 6.7 percent in sales of made clothing, wires and cables, and hosiery, offset by the remarkable improvement in exports

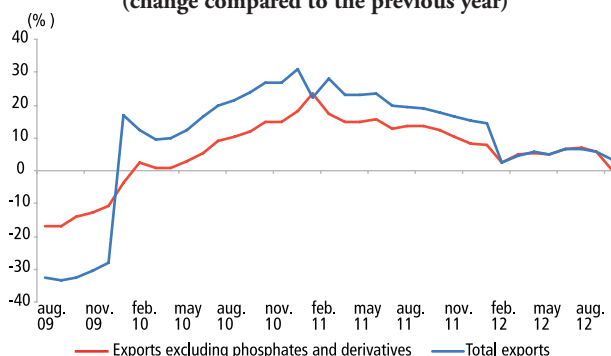
Table 1.2: YoY change in the trade balance in August 2012

| (In millions of dirhams)                     | August           |                  | Variations        |              |
|--|------------------|------------------|-------------------|--------------|
|  | 2011             | 2012*            | Montant           | %            |
| <b>Total exports</b>                         | <b>116 133.5</b> | <b>119 976.3</b> | <b>+3 842.8</b>   | <b>+ 3.3</b> |
| Phosphate and derivatives' exports           | 30 858.8         | 32 648.5         | +1 789.7          | + 5.8        |
| Exports excluding phosphates and derivatives | 85 274.7         | 87 327.8         | +2053.1           | + 2.4        |
| Energy products                              | 3 181.2          | 6340.1           | + 3 158.9         | + 99.3       |
| Passenger vehicle                            | 662.2            | 3331.3           | + 2 669.1         | -            |
| Electricity wires and cables                 | 10 754.9         | 10 145.7         | -609.2            | -5.7         |
| Articles de bonneterie                       | 5 358.5          | 5 002.1          | -356.4            | -6.7         |
| <b>Total imports</b>                         | <b>237 403.1</b> | <b>248 625.6</b> | <b>+1 12 22.5</b> | <b>+4.7</b>  |
| Importations de produits énergétiques        | 60 106.6         | 64 703.7         | +4 597.1          | +7.6         |
| Non energy imports                           | 177 296.5        | 183 921.9        | +6 625.4          | +3.7         |
| Semi-finished goods                          | 50 830.1         | 50 464.2         | -365.9            | -0.7         |
| Food products                                | 26 136.3         | 26 785.8         | +649.5            | +2.5         |
| Consumer goods                               | 40 507.2         | 43 963.2         | +3 456.0          | +8.5         |
| Capital goods                                | 44 768.0         | 49 035.1         | +4 267.1          | +9.5         |
| <b>Trade deficit</b>                         | <b>121 269.6</b> | <b>128 649.3</b> | <b>73 79.7</b>    | <b>+6.1</b>  |

\* Provisional data

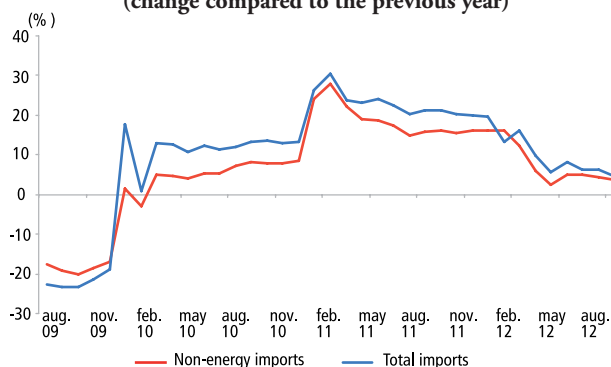
Source: Foreign Exchange Office

Chart 1.14: Total exports  
(change compared to the previous year)



Source: Foreign Exchange Office

Chart 1.15: Total imports  
(change compared to the previous year)



Source: Foreign Exchange Office

<sup>1</sup> Non-phosphate and derivatives, and non-energy exports



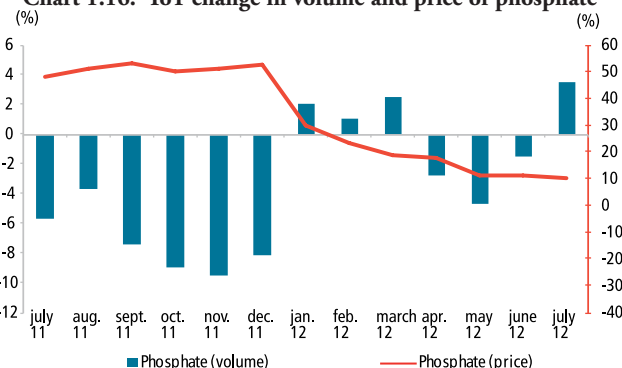
of passenger cars, moving, in one year, from 662.2 million dirhams to 3.3 billion at the end of August 2012.

Import growth is attributed to the increase in most categories of goods. Indeed, the energy bill, amounting to 64.7 billion dirhams, grew by 7.6 percent, mainly in connection with a 5 percent increase in the average tonne price of imported crude oil, which reached 6,525 dirhams. The volume of imported crude oil fell 2 percent to 3,235.9 thousand tonnes.

Similarly, purchases of diesel and fuel, as well as petroleum gas and other fuels rose 14.1 percent and 11.7 percent, to 23.5 and 12.1 billion dirhams, respectively.

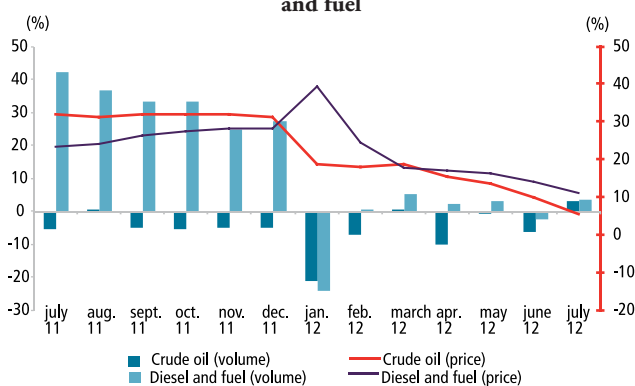
Non-energy imports grew 3.7 percent to nearly 184 billion dirhams. Thus, imports of capital goods, amounting to about 49 billion, rose by 9.5 percent, reflecting mainly an increase of 47.9 percent of purchases of industrial vehicles. Similarly, imports of consumer goods amounted nearly to 44 billion dirhams, up 8.5 percent, owing to the respective increases of 17.7 percent and 8 percent of purchases of passenger cars and fiber fabric and yarns. Food purchases moved up 2.5 percent, totaling 26.8 billion dirhams, in conjunction with an increase of 13.8 percent in imports of sugar, amounting to 3.7 billion dirhams, and 1.5 percent of purchases of corn, amounting to 3.3 billion. However, wheat supplies, limited to 6.6 billion dirhams, fell 14.3 percent. In contrast, imports of semi-finished goods declined slightly by 0.7 percent to 50.5 billion.

Chart 1.16: YoY change in volume and price of phosphate



Source: Foreign Exchange Office

Chart 1.17 : YoY change in volume and price of crude oil, diesel and fuel



Source: Foreign Exchange Office

## 2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

Reflecting the combined effects of the weaker international activity, particularly in our major trading partner countries, and the slight slowdown in domestic demand, the non-agricultural output gap should trend to levels close to zero in the second and third quarters of 2012, according to estimates by Bank Al-Maghrib. Similarly, the BAM monthly business survey for July 2012 shows that the overall capacity utilization rate and non refining one reached 72 percent and 70 percent, respectively, rates close to their historical averages. The unemployment rate in the second quarter of 2012 was down 0.6 point to 8.1 percent compared to the same period of the previous year, reflecting a drop of 1.2 point in urban areas to 12.3 percent, and stabilization in rural areas at 3.5 percent. Over the same period, data on private sector wages indicate that they continue to rise in nominal and real terms. Overall, although data show some pressures on production costs, particularly those relating to financial costs and energy commodity prices, the analysis of all factors does not suggest significant pressures on prices in the coming quarters.

### 2.1 Pressures on output capacity<sup>1</sup>

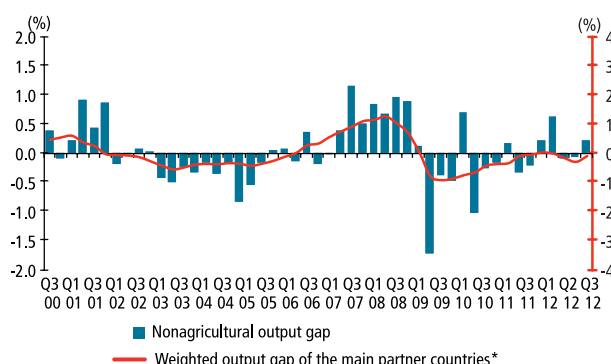
According to the latest estimates by Bank Al-Maghrib, nonagricultural output gap should not be significantly different from zero in the second and third quarters of this year. For the coming quarters, the significantly weaker economic activity internationally, particularly in our main partner countries, along with the slightly slow domestic demand, should reduce the already-moderate pressures of aggregate demand on prices (Chart 2.1).

Capacity utilization rate (CUR) has slightly fluctuated since the beginning of the year to stand at around its historical average of 72 percent in July 2012, as reported by Bank Al-Maghrib monthly business survey in the industry.

By sector, only mechanical and metallurgical industries recorded a slight monthly decline of the CUR in July from 66 percent to 64 percent, while the CUR of other industries broadly stagnated (Chart 2.3).

In terms of costs for industrial companies, the results of the same survey show an increase in the unit production cost in the second quarter of 2012, albeit with a lower balance of opinion from 47 percent to 5 percent from one quarter to the next. Manufacturers attribute this trend to financial costs and energy commodity prices, with respective balances of opinion of 42 percent and 36 percent. Financial costs were the main cause of increase in

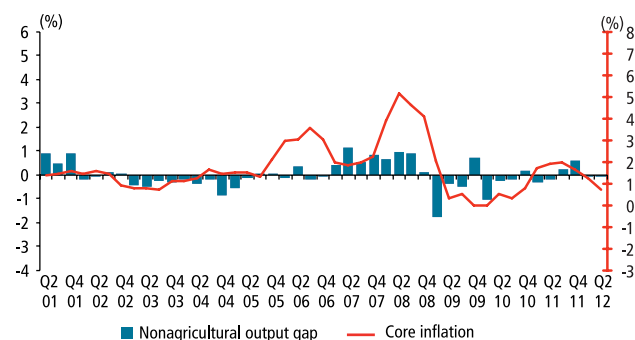
Chart 2.1: Nonagricultural output gap



(\*) Calculated on the basis of the GDP of Morocco's top five economic partners weighted by their respective shares in Morocco's total exports.

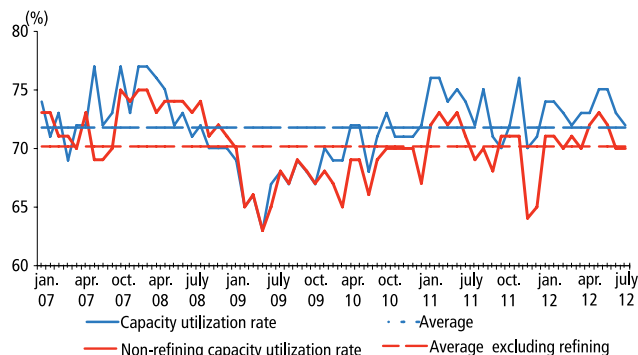
Sources: HCP, and BAM estimates

Chart 2.2: YoY change in nonagricultural output gap and core inflation



Sources: HCP, and BAM estimates

Chart 2.3: Industrial capacity utilization rate



Source: BAM monthly business survey

<sup>1</sup> Calculated based on the GDP of the 5 first economic partners weighted by their respective share in the total exports of Morocco.



the unit production cost in chemicals and related industries and mechanical and metallurgical industries, while energy commodity costs were identified as the main factor behind rising costs in other industries (Chart 2.4).

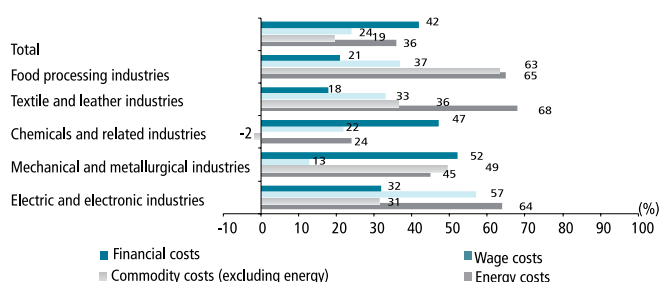
Apparent labor productivity<sup>1</sup> in nonagricultural activities amounted to approximately 124.9 points, up 1 percent, year on year, in the second quarter of 2012, as against 6.1 percent in the first quarter. This trend is attributable to an employment rate (+3.1 percent) lower than nonagricultural GDP (4.2 percent), as estimated by BAM.

## 2.2 Pressures on the labor market

At the end of the second quarter of 2012, the labor force aged 15 and over slightly increased by 0.4 percent to nearly 11.7 million people, covering a 1.1 percent drop in rural areas and 1.7 percent rise in urban areas. This trend was coupled with a decline of 0.6 percentage points in the participation rate to 49 percent (Table 2.1). Against this backdrop, the unemployment rate fell by 0.6 percentage points, year on year, to 8.1 percent, the lowest rate since the second quarter of 2009. Urban unemployment declined from 13.5 percent to 12.3 percent, while rural one stabilized at 3.5 percent. By age group, the unemployment rate among the age group 15-24 stood at 17.1 percent, thus registering a fall of only 0.3 percentage points, which is the lowest decline compared to that recorded among other groups (Table 2.1).

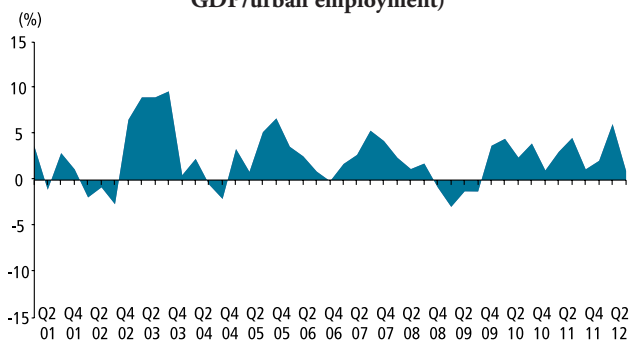
Employed labor force increased by 1.1 percent to 10.7 million in the second quarter of 2012 as against a decrease of 1 percent a quarter earlier. The employment rate fell from 45.2 percent to 45 percent, covering a one-point drop to 56 percent in rural areas and an increase of 0.4 percentage points to 37.7 percent in urban areas (Table 2.1).

Chart 2.4: Change in components of unit production cost per sector (Balances of opinion in %, in second quarter of 2012)



Source: BAM monthly business survey

Chart 2.5: YoY apparent labor productivity (Nonagricultural GDP/urban employment)



Sources: HCP, and BAM estimates

Table 2.1: YoY quarterly change in activity and unemployment indicators per place of residence<sup>(1)</sup>

| In million / in %                                 | Q2 - 2011 |       |       | Q2 - 2012 |       |       |
|---|-----------|-------|-------|-----------|-------|-------|
|   | Urban     | Rural | Total | Urban     | Rural | Total |
| <b>Labor force and employment</b>                 |           |       |       |           |       |       |
| Labor force <sup>(2)</sup>                        | 6055      | 5555  | 11610 | 6162      | 5494  | 11656 |
| Labor force participation rate (%) <sup>(3)</sup> | 43.2      | 59.2  | 49.6  | 43        | 58    | 49    |
| Employed labor force                              | 5239      | 5356  | 10595 | 5403      | 5304  | 10707 |
| Employment rate (%) <sup>(4)</sup>                | 37.3      | 57    | 45.2  | 37.7      | 56    | 45    |
| <b>Unemployment</b>                               |           |       |       |           |       |       |
| Unemployed labor force                            | 816       | 199   | 1 015 | 759       | 190   | 949   |
| Unemployment rate (in %) <sup>(5)</sup>           | 13.5      | 3.6   | 8.7   | 12.3      | 3.5   | 8.1   |
| By age  |           |       |       |           |       |       |
| .15 - 24 years                                    | 33.4      | 8.1   | 17.4  | 32.8      | 7.5   | 17.1  |
| .25 - 34 years                                    | 19.5      | 3.7   | 12.8  | 18.4      | 4.1   | 12.3  |
| .35 - 44 years                                    | 7.4       | 1.7   | 5.1   | 5.8       | 1.7   | 4.1   |
| By degree   |           |       |       |           |       |       |
| . Non-graduates                                   | 7.2       | 2.3   | 4.1   | 6.4       | 1.8   | 3.5   |
| . Graduates                                       | 18.2      | 9.5   | 16.2  | 16.7      | 10.9  | 15.4  |

(1) Data adjusted according to the new population forecasts

(2) Population aged 15 years and above (in millions of persons)

(3) Labor force/total population.

(4) Employed labor force/total population aged 15 years and above.

(5) Unemployed labor force/labor force aged 15 years and above

Source: HCP

1 In the absence of more accurate data, the apparent labor productivity is measured as the ratio between production and workforce size. This indicator should be interpreted with caution, as it does not take into account the efficiency with which labor force is used in production.

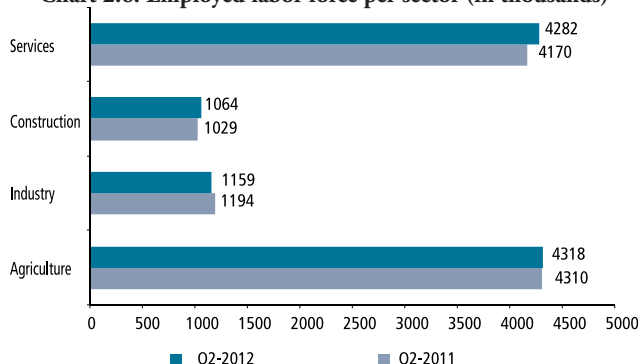
After losing 109,000 jobs a quarter earlier, the job market registered a net creation of 112,000 job positions resulting from the creation of 192,000 paid positions and the loss of 80,000 unpaid jobs. By place of residence, only the rural areas suffered a loss of jobs, totaling 52,000, for the second consecutive quarter. At the sectoral level, agriculture, construction and services were the only job providers, totaling 153,000 jobs, with respective shares of 6 percent, 22 percent and 72 percent. However, the industrial sector suffered a loss of 38,000 jobs (Chart 2.6).

The latest available data on labor costs show a year-on-year increase of 1.4 percent in the unit labor cost<sup>1</sup> (ULC). Compared with other countries, domestic ULC grew higher than that of Spain, Slovakia and Canada, with a difference of 3.8 percent, 2 percent and 0.2 percent, respectively. However, it grew less rapidly than that of South Korea, Hungary, the United Kingdom, Belgium, Germany and France (Chart 2.7).

The quarterly average wage index, based on CNSS data, recorded a year-on-year increase of 6.9 percent in nominal terms and nearly 5.5 percent in real terms in the second quarter of 2012. This trend is confirmed by the BAM business survey which indicates a rise in wages with a balance of opinion of 24 percent.

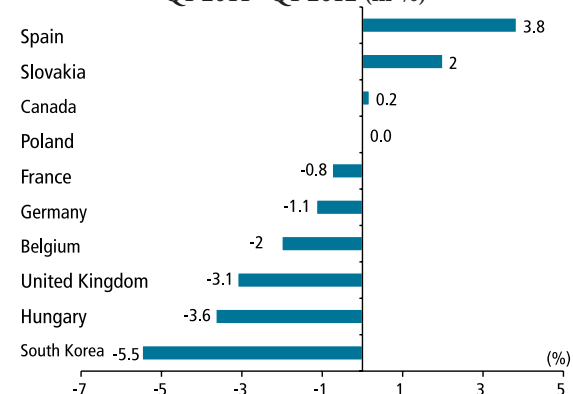
After its stagnation in nominal and real terms in the second quarter, the hourly minimum wage should be up in the next quarter, following its 5 percent increase in July 2012 to 12.24 DH/hour (Chart 2.9). This change should have only a limited effect on inflation (see Box 2.1 of MPR No. of June 7, 2008).

Chart 2.6: Employed labor force per sector (in thousands)



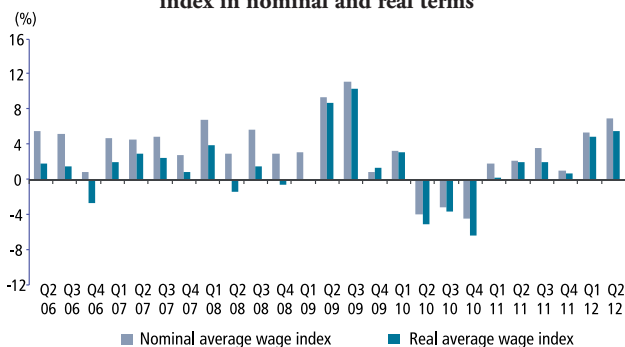
Source: HCP

Chart 2.7: Change in the unit costs of the manufacturing labor force in Morocco compared with other countries, Q1 2011 – Q1 2012 (in %)



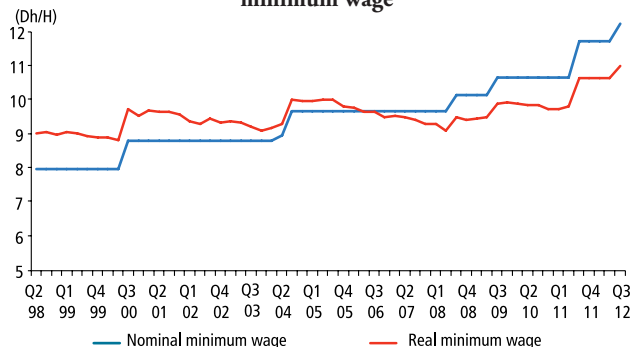
Sources: Datastream, and BAM calculations

Chart 2.8: YoY change in the private sector's average wage index in nominal and real terms



Sources: CNSS, and BAM estimates

Chart 2.9: Quarterly change in real and nominal minimum wage



Sources: Labor Ministry, and BAM calculations

<sup>1</sup> The ULC in the manufacturing sector is replaced from now on by the overall ULC, more relevant for the evaluation of national labor costs.

### 3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

*In a context characterized by a relative improvement in financial conditions, the latest data on the international economic situation showed a deterioration of activity and its prospects in the euro area and confirmed the diffusion of the European crisis effects to other advanced countries and major emerging economies. Indeed, tensions in financial markets have weakened in recent months, as evidenced by the increase in major stock market indexes, the decline in interest rates and spreads in money markets and particularly the easing of bond rates, especially Spanish and Italian ones. This change is mainly due to the interventions of the Fed and the ECB through new monetary easing measures. Regarding the real economy, national accounts in the second quarter of 2012 confirmed lower activity in the euro area with a year-on-year contraction of 0.5 percent, coupled with a significant slowdown in other advanced countries and emerging economies. However, the U.S. economy showed some resilience in response to this environment, as its growth rate slowed slightly in the second quarter, from 2.4 percent to 2.3 percent. In emerging and developing economies, growth slowed down again. It fell in China below 8 percent year on year, the lowest rate since 2009. The weakening growth was confirmed by recent high-frequency indicators, which, despite some slight improvements, remain below their long-term average. In addition, adverse conditions on the labor market, particularly in the eurozone peripheral countries, caused persistence of uncertainties about the duration of the recession. Similarly, the latest projections by the IMF in July 2012 indicate more significant downward revisions of growth for 2012 and 2013 compared to the April forecasts, in both developed countries and major emerging markets. Moreover, after a decline in recent months, commodity prices, including agricultural and energy ones, were again on the upside, driven mainly by supply uncertainties. This trend contributed to the increase in inflationary pressures, particularly in the euro area and in some emerging and developing countries. Overall, the deterioration of economic activity, high unemployment rate and unfavorable growth prospects internationally indicate moderate external inflationary pressures in the coming quarters, despite risks associated with commodity prices.*

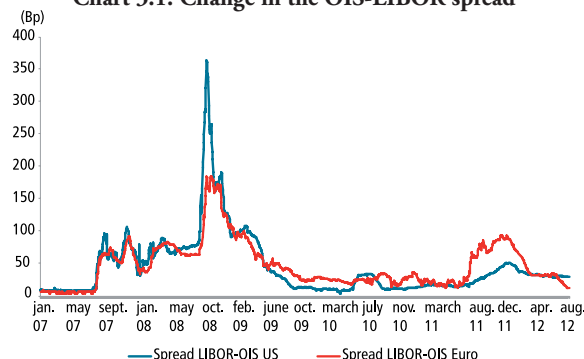
#### 3.1 Global financial conditions and economic activity

In August 2012, financial markets overall showed easing signs, in connection with continued accommodative monetary policies by the central banks of advanced countries. In addition, the ECB and the Fed expressed their willingness to implement the measures necessary for easing tensions on financial markets and supporting their respective economies. Economically, recent data indicate economic deterioration in the euro area and a slowdown in other advanced economies and major emerging economies. These trends are coupled with persistent difficulties on the labor market, particularly in the eurozone peripheral countries.

##### 3.1.1 Financial conditions

Bond markets were impacted by the central banks' announcements, as sovereign rates of peripheral countries generally eased. In the euro area, the 10-year yields of eurozone peripheral countries decreased,

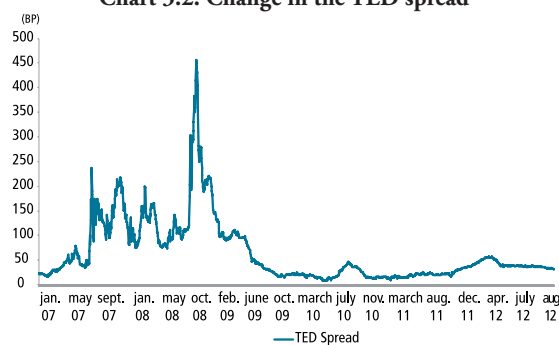
Chart 3.1: Change in the OIS-LIBOR spread\*



\* 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 TED spread\*



\* The TED spread represents a credit risk and corresponds to the interest rate gap between three-month U.S. Treasury bills and the three-month interbank rate in U.S. dollars.

Source: Datastream

between July and August 2012, from 25.8 percent to 24.5 percent in Greece, from 6.8 percent to 6.6 percent in Spain and from 10.4 percent to 9.8 percent in Portugal. Similarly, French bonds benefited from lower rates, standing at 2.1 percent in August, as against 2.3 percent in the previous month. However, yields on 10-year bonds of Germany, which rose from 1.23 percent to 1.35 percent from July to August 2012, declined at the end of the month to 1.27 percent. The U.S. Treasury bond yields moved up to 1.7 percent in August from 1.5 percent in July 2012.

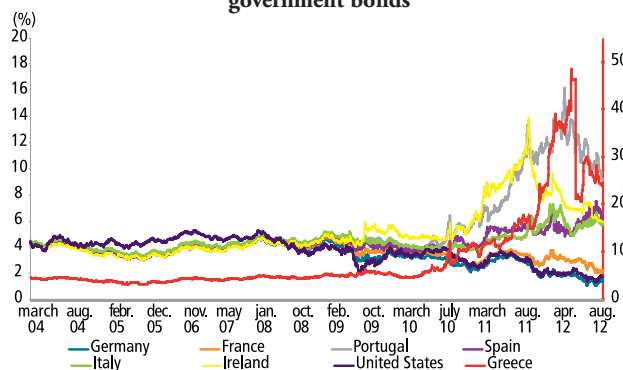
In money markets, interbank rates and spreads continued their downward trend. Thus, the 3-month Euribor stood at 0.34 percent in August 2012 from 0.50 percent in the previous month, while the Libor of the same maturity reached 0.43 percent as against 0.45 percent. The euro Libor-OIS spread dropped significantly, from July to August 2012, from 25.9 basis points to 14.4 points, while the dollar Libor-OIS spread was virtually flat at 29.5 basis points over the same period.

Moreover, the growth of loans to the private sector remained stronger in the United States compared to the euro area. Indeed, in the United States, credit grew 0.6 percent from June to July 2012 and only 0.3 percent in the euro area, i.e. respective changes of 6 percent and 0.1 percent, year on year.

In stock markets, like the previous month, major indexes of advanced and emerging economies trended upward. Indeed, increases ranging from 2.1 percent for the Nikkei225 to 7.2 percent for the CAC40 were registered from July to August 2012. In addition, the reduced volatility of European and U.S. stock markets continued in August 2012, as VSTOXX and VIX stood respectively at 23.9 basis points and 15.4 points as against 24.7 and 17.5 points a month earlier.

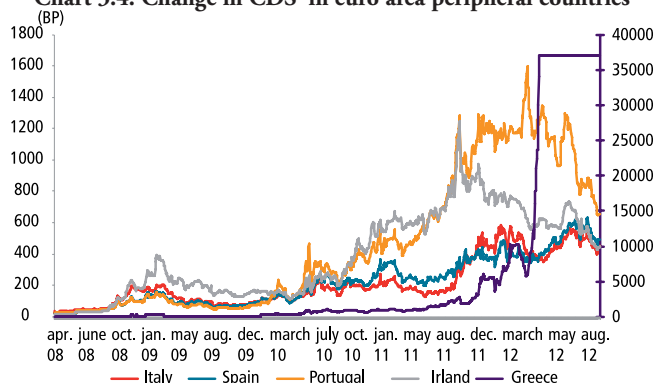
The emerging economies stock indexes also moved up for the second consecutive month. The MSCI EM rose by 3.7 percent in August 2012, month on month.

**Chart 3.3: Change in the yield of ten-year euro area and U.S. government bonds**



Source: Datastream

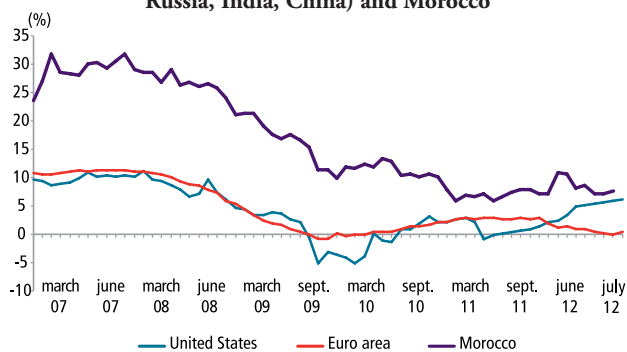
**Chart 3.4: Change in CDS\* in euro area peripheral countries**



\* Credit Default Swaps (CDS) on the sovereign debt of emerging countries correspond to insurance premiums against the default risk of a given sovereign debt.

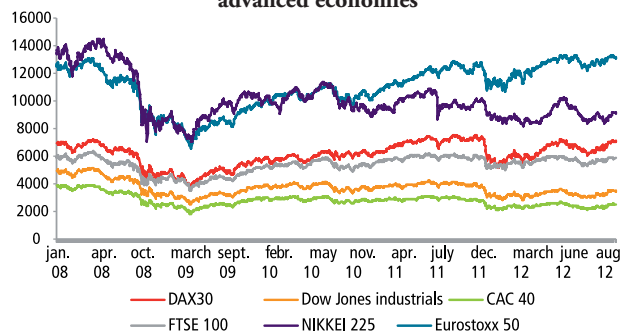
Source: Datastream

**Chart 3.5: Change in CDS in emerging countries (Brazil, Russia, India, China) and Morocco**



Source: Datastream

**Chart 3.6: Change in the major stock market indexes of advanced economies**



Source: Datastream

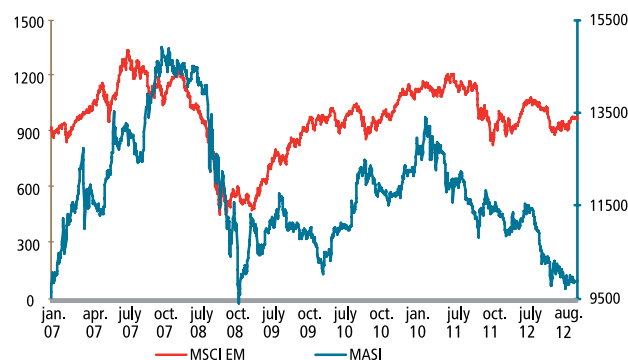
On the international currency markets, the euro seems to have benefited from market expectations regarding monetary easing decisions likely to be taken by the Federal Reserve. Thus, the single currency traded at \$1.24 in August, which is an appreciation of 0.7 percent from the previous month, after four successive months of depreciation. It also stabilized as of August 24, 2012 at \$1.25, its highest level of the month. The euro also appreciated 0.4 percent against the Japanese yen and remained unchanged vis-à-vis the pound sterling.

Regarding monetary policy decisions, the ECB, at its meeting of September 2012, decided to keep its key rate unchanged at 0.75 percent and to implement Outright Monetary Transactions (OMT), a new strict program for repurchasing bonds of euro area states, because of the restrictive financing conditions in a number of countries in the region. The OMT is a strong program for repurchasing bonds that mature in one to three years provided that states wishing to benefit must seek previously the help of European rescue funds, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM). The Fed decided to keep its key rate very low at least until 2015. In addition, it has been engaged in a new bond buyback program, without time limit, with an amount of 40 billion dollars per month. These measures are mainly aimed at reinvigorating the U.S. economic growth and improving the labor market. Amid its concerns about economic outlook, the Bank of Japan also decided to ease again its monetary policy. Its asset purchase program will be increased to 10,000 billion yen. Meanwhile, the Bank of England kept its key rate unchanged at 0.5 percent.

### 3.1.2 Global economic activity

The U.S. national accounts figures for the second quarter of 2012 show a slowdown in growth to 2.3 percent year on year, from 2.4 percent in the previous quarter. This decline is mainly due to the negative

Chart 3.7: Change in the MSCI EM and MASI



Source: Datastream

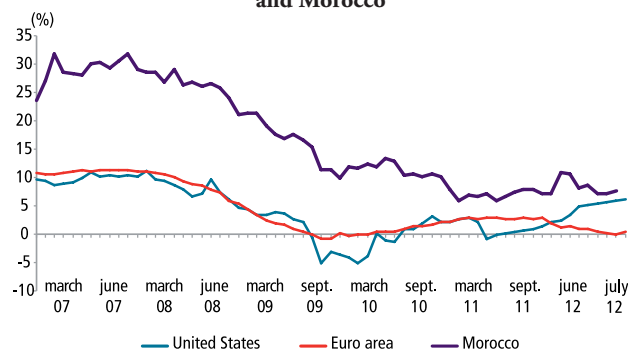
Chart 3.8: Change in VIX\*



\* 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 S&P 500. The higher the index, the more nervous markets and the higher pessimism.

Source: Datastream

Chart 3.9: YoY change in credit in the United States, euro area and Morocco



Source: Datastream

Table 3.1: YoY change in quarterly growth

|               | 2010 |     | 2011 |     |      | 2012 |      |
|---------------|------|-----|------|-----|------|------|------|
|               | Q4   | Q1  | Q2   | Q3  | Q4   | Q1   | Q2   |
| United States | 3.1  | 1.8 | 1.9  | 1.6 | 2.0  | 2.4  | 2.3  |
| Euro area     | 2.1  | 2.4 | 1.7  | 1.3 | 0.6  | 0.0  | -0.5 |
| France        | 1.8  | 2.3 | 1.7  | 1.5 | 1.2  | 0.3  | 0.3  |
| Germany       | 3.8  | 4.8 | 3.0  | 2.7 | 1.9  | 1.2  | 1.0  |
| Italy         | 1.5  | 1.3 | 1.0  | 0.4 | -0.5 | -1.4 | -2.5 |
| Spain         | 0.7  | 0.9 | 0.8  | 0.6 | 0.0  | -0.6 | -1.3 |
| China         | 9.8  | 9.7 | 9.5  | 9.1 | 8.9  | 8.1  | 7.6  |

Source : Eurostat



contribution of household consumption and government expenditure. However, exports contributed positively to growth.

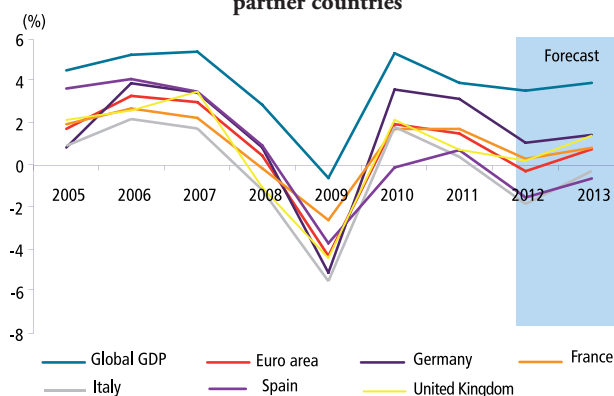
In the euro area, according to a Eurostat's initial estimate, GDP contracted by 0.5 percent in the second quarter year on year, after having stagnated in the previous quarter, primarily driven by the recession in the eurozone peripheral countries. In the partner countries, growth in Germany slowed down to 1 percent, as against 1.2 percent in the previous quarter, and remained unchanged in France at 0.3 percent, year on year. In Spain, Italy and the United Kingdom, GDP contracted by 1.3 percent, 2.5 percent and 0.5 percent, respectively, compared to 0.6 percent, 1.4 percent and 0.2 percent in the previous quarter.

In Japan, growth accelerated for the second consecutive quarter, reaching 3.6 percent in the second quarter of 2012, year on year, as against 2.6 percent in the previous quarter and 0.6 percent in the fourth quarter of 2011.

Economic activity in most of emerging Asia has slowed down since the beginning of the year, as evidenced by growth in China in particular, which registered a year-on-year rate of 7.6 percent in the second quarter of 2012, as opposed to 8.1 percent in the previous quarter, its lowest rate since 2008, in conjunction with the decline in external demand caused by the global slowdown. In India, the latest national accounts data for the first quarter of 2011 indicate a deceleration in growth to 5.3 percent year on year, compared to 6.1 percent in the fourth quarter of 2011.

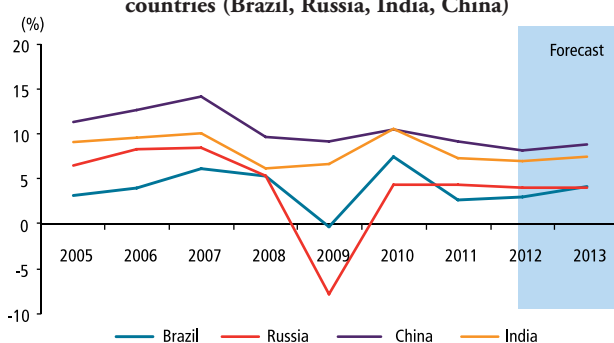
High-frequency indicators showed divergent trends, according to the latest data. In the United States, the Conference Board Consumer Index recorded in August an increase of 7.3 percent, month on month, and 34.1 percent, year on year. The ISM manufacturing index was slightly below 50 points, or 49.6 points, down 0.4 percent from one month to another and 2 percent, year on year. In the euro area, the composite PMI remained unchanged from

**Chart 3.10: YoY GDP growth in the world, the euro area and partner countries**



Source: IMF

**Chart 3.11: GDP growth in emerging countries (Brazil, Russia, India, China)**



Source: IMF

**Table 3.2: Global growth outlook**

|                | Forecasts (%) |      |      |      |                |              |
|----------------|---------------|------|------|------|----------------|--------------|
|                | World Bank    |      | IMF* |      | Central banks* |              |
|                | 2012          | 2013 | 2012 | 2013 | 2012           | 2013         |
| Global GDP     | 2.5           | 3.0  | 3.5  | 3.9  | -              | -            |
| United States  | 2.1           | 2.4  | 2.0  | 2.3  | (1.9-2.4)      | (2.2-2.8)    |
| Euro area      | -0.3          | 1.0  | -0.3 | 0.7  | (-0.6-(-0.2))  | (-0.4 - 1.4) |
| Germany        | -             | -    | 1.0  | 1.4  | 1.0            | 1.6          |
| France         | -             | -    | 0.3  | 0.8  | 0.3            | 1.2          |
| Italy          | -             | -    | -1.9 | -0.3 | -2.0           | -0.2         |
| Spain          | -             | -    | -1.5 | -0.6 | -              | -            |
| United Kingdom | -             | -    | 0.2  | 1.4  | 0.0            | -            |
| China          | 8.2           | 8.6  | 8.0  | 8.5  | -              | -            |
| India          | 6.6           | 6.9  | 6.1  | 6.5  | -              | -            |
| Brazil         | 2.9           | 4.2  | 2.5  | 4.6  | -              | -            |
| Russia         | 3.8           | 4.2  | 4.0  | 3.9  | -              | -            |

\* IMF july 2012, world bank june 2012, Central banks june et july 2012.

Sources: IMF, world bank, Central banks

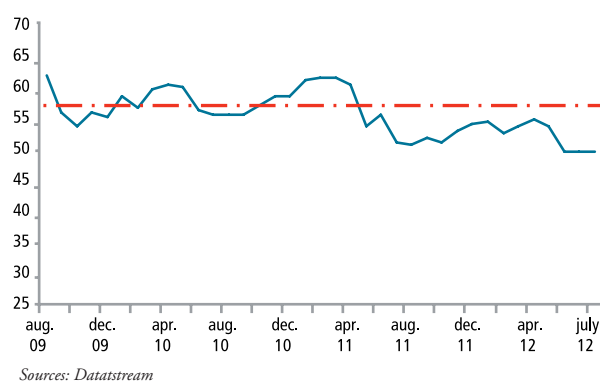
the previous month at 46.6 basis points in August and was down 8.1 percent, year on year. Despite a monthly increase of 2.5 percent, the manufacturing PMI remains down by 8 percent, year on year. Germany's IFO Business Climate Index in August showed a monthly drop of 0.9 percentage points, and 6 percent, year on year. Similarly, the ZEW Economic Sentiment Index fell sharply to -25.5 points in August from -19.6 points in the previous month.

The recent IMF economic outlook of last July highlights overall downward revisions of growth projections, especially in 2013, for most major advanced and emerging economies. Thus, global growth projection remained unchanged at 3.5 percent in 2012, and should stand at 3.9 percent, as against 4.1 percent previously. In advanced economies, the forecast is unchanged at 1.4 percent in 2012 and would be down to 1.9 percent in 2013. In emerging and developing economies, growth was slightly revised downward to 5.6 percent and 5.9 percent in 2012 and 2013, respectively.

By country, projected growth in the United States are revised downward to 2 percent and 2.3 percent in 2012 and 2013, respectively, while in the euro area, growth forecast remains unchanged at -0.3 percent in 2012 before rising to 0.7 percent in 2013. In Morocco's partner countries, the new projections show a GDP growth of 1 percent and 1.4 percent in Germany, and 0.3 percent and 0.8 percent in France. In Italy, the IMF forecasts a GDP contraction of 1.9 percent and 0.3 percent in 2012 and 2013, respectively, while in Spain, GDP would be 1.5 percent and 0.6 percent over the same period (see Table 3.2).

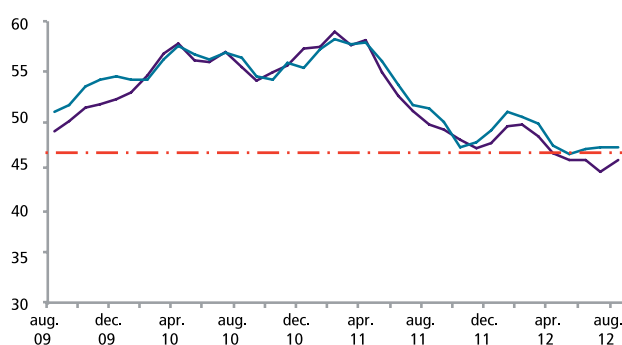
With regard to central banks, the Fed forecasts of late June expect U.S. GDP to grow between 1.9 percent and 2.4 percent in 2012, and between 2.2 percent and 2.8 percent in 2013. Meanwhile, the ECB projections for the euro area for the same periods predict a GDP contraction of 0.1 percent in 2012 and an increase of 1 percent in 2013. In partner countries,

Chart 3.12: ISM growth in the United States



Sources: Datastream

Chart 3.13: Composite and manufacturing PMI change in the euro area



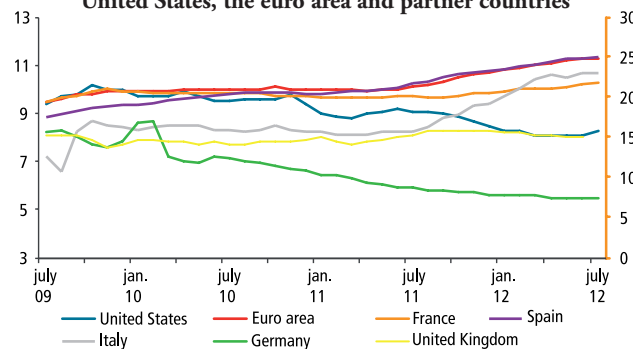
Sources: Datastream

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

|                | 2010 | 2011 | May 2012 | June 2012 | July 2012 | August 2012 |
|----------------|------|------|----------|-----------|-----------|-------------|
| United States  | 9.6  | 9.0  | 8.2      | 8.2       | 8.3       | 8.1         |
| Euro area      | 10.1 | 10.2 | 11.2     | 11.3      | 11.3      | N.A         |
| France         | 9.8  | 9.7  | 10.1     | 10.2      | 10.3      | N.A         |
| Italy          | 8.4  | 8.5  | 10.5     | 10.7      | 10.7      | N.A         |
| Germany        | 7.1  | 5.9  | 5.5      | 5.5       | 5.5       | N.A         |
| Spain          | 20.1 | 21.7 | 24.8     | 24.9      | 25.1      | N.A         |
| United Kingdom | 7.8  | 8.1  | 8.0      | 8.0       | N.A       | N.A         |

Source : Eurostat

Chart 3.14: Change in monthly unemployment rate in the United States, the euro area and partner countries



Source: Eurostat

the Banque de France forecasts of late June show a growth of 0.3 percent in 2012 and 1.2 percent in 2013, while the Bundesbank projects a growth of 1 percent and 1.6 percent for the same years. The Bank of Italy expects a contraction of 2 percent and 0.3 percent in 2012 and 2013, respectively.

### 3.1.3 Job market

According to the latest labor market data, unemployment rates in most advanced countries showed divergent trends, but remain high. In the United States, the unemployment rate fell to 8.1 percent in August, from 8.3 percent in July and 8.2 percent in June. However, it was unchanged in July at 11.3 percent in the euro area. In partner countries, mainly France and Spain, the unemployment rate in July rose again to 10.3 percent and 25.1 percent, from 10.2 percent and 24.9 percent in the previous month. In Germany and Italy, it remained unchanged at 5.5 percent and 10.7 percent, respectively, from one month to another.

## 3.2 Commodity prices and inflation

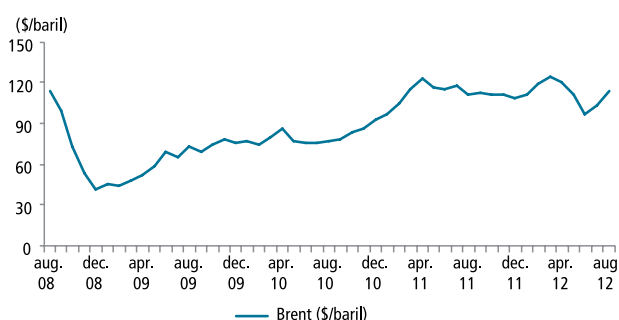
After scoring a decline in recent months, commodity prices, particularly agricultural and energy ones, were again on the upside. Despite this trend, inflation remained moderate overall.

### 3.2.1 Energy commodity prices

Against the backdrop of tensions in the Middle East and a projected decline of the production in the North Sea in the short term, the Brent price rose by 9.7 percent from one month to the next, reaching in August an average price of \$113 a barrel, which is an annual increase of 2.4 percent after four months of consecutive annual declines.

Regarding forecasts for oil prices, the World Bank revised up its estimates from \$103.0 to \$105.8 per barrel for 2013, and from \$102.4 to \$106.5 per barrel for 2014. On the Brent futures market, contract prices stood at \$109.6 per barrel for 2013 and \$104.1 for 2014.

Chart 3.15: World price of brent oil in dollar



Source: Datastream

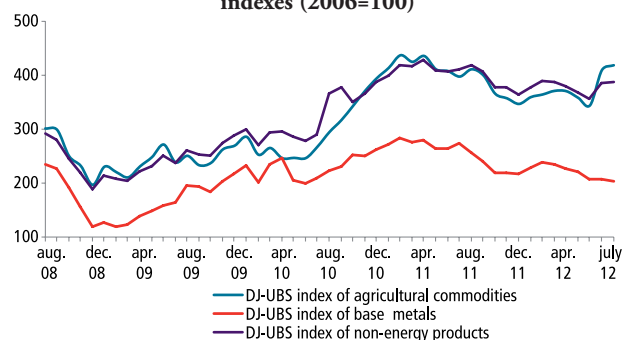
Table 3.4: Oil futures (Brent in U.S. \$)

|     | Q3:12  | Q4:12  | Q1:13  | Q2:13  | 2013   | 2014   | 2015  |
|-----|--------|--------|--------|--------|--------|--------|-------|
| Oil | 109.70 | 113.10 | 111.92 | 111.15 | 109.66 | 104.14 | 98.99 |

\*Data as at September 12, 2012.

Source : Bloomberg

Chart 3.16: Change in the DJ-UBS non-energy commodity indexes (2006=100)



Source: Datastream

Table 3.5: Futures prices of wheat, corn and sugar

|                    | Q4:12 | Q1:13 | Q2:13 | 2013  | 2014  | 2015  |
|--------------------|-------|-------|-------|-------|-------|-------|
| Wheat (cents/bu)   | 885.6 | 895.6 | 879.3 | 877.4 | 827.4 | 795.5 |
| Corn (cents/bu)    | 778.3 | 787.8 | 772.6 | 724.3 | 638.8 | 602.5 |
| Sugar (11cents/bl) | 20.1  | 20.1  | 20.2  | 20.5  | 20.7  | 20.4  |

\*Data as at September 12, 2012.

Source : Bloomberg



According to the latest forecasts by the IEA, high oil prices and fragile global economy would entail contraction in global oil demand to 89.6 mb/d. Meanwhile, OPEC maintained its forecast unchanged at 88.7 mb/d in 2012 and 89.5 in 2013, mainly because most nuclear capacity of Japan continues to be inactive.

Natural gas price in August was down 2.2 percent month on month, mainly in connection with weaker demand and increased inventory levels. Coal prices in July fell by 1.4 percent from one month to another, which is an annual drop of 29.6 percent, due to the decline in industrial activity in China.

### 3.2.2 Non energy commodity prices

In August, non-energy commodity prices showed divergent trends across categories. The Dow Jones-UBS index rose only 0.7 percent from one month to another, thus recording an annual decline of 7.5 percent, impacted by the change in the index of industrial metal prices. Indeed, this index fell by 2 percent month on month and 20.6 percent year on year, driven by the underperformance of the manufacturing industry, particularly in the United States and China. By product, the prices of nickel, aluminum and tin fell by 3.7 percent, 2.5 percent and 2 percent, month on month, respectively, and 29 percent, 23 percent and 24 percent, year on year.

Conversely, the prices of agricultural commodities were up in August, impacted by the drought in the United States and Russia. Thus, the Dow Jones-UBS Agricultural Spot Index rose by 2.2 percent month on month, and 1.8 percent year on year. This increase mainly reflects higher prices for cotton, soybean and wheat, which were up at respective monthly rates of 3.2 percent, 2.9 percent and 1 percent, i.e. annual variations of -32 percent, -7.3 percent and 15 percent.

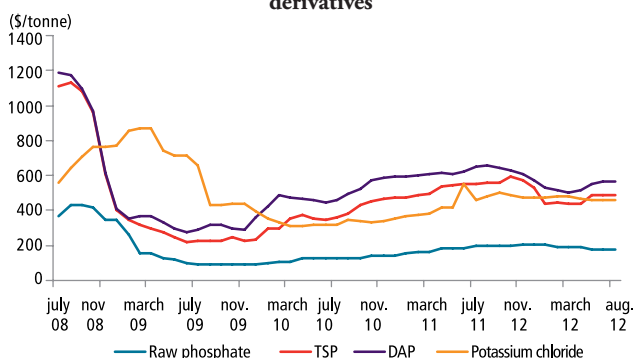
In the fertilizer market, prices in August showed divergent monthly changes across products. Thus, the price of crude phosphate increased by 2.8 percent, to \$185 a tonne. Similarly, the price of potassium chloride was up 1.08 percent between July and August.

Table 3.6: Recent trend in world inflation, YoY

|               | August 2011 | June 2012 | July 2012 | August 2012 | Forecasts |      |
|---------------|-------------|-----------|-----------|-------------|-----------|------|
|               |             |           |           |             | 2012      | 2013 |
| United States | 3.8         | 1.7       | 1.7       | n.a         | 2.1       | 1.9  |
| Euro area     | 2.7         | 2.4       | 2.4       | 2.6         | 2.0       | 1.6  |
| Germany       | 2.5         | 2.0       | 1.9       | 2.2         | 1.9       | 1.8  |
| France        | 2.4         | 2.3       | 2.2       | 2.4         | 2.0       | 1.6  |
| Spain         | 2.7         | 1.8       | 2.2       | 2.7         | 1.9       | 1.6  |
| Italy         | 2.3         | 3.6       | 3.6       | 3.3         | 2.5       | 1.8  |
| Japan         | 0.2         | -0.2      | -0.4      | n.a         | 0.0       | 0.0  |
| China         | 6.5         | 2.2       | 1.8       | 2.0         | 3.3       | 3.0  |

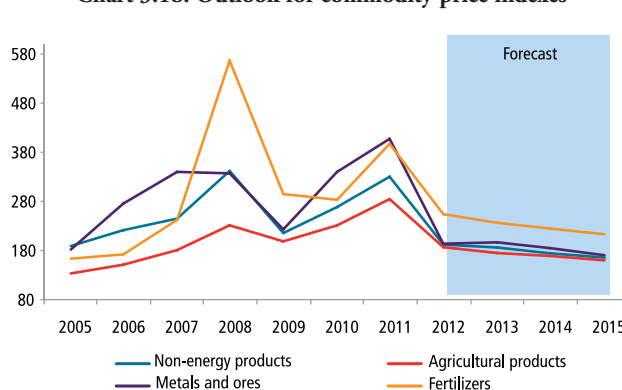
Sources : IMF, Eurostat

Chart 3.17: Change in the world prices of phosphate and derivatives



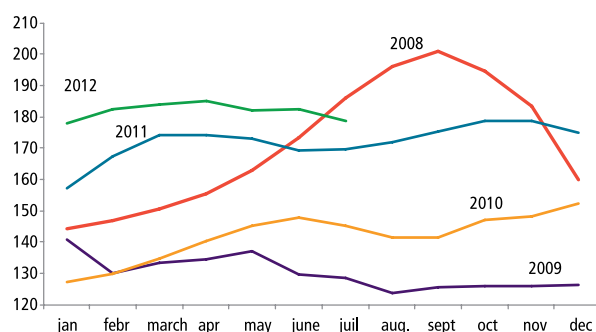
Source: World Bank

Chart 3.18: Outlook for commodity price indexes



Source: World Bank

Chart 3.19: Non-energy import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations

Meanwhile, the price of TSP remained unchanged from one month to another, while prices of urea and DAP declined by 2.5 percent and 0.7 percent, respectively. Year on year, the prices of these products recorded respective declines of 21.5 percent, 15.2 percent, 13.4 percent, 6.3 percent and 3, 1 percent for urea, DAP, TSP, the crude phosphate and potassium chloride.

### 3.2.3 Inflation in the world

Rising prices of agricultural and energy commodities caused, overall, inflationary pressures to increase in August. Thus, inflation rose in the euro area to 2.6 percent as against 2.4 percent in July. In Morocco's key partner countries, except in Italy, where inflation fell from 3.6 percent to 3.3 percent between July and August, the annual change in the CPI rose slightly in France, Germany and Spain, from 2.2 percent, 1.9 percent and 2.2 percent to 2.4 percent, 2.2 percent and 2.7 percent, respectively. In the United States, recent data are those of July and show a stagnation of inflation at 1.7 percent for the third consecutive month (Table 3.6).

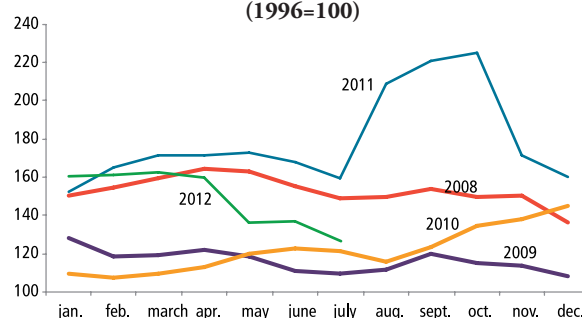
Inflation also increased in some emerging and developing countries, from 1.8 percent to 2 percent in China, from 2.5 percent to 2.6 percent in Chile and from 6.8 percent to 7.5 percent in India.

With regard to the inflation outlook, the IMF in July revised upward its forecasts, which, nevertheless, remain moderate compared with 2011. Thus, inflation in the developed countries is expected to be 1.9 percent and 1.7 percent in 2012 and 2013, while in emerging countries, it would reach 6.2 percent and 5.6 percent, respectively.

### 3.3 Morocco's import unit price index

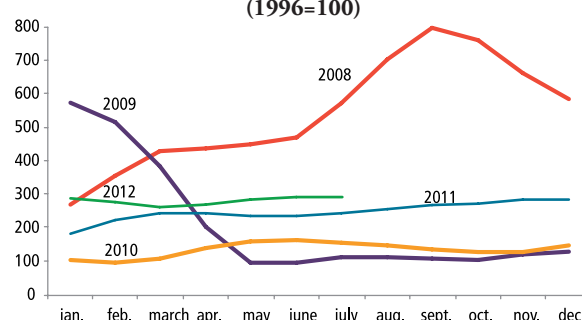
Based on the latest available data, the non-energy import prices index (IPI) recorded in July 2012 a monthly decline of 2.1 percent, as opposed to an increase of 0.2 percent in June. In fact, the food IPI was down 7.2 percent after rising 0.7

Chart 3.20: Food products' import price index (1996=100)



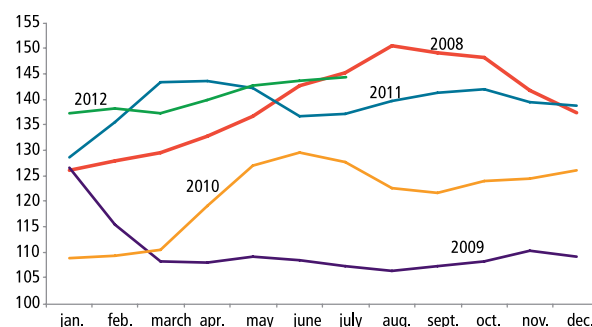
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.21: Mining products' import price index (1996=100)



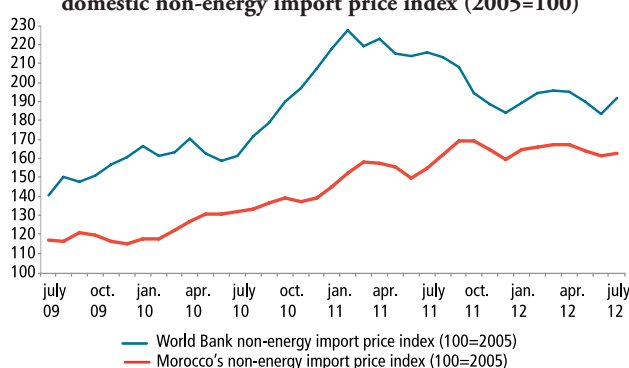
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.22: Semi-finished products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.23: Change in world commodity price index and domestic non-energy import price index (2005=100)



Sources: Foreign Exchange Office, World Bank and BAM calculations

percent a month earlier, driven particularly by the 20.6 percent contraction of the average import unit price of wheat.

However, the mining IPI rose 0.9 percent, versus 3 percent in June. This trend was mainly due to the 1.3 percent increase in the average import unit price of crude sulfur.

Similarly, the IPI of semi-finished goods was up 0.6 percent, a rate similar to the previous month, mainly in connection with the 3.3 percent growth in the average import unit price of paper and paperboard.

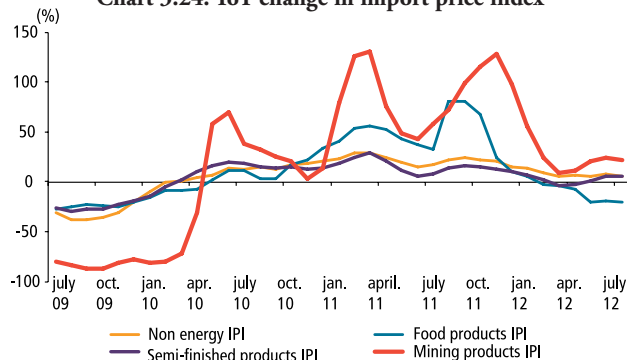
Year on year, the non-energy IPI rose by 5.3 percent, as against 17 percent a year earlier. The mining IPI was up 20.9 percent, due primarily to the 27.9 percent increase in the average import unit price of crude sulfur. Meanwhile, the IPI of semi-finished goods stood at a higher level of 5.3 percent compared to the same month last year, especially in connection with the 6.2 percent increase in the average import unit price of paper and paperboard. However, the food IPI posted a decline of 20.5 percent, mainly attributable to a decrease of 45.2 percent in the average import unit price of wheat.

**Table 3.7 : Change in import price index (IPI)**

|                            | Monthly change in % |         |         | Annual change in % |         |         |
|----------------------------|---------------------|---------|---------|--------------------|---------|---------|
|                            | May 12              | June 12 | July 12 | May 12             | June 12 | July 12 |
| Non energy IPI             | -1.6                | 0.2     | -2.1    | 5.3                | 7.8     | 5.3     |
| Food IPI                   | -15.0               | 0.7     | -7.2    | -20.9              | -18.7   | -20.5   |
| Semi-finished products IPI | 2.0                 | 0.6     | 0.6     | 0.3                | 5.1     | 5.3     |
| Mining IPI                 | 5.2                 | 3.0     | 0.9     | 19.8               | 23.3    | 20.9    |

*Indexes calculated on the basis of unit prices in Dirhams*

**Chart 3.24: YoY change in import price index**



*Sources: Foreign Exchange Office, and BAM calculations*

## 4. MONETARY CONDITIONS AND ASSET PRICES

According to the latest available data, the annual growth of M3 aggregate was stable at 4.9 percent between July and the second quarter of 2012, and the money gap remained negative. The money supply trend covers a further decline in net foreign assets, and an accelerated growth of net claims on central government and bank lending. With particular regard to the latter, its annual growth rose to 7.5 percent from 7.1 percent in the previous quarter, mainly reflecting an acceleration of cash advances and consumer loans and, to a lesser extent, an increase in real-estate loans. As to lending rates, Bank Al-Maghrib's survey among banks for the second quarter of 2012 shows a decrease of 39 basis points in loans' weighted average rate, reflecting lower rates on various bank loan categories. The dirham's effective exchange rate remained virtually unchanged from one quarter to another in nominal terms, while in real terms it appreciated by 0.37 percent, as the inflation rate in Morocco was slightly higher than in the major trading partner and competitor countries. The real estate price index remained stable in the second quarter of 2012, covering an increase in prices of residential property and declines in prices of land and commercial properties. Year on year, it rose at a faster pace than the previous quarter, or 1.6 percent as against 1.2 percent.

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

### 4.1 Monetary conditions

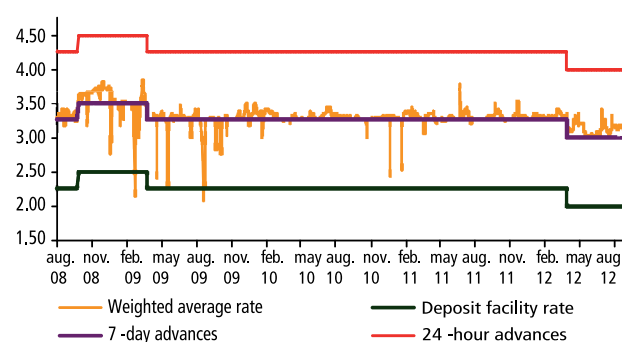
#### 4.1.1 Interest rates

In a context marked by a broadly neutral trend of the 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 June 19, 2012, to keep the key rate unchanged at 3 percent. Against this backdrop, the weighted average rate on the interbank market stood at 3.15 percent on average between July and August 2012, up 4 basis points from the second quarter.

Meanwhile, the rates on short, medium and long-term primary market Treasury bonds, globally recorded, in July and August, increases of up to 22 basis points compared to the previous quarter. In the secondary market, the same trend pattern was observed regarding various maturity rates.

The weighted average rate of 6 and 12-month deposits remained unchanged between the second quarter and July 2012, reaching 3.69 percent. However, this stagnation covers a rise of 12 basis points in the 6-month deposit rates and a decrease of one basis point in the one-year 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

|          | 2010 |      | 2011 |      | 2012 |      | Q3*  |
|----------|------|------|------|------|------|------|------|
|          | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   |      |
| 21 days  | -    | -    | 3.28 | -    | -    | -    | -    |
| 43 days  | -    | -    | -    | -    | -    | -    | 3.48 |
| 13 weeks | 3.31 | 3.30 | 3.30 | 3.34 | 3.42 | 3.21 | 3.31 |
| 26 weeks | -    | --   | 3.33 | 3.33 | 3.55 | 3.39 | 3.42 |
| 52 weeks | 3.46 | 3.45 | 3.46 | 3.49 | 3.65 | 3.53 | 3.70 |
| 2 years  | 3.63 | 3.61 | 3.61 | 3.71 | 3.88 | 3.71 | 3.85 |
| 5 years  | 3.85 | 3.84 | 3.85 | 3.91 | 4.05 | 4.00 | 4.17 |
| 10 years | 4.13 | 4.12 | 4.13 | 4.20 | 4.32 | 4.29 | 4.42 |
| 15 years | 4.32 | 4.33 | 4.34 | 4.45 | 4.46 | 4.52 | 4.74 |
| 20 years | 4.41 | 4.42 | -    | -    | -    | -    | 5.01 |

\*Observation of the third quarter of 2012 corresponds to the arithmetic average of two months, July and August 2012

Source : BAM

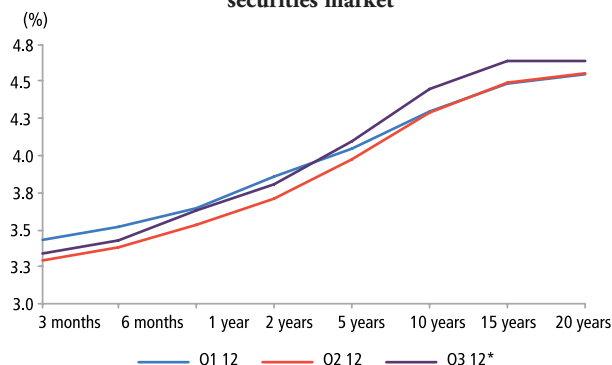
As to lending rates, the findings of BAM survey among banks, for the second quarter of 2012, indicate a decrease of 39 basis points in the weighted average rate of bank loans, which fell to 6.13 percent. This decline, which affected the rates on all bank loan categories, is mainly due to the Bank's decision to lower the key rate by 25 basis points a quarter earlier.

#### 4.1.2 Money, credit and liquid investments

#### M3 growth

Data for the month of July 2012 show a virtually stable growth of money supply compared to the average rate of change in the second quarter. Consequently, the

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



\*Observation of the third quarter of 2012 corresponds to the arithmetic average of data from July 1 to August 30, 2012

Source : BAM

Table 4.2: Rates on time deposits

|                  | 2010 |      |      | 2011 |      | 2012 |         |
|------------------|------|------|------|------|------|------|---------|
|                  | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | july 12 |
| 6 months         | 3.28 | 3.34 | 3.33 | 3.35 | 3.49 | 3.43 | 3.55    |
| 12 months        | 3.79 | 3.72 | 3.78 | 3.74 | 3.84 | 3.83 | 3.82    |
| Weighted average | 3.60 | 3.55 | 3.63 | 3.59 | 3.68 | 3.69 | 3.69    |

Source : BAM

### Box 4.1: Liquidity and monetary policy implementation

During the second quarter of 2012, bank's liquidity deficit widened further by nearly 13 billion dirhams compared to the end of the previous quarter (from 49.5 billion to 62.4 billion dirhams), due to the combined restrictive effect of all autonomous factors (-15.3 billion dirhams).

Indeed, foreign exchange transactions led to a liquidity drain of 9.6 billion dirhams, owing to the continued faster pace of foreign currency purchases by commercial banks from Bank Al-Maghrib (15.4 billion dirhams), partially offset by foreign banknotes reflow, which was limited to 5.8 billion dirhams.

Similarly, net withdrawals of currency in circulation amounted to 3.5 billion dirhams during summer time.

In addition, Treasury operations (excluding interventions on the money market) contributed to tightening bank treasuries for nearly 1.9 billion dirhams. In fact, bank subscriptions to T-bills' auctions (23.4 billion dirhams), combined with the collection of tax revenues and the payment of a first portion of OCP dividends (2 billion dirhams), were partially offset by the repayment of domestic debt maturities to the banking system (17.5 billion dirhams), settlement of civil servants' salaries (15.4 billion dirhams) and subsidization expenses (15.9 billion dirhams).

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

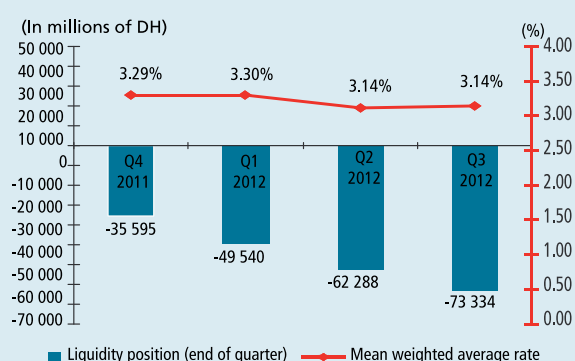
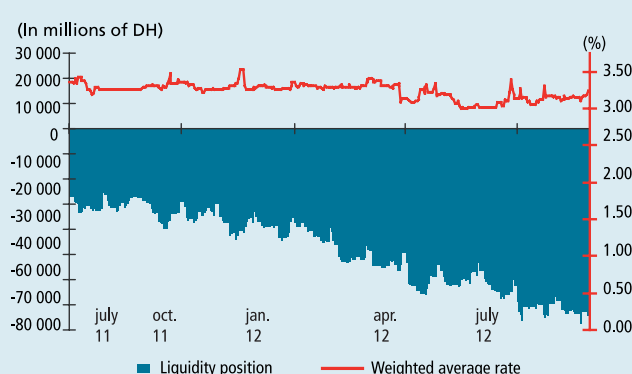


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



1 Liquidity position = banks' balance - required reserves +/- BAM interventions +/- Treasury interventions on the money market

During the third quarter of 2012<sup>2</sup>, bank liquidity deficit increased as a result of the continued restrictive trend of all autonomous factors (-12.4 billion dirhams).

Chart B 4.1.3: Change in reserve requirements

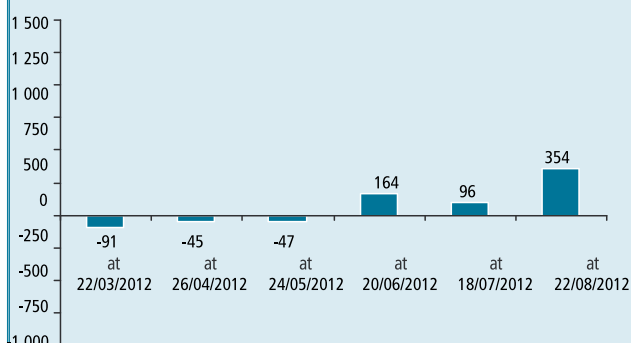
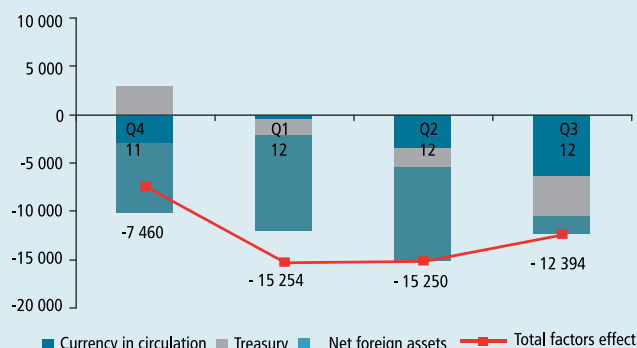


Chart B 4.1.4: Change in liquidity factors' effect



Net outflows of currency in circulation reached 5.7 billion dirhams, owing to the combined effect of the holy month of Ramadan, Eid Al-Fitr and summer time.

Similarly, Treasury operations (excluding interventions on the money market) had a negative impact of 4.2 billion dirhams on banks' liquidity, due to the difference between, on the one hand, bank subscriptions to T-bills' auctions (13.7 billion dirhams) and collection of tax revenues, including the second installment of corporate tax and the second and final portion of OCP dividends (2 billion dirhams), and, on the other hand, the repayment of domestic debt maturities to the banking system (12.9 billion dirhams), payment of subsidization expenses (10.5 billion dirhams) and payment of civil servants' salaries (5.3 billion dirhams).

In addition, foreign assets operations caused a liquidity drain of 1.7 billion dirhams from the difference between foreign currency purchases by commercial banks, which totaled 9 billion dirhams, and foreign banknotes sales that reached 7.3 billion dirhams.

Outstanding money market Treasury investments declined significantly from 3.7 billion dirhams in the second quarter of 2012 to 1.2 billion dirhams on daily average during the third quarter.

To fill the shortage in bank liquidity, which exceeded 70 billion dirhams in this quarter (as against 57.9 billion a quarter earlier), Bank Al-Maghrib intervened primarily through 7-day advances with an average daily amount of 54.7 billion dirhams, as against 42.8 billion in the previous quarter. In addition, the Bank granted eleven 24-hour advances with an average amount of 2.8 billion dirhams.

Finally, the Bank maintained longer-term injections (3 months) at 15 billion dirhams.

Money market weighted average rate increased slightly to 3.14 percent on average during this quarter, as against 3.11 percent in the second quarter of 2012.

However, its volatility declined to 5 basis points, as opposed to 9 basis points in the previous quarter.

Chart B 4.1.5: BAM interventions on the money market

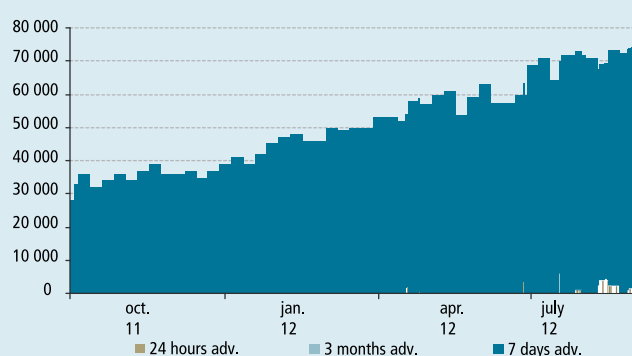
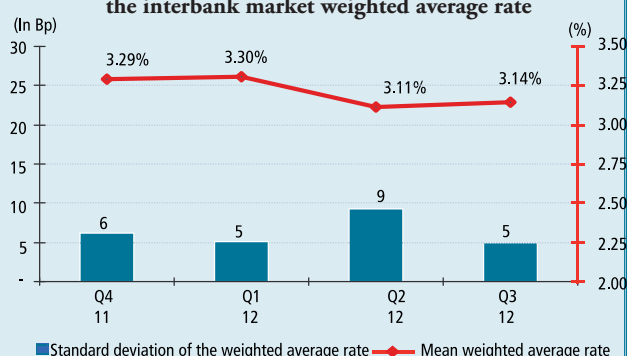


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



<sup>2</sup> Q3 2012: The third quarter of 2012 only includes the period from July 1 to August 29, 2012.

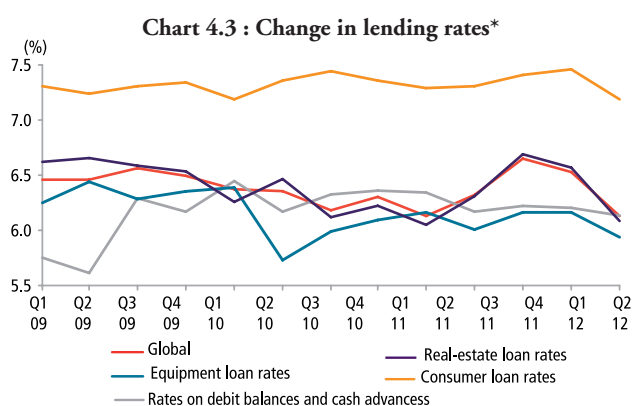


money gap remained negative, indicating the absence of monetary inflationary pressures in the medium term.

Thus, M3 annual growth stood at 4.9 percent in July, as against 4.8 percent in the second quarter and 5.6 percent in the first quarter. This trend covers a further decline in net foreign assets and an accelerated growth of net claims on central government and of bank credit.

Trends differed across the main components of money supply between July and the second quarter. Indeed, in line with its slowdown trend that began in the fourth quarter of 2011, the growth of currency in circulation decelerated from 6.2 percent in the second quarter to 3.5 percent in July, its lowest rate since January 2005. Similarly, following a monthly decline of 13.6 percent, securities of money market UCITS increased by 14.6 percent year on year, as opposed to 31.4 percent a quarter before. Despite a monthly increase of 0.8 percent, the outstanding time deposits are still down 2.5 percent, compared to the same period of the previous year. The annual growth of demand deposits slowed slightly from 9.3 percent to 8.5 percent. In contrast, bank money registered an annual increase of 6.8 percent as against 4.5 percent a quarter earlier, mainly due to the increase in demand deposits with Morocco's General Treasury. As for foreign currency deposits, they expanded by 22.4 percent in July as opposed to 9.6 percent in the second quarter.

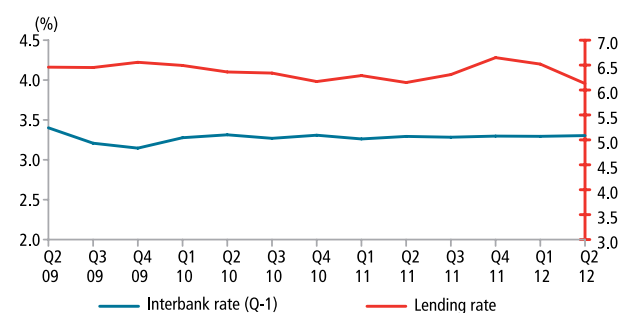
By economic unit, the growth of deposits included in M3 is mainly due to the increased contributions of non-financial private corporations and public sector. Thus, the deposits of the latter, after several months of decline, grew by 5.3 percent year on year in July. Meanwhile, deposits of private corporations rose by 4.7 percent, from 0.8 percent in the previous quarter. The annual change of



\* 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)

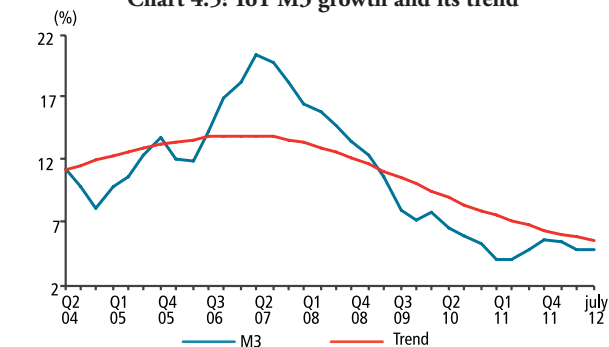
Source: BAM quarterly survey among banks

**Chart 4.4: Change in interbank rate and lending rates**



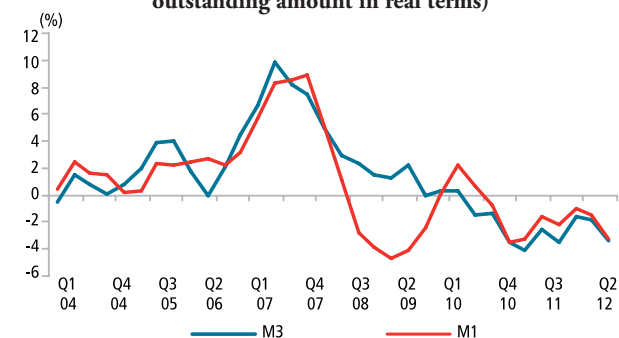
Source: BAM

**Chart 4.5: YoY M3 growth and its trend**



Source: BAM

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



Source: BAM

household assets stood at 5.5 percent, down from 5.7 percent. Deposits of financial corporations continued their downward trend observed in recent months.

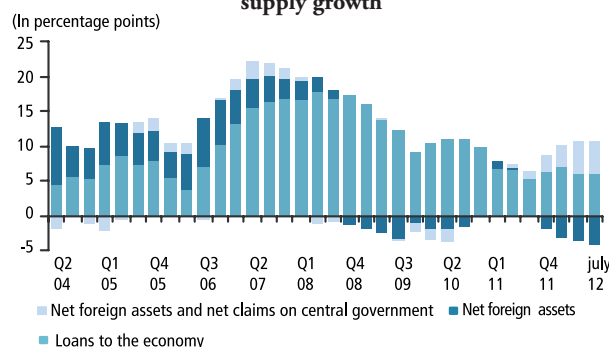
## Credit

The latest available data show a slightly accelerated annual growth of bank lending from 7.1 percent on average in the second quarter of 2012 to 7.5 percent in July.

By economic purpose, the growth in the rate of change in loans reflects increase in its main categories, with the exception of equipment loans. Indeed, cash advances rose by 14.4 percent year on year in July as against 9.3 percent in the previous quarter, due in particular to a lower cost of this loan category, as evidenced by a sharp decline in lending rates on cash advances. Similarly, the annual growth of consumer loans was up from 18.9 percent to 22.4 percent in July, its highest rate since late 2009, thus reflecting, in addition to lower lending rate, increased household expenditure, due to the coincidence of Ramadan with summertime. Besides, the annual growth of real-estate loans stood at 7.9 percent in July, from 7.6 percent in the previous quarter, covering a slightly accelerated pace of housing loans and a slower growth of loans to property developers. However, after a monthly decline of 3.3 percent, equipment loans stood at 2.9 percent, down from the previous year. Various claims on customers showed a monthly drop of 6 percent, and slowed down, year on year, from 6.2 percent in the second quarter to 4.5 percent in July. As for non-performing loans, their annual growth rate decelerated from 8.3 percent to 7.4 percent in July.

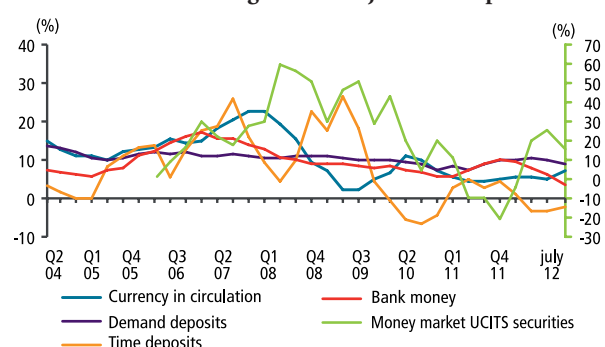
The analysis of the credit structure by institutional unit indicates an accelerated growth of loans to the

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



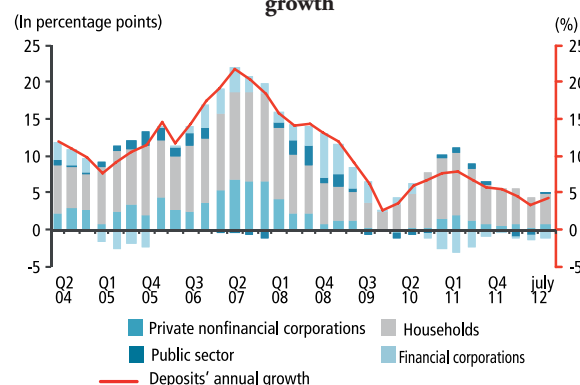
Source : BAM

**Chart 4.8: YoY change in the major M3 components**



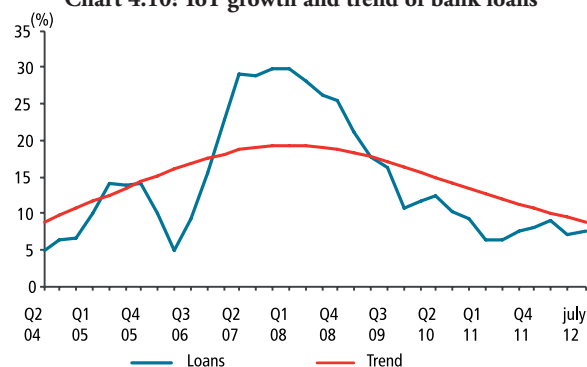
Source : BAM

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



Source : BAM

**Chart 4.10: YoY growth and trend of bank loans**



Source : BAM



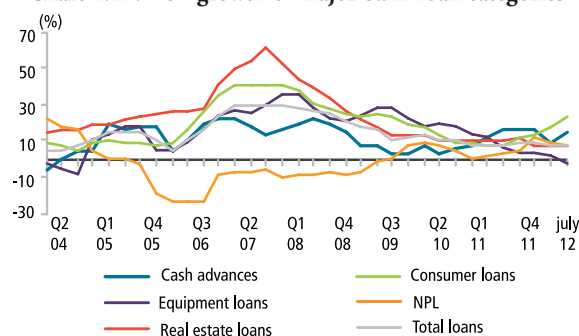
private sector and a slower growth of loans to the public sector. Indeed, loans to the private sector rose by 7.8 percent, year on year, from 5.7 percent in the previous quarter. This increase is mainly due to the 8 percent growth of loans to nonfinancial corporations in July, as against 4.5 percent on average in the last three months. These loans continue to provide the largest contribution to bank credit growth, or 3.9 percentage points. Loans to households were up 8 percent, a rate similar to that observed in the second quarter, thus contributing 2.7 points to overall credit growth. In contrast, the annual growth of loans to the public sector, down 9.1 percent from one month to the next, slowed from 41.2 percent to 17.2 percent in July, contributing 0.9 percentage points to bank loans' growth. Loans to other financial corporations showed an annual increase not exceeding 1.3 percent in July, as against 3.7 percent in the second quarter.

### Other sources of money creation

As part of their continued downward trend that began in August 2011 and after a decrease of 17.4 percent in the second quarter, foreign exchange reserves registered, in July 2012, a year-on-year decline of 21.9 percent. This trend, which covers a 21.9 percent decrease in net foreign assets of Bank Al-Maghrib and a 23.7 percent decline of those of other depository institutions, is mainly attributed to the widening trade deficit, and lower travel receipts and remittances from Moroccan living abroad.

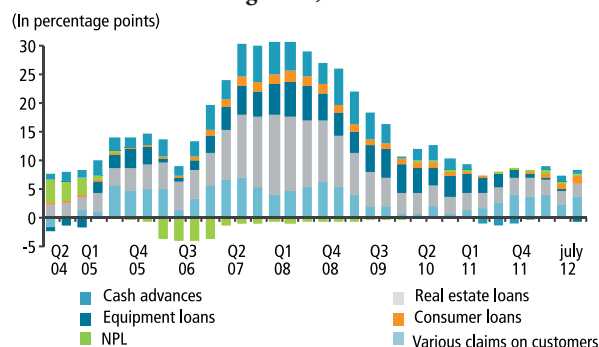
Net claims on central government registered an annual growth of 52.5 percent in July, as against 46.1 percent in the previous quarter, primarily reflecting the increasing borrowing of the central government from other depository institutions.

Chart 4.11: YoY growth of major bank loan categories



Source : BAM

Chart 4.12: Contribution of the various loan categories to credit growth, YoY



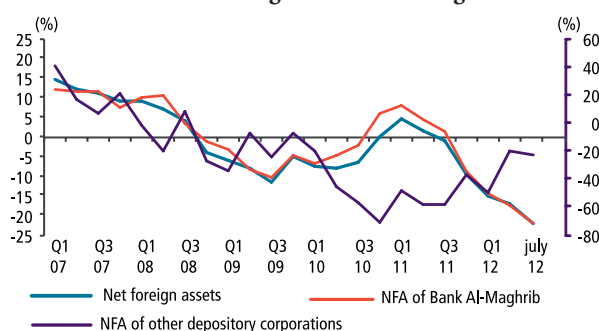
Source : BAM

Chart 4.13: Contribution of institutional sectors to credit growth, YoY



Source : BAM

Chart 4.14: Annual growth of net foreign assets



Source : BAM

## Liquid investments

Although virtually unchanged from one month to another, the annual growth rate of liquid investment aggregates amounted to 7.2 percent in July compared to 4.2 percent in the second quarter, thus reflecting a base effect due to the strong decrease seen in the same period of the previous year. This change is mainly driven by the accelerated annual growth of marketable Treasury bonds included in the LI1 aggregate, amounting to 10.6 percent in July as opposed to 5.9 percent on average in the last three months. Similarly, after a decrease of 2.2 percent in the previous quarter, bond UCITS securities included in the LI2 aggregate rose 3.1 percent in July, largely as a result of the growing demand for this category of investment.

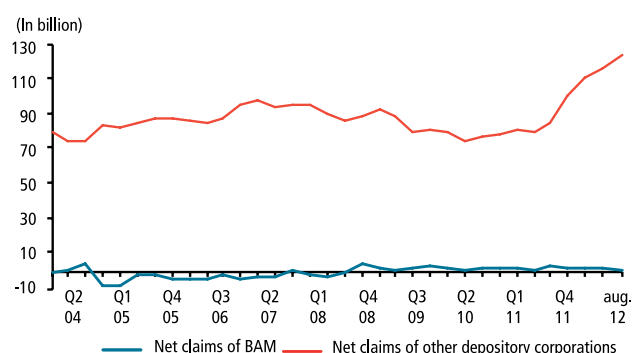
Securities of equity and diversified UCITS, which make up the LI3 aggregate, registered a year-on-year decline of 10.8 percent after 8.5 percent in the previous quarter, primarily reflecting the stock trends on the Casablanca Stock Exchange.

## Exchange rate

During the second quarter of 2012 and compared with the previous quarter, the dirham appreciated 0.41 percent against the euro. However, it depreciated 1.81 percent, 2.48 percent and 0.78 percent vis-à-vis the U.S. dollar, the pound sterling and the Japanese yen, respectively. The same trend pattern was recorded in July and August, as the national currency registered an average increase of 0.71 percent against the euro and respective declines of 3 percent, 2 percent and 4.57 percent against the dollar, the pound sterling and the Japanese yen.

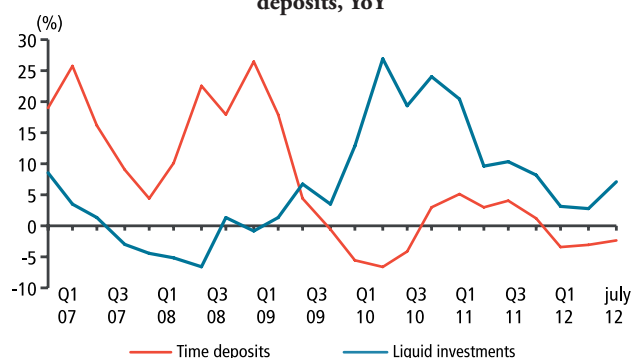
The nominal effective exchange rate of the dirham, calculated on the basis of bilateral exchange rates with Morocco's major trading partners and competitors, remained virtually unchanged from the previous

Chart 4.15: Quarterly change in the outstanding amount of net claims on the central government



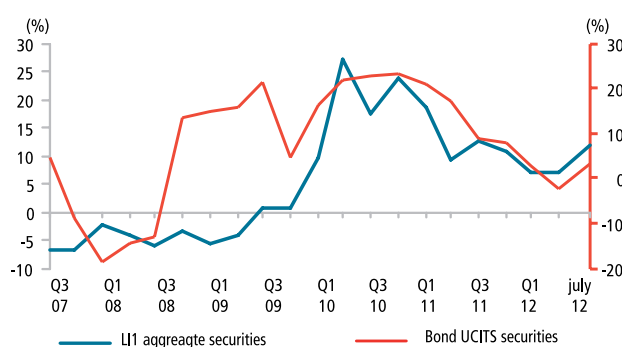
Source : BAM

Chart 4.16: Annual change in liquid investments and time deposits, YoY



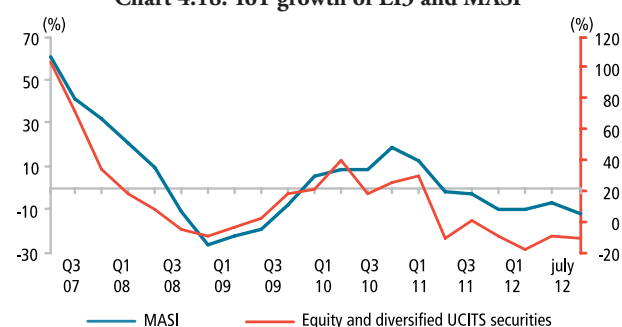
Source : BAM

Chart 4.17: YoY change in LI1 and LI2 aggregates



Source : BAM

Chart 4.18: YoY growth of LI3 and MASI



Source : BAM and Casablanca stock exchange

quarter. In real terms, the national currency appreciated by 0.37 percent, due to an inflation differential slightly in favor of the major trading partners and competitors.

## 4.2. Asset prices

### 4.2.1 Real estate assets

Real estate prices remained stable in the second quarter of 2012, after a quarterly increase of 0.8 percent in the first quarter. This change covers a 0.9 percent increase in prices of residential property and respective declines of 1.5 percent and 2 percent in land and commercial properties. Year on year, the real estate prices index rose faster than the previous quarter from 1.2 percent to 1.6 percent.

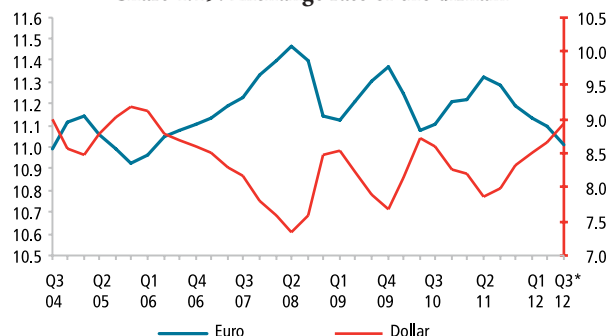
The number of property sales registered at the ANCFCC was down 0.8 percent from one quarter to the next, while it grew year on year by 10.1 percent to 28,123 transactions. The structure of transactions is still dominated by residential property sales, with a share of more than 67 percent of all real-estate sales, with a predominance of apartments. Urban land and commercial property represent about 25 percent and 7 percent of the domestic market transactions, respectively.

Meanwhile, housing loans, amounting on average to 142.8 billion dirhams in the second quarter, grew 10.4 percent, an annual rate similar to that of the previous quarter.

### 4.2.2 Share prices

In the second quarter of 2012, the MASI index depreciated by 8.2 percent compared to the previous quarter, while it fell by 2 percent in July, a less pronounced monthly rate. At the end of August, prices rose nearly 1 percent, bringing

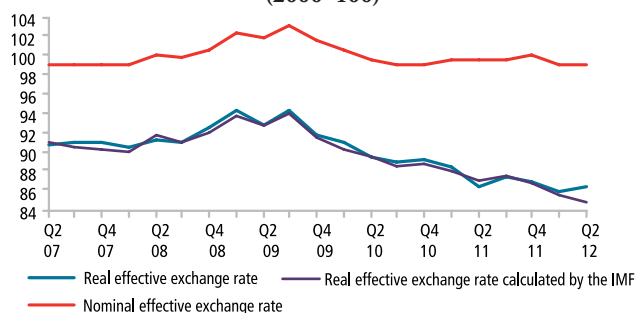
Chart 4.19: Exchange rate of the dirham



\*Observation of the third quarter of 2012 corresponds to the arithmetic average of data from July 1 to August 31, 2012

Source : BAM

Chart 4.20: Real and nominal effective exchange rate (2000=100)



Sources: IMF and BAM calculations

Chart 4.21: Real estate price index (REPI)

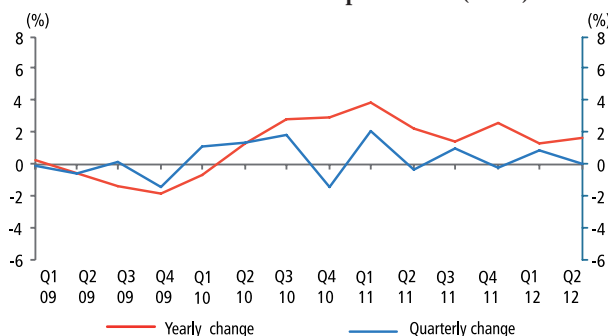
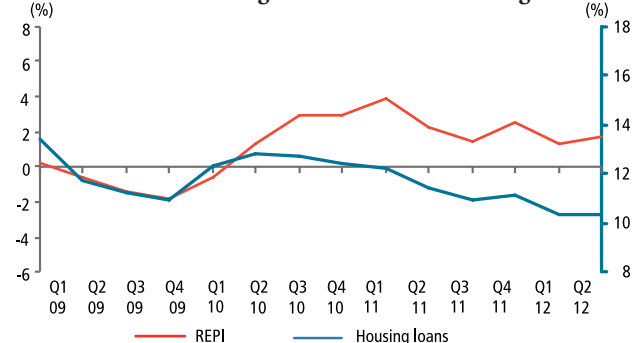


Chart 4.22: YoY change in the REPI and housing loans\*



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

Sources: BAM and ANCFCC

their underperformance to 9.8 percent compared to December 2011. The real estate stock prices registered a monthly increase of 3.2 percent at the end of August, as against a 0.1 percent decline in July, bringing their underperformance since the beginning of the year to 0.9 percent.

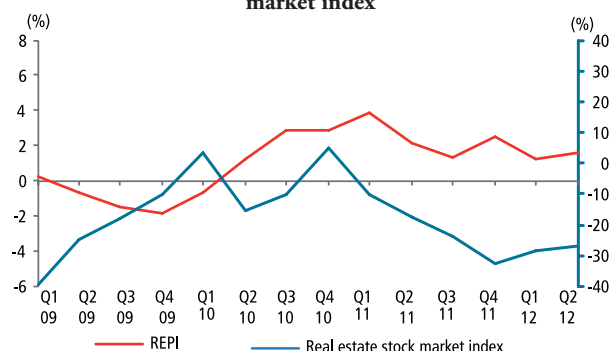
Regarding sectoral indexes, with the exception of the sector of financial corporations and other financial activities, which showed an increase of 4.6 percent since the beginning of the year, other indexes recorded declines ranging from 0.9 percent for the real-estate sector and 26.6 percent for the chemistry sector.

These price trends reflected a contraction of the market capitalization, which moved, in the second quarter, to 472.2 billion dirhams, a level lower by 7.3 percent, compared to the first quarter. At the end of August, it increased slightly by 0.9 percent from one month to another and remained down 9.8 percent compared to its level at the beginning of the year.

In this context, the PER<sup>1</sup> of the Casablanca stock market stood at 15.5 in August, as against 16.9 in the second quarter of 2012. Despite its decline, it remains, however, relatively high compared to other markets of comparable size. Likewise, the price-to-book<sup>2</sup>, estimated at 2.7 in August, after 2.9 and 2.8 in June and July, respectively, stood higher than levels reached in most sampled markets.

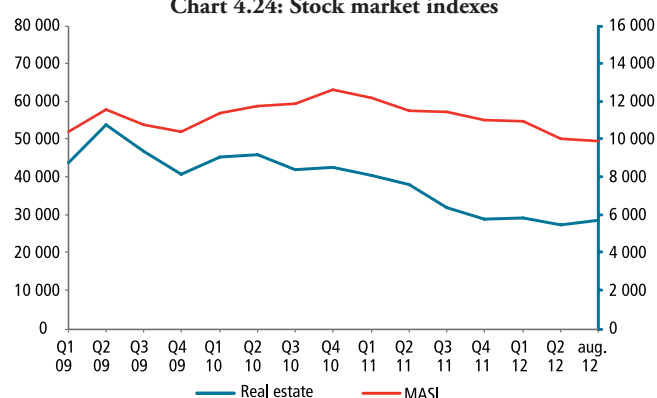
Regarding activity in the stock market, the overall volume of transactions amounted to 15.7 billion dirhams in the second quarter, up from 10.8 billion a quarter earlier. In July and August, it was limited to 5.1 billion, of which the majority is performed on

Chart 4.23: YoY change in the REPI and the real estate stock market index



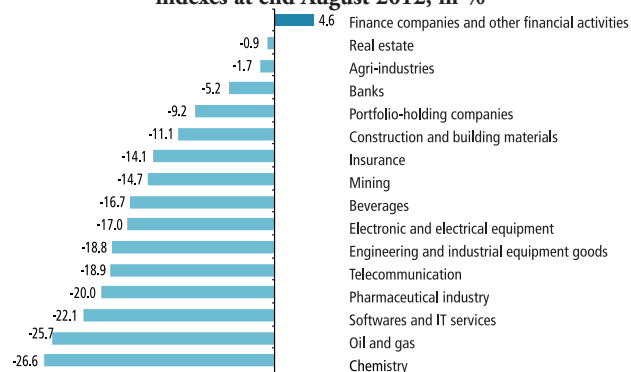
Sources: BAM, ANCFCC, and the Casablanca stock exchange

Chart 4.24: Stock market indexes



Source: Casablanca stock exchange

Chart 4.25: Performance, since the beginning of the year, of sectoral indexes at end August 2012, in %



Source: Casablanca stock exchange

<sup>1</sup> PER : Price Earnings Ratio is the ratio of a company's share price and its per-share earnings

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

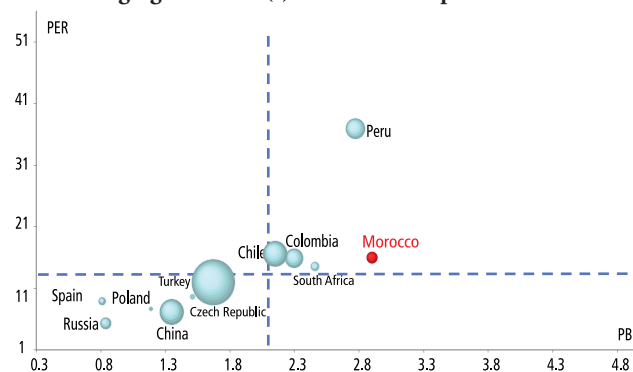
the equity compartment. In total, since the beginning of the year, the aggregate volume of transactions stood at 31.6 billion, as against 72.1 billion during the same period of the previous year.

Table 4.3: Equity market valuation

| PER            | Q1 :11      | Q2 :11      | Q3 :11      | Q4:11       | Q1:12       | Q2:12      | August 12   |
|----------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| PER            |             |             |             |             |             |            |             |
| Argentina      | 13.6        | 11.2        | 9.9         | 8.8         | 8.1         | 7.4        | 7.1         |
| China          | 13.2        | 11.1        | 8.5         | 8           | 9.2         | 7.3        | 6.8         |
| Mexico         | 15.1        | 13.5        | 12.8        | 13.9        | 17.6        | 16.3       | 18.3        |
| Turkey         | 11.5        | 11.9        | 10.2        | 10.5        | 10.9        | 9.5        | 11.4        |
| <b>Marroco</b> | <b>17.7</b> | <b>19.1</b> | <b>16.6</b> | <b>16.1</b> | <b>16.9</b> | <b>16</b>  | <b>15.5</b> |
| PB             |             |             |             |             |             |            |             |
| Argentina      | 2.1         | 2.6         | 2.4         | 2.2         | 1.8         | 1.7        | 1.4         |
| China          | 2.2         | 1.7         | 1.8         | 1.4         | 1.3         | 1.7        | 1.4         |
| Mexico         | 2.6         | 2.6         | 2.5         | 2.4         | 2.5         | 2.7        | 2.8         |
| Turkey         | 1.9         | 1.7         | 1.7         | 1.5         | 1.5         | 1.7        | 1.5         |
| <b>Marroco</b> | <b>3.5</b>  | <b>3.4</b>  | <b>3.9</b>  | <b>3.1</b>  | <b>2.9</b>  | <b>2.8</b> | <b>2.7</b>  |

Sources : Datastream, CFG

Chart 4.26: Stock market valuation in Morocco and in some emerging countries (\*) in the second quarter of 2012



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

Sources: Datastream, CFG, and BAM calculations

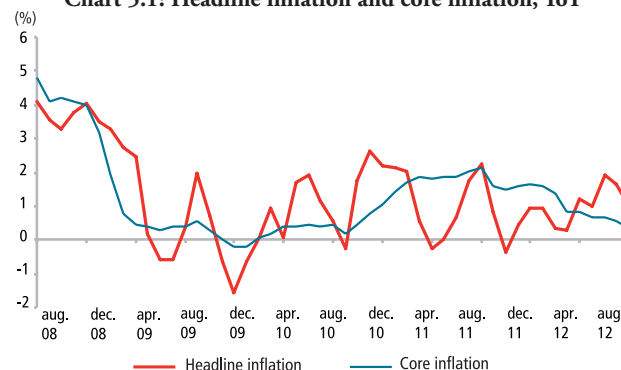
## 5. RECENT INFLATION TRENDS

Data on consumer prices in the second quarter and in August confirm the analyzes and forecasts made in the previous Monetary Policy Report (MPR), which projected an inflation trend in line with the price stability in the medium term. Thus, headline inflation, measured by the year-on-year increase in the consumer price index (CPI), slowed to 1 percent in August 2012, from 1.7 percent in July and 1.9 percent in June, averaging 1.4 percent in the second quarter and 1 percent in the first eight months of the year. Excluding volatile food and regulated products, core inflation (CPIX) stood at 0.4 percent in August, from 0.5 percent in July and 0.6 percent in June, averaging only 0.7 percent in the second quarter and 0.8 percent between January and August 2012. Its absolute deviation from headline inflation fell from 1.2 point on average in June and July to 0.6 in August. This deviation is attributed to the prices of certain regulated components, particularly fuel and lubricants, and to the negative contribution of prices for communication services, whose mechanical effect is somewhat more pronounced on core inflation than on headline one. Recent developments in core inflation cover a deceleration in inflation of tradables (CPIXT) after remaining virtually stagnant since last March, and a sharp decline in that of nontradables (CPIXNT) which continues its negative trend. Indeed, reflecting a slight easing of pressures on world's staple food prices and consumer prices in key partner countries, inflation of tradable goods included in the CPIX dropped from 2.2 percent over the last five months to 1.8 percent in August, while that of nontradable goods remained at the same pace of decline since June, standing at -1.3 percent in August, in conjunction with the continued moderation of internal demand pressures. Moreover, the earlier declines in world commodity prices, particularly for food and energy, continue to feed through to industrial producer prices, whose increase slowed from 4.8 percent in May to 3.2 percent in June and 1.1 percent in July.

### 5.1 Inflation trends

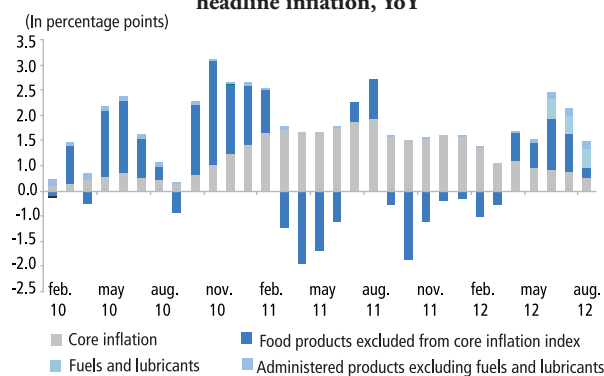
In line with the analyzes and forecasts published in the latest Monetary Policy Report, headline inflation, measured by the year-on-year increase of CPI, stood at 1 percent in August, from 1.7 percent in July and 1.9 percent in June, averaging 1.4 percent in the second quarter and 1 percent in the first eight months of 2012. By component, recent developments in consumer prices mainly reflect a slowdown from 5.8 percent to 1.4, between July and August, in the increase of volatile food prices. Indeed, the most significant price changes affected fresh fish with -6.8 percent as opposed to 2.4 percent, fresh vegetables with -7.5 percent as against 5.5 percent, while the growth of fresh fruit prices remained unchanged at 5.9 percent between July and August and citrus prices rose to 0.6 percent from -0.7 percent. However, apart from "fuels and lubricants" component, regulated products' prices recorded a slight year-on-year growth from 0.9 percent in July to 1 percent in August,

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations

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



Sources: HCP, and BAM calculations



in conjunction with the rising prices of road passenger transportation. “Fuels and lubricants”, which represent 2.4 percent of the overall index, registered a one-off rise of 16.7 percent in June, following the increase in petroleum product prices. This measure, adopted by the Government in response to the widening deficit of the subsidization fund, affected diesel and gasoline and excludes butane gas, which continues to be subsidized on the same conditions as before. Apart from the components excluded, core inflation stood at 0.4 percent in August, from 0.5 percent in July and 0.6 percent in June, averaging 0.7 percent in the second quarter and 0.8 percent in the first eight months of the year. The absolute gap between headline inflation and core inflation, which was about 1.3 percentage point in June and 1.1 in July, was reduced to 0.6 in August. The relatively low level of core inflation largely stems from the further decline in prices for communication services, especially “telephone and fax services”, which fell 9.9 percent month on month and 30 percent year on year, in May. The July and August contribution of prices of telephony and fax services to headline inflation is around -0.7 percentage point and -1.1 for core inflation. By major components, with the exception of communication prices, the other headings of core inflation trended at moderate and similar rates from one month to the next (Tables 5.1 and 5.2).

## 5.2 Tradable and nontradable goods

The detailed analysis of consumer price trends by tradable and nontradable goods indicates that the main price trend is largely driven by inflation of nontradables, which records negative development since last March, mainly in connection with the lower prices of communication services.

**Table 5.1: Inflation and its components**

|  | Monthly change (%) |            |            | YoY (%)    |            |            |
|--|--------------------|------------|------------|------------|------------|------------|
|  | June 12            | July 12    | Aug. 12    | June 12    | July 12    | Aug. 12    |
| <b>Headline inflation</b>                                      | <b>0.5</b>         | <b>0.3</b> | <b>0.7</b> | <b>1.9</b> | <b>1.7</b> | <b>1.0</b> |
| Including:   |                    |            |            |            |            |            |
| - Volatile food products excluded from core inflation          | 0.7                | 1.4        | 3.9        | 8.0        | 5.8        | 1.4        |
| - Fuels and lubricants   | 16.7               | 0.0        | 0.0        | 16.8       | 16.8       | 16.8       |
| - Administered goods excluding fuels and lubricants            | 0.4                | 0.2        | 0.1        | 0.7        | 0.9        | 1.0        |
| <b>Core inflation</b>  | <b>0.3</b>         | <b>0.3</b> | <b>0.1</b> | <b>0.6</b> | <b>0.5</b> | <b>0.4</b> |
| Including:   |                    |            |            |            |            |            |
| - Food products  | 0.1                | 0.3        | 0.3        | 2.3        | 2.2        | 1.8        |
| - Clothing and footwear  | 0.2                | 0.0        | 0.5        | 2.4        | 2.3        | 2.0        |
| - Housing, water, gas, electricity and other fuels*            | 0.1                | 0.0        | 0.0        | 1.1        | 1.0        | 1.0        |
| - Furniture, household appliances and common house maintenance | 0.0                | -0.1       | 0.0        | 0.2        | 0.0        | -0.1       |
| - Health*  | 0.2                | -0.2       | 0.0        | 2.5        | 2.3        | 2.3        |
| - Transportation*  | 0.2                | 0.1        | 0.3        | 1.2        | 1.4        | 1.3        |
| - Communication  | 0.0                | 0.0        | 0.0        | -26.5      | -26.5      | -26.5      |
| - Entertainment and culture                                    | 0.7                | -0.1       | 0.1        | 0.8        | 0.7        | 0.9        |
| - Education  | 0.0                | 0.0        | 0.0        | 3.0        | 3.0        | 3.0        |
| - Restaurants and hotels                                       | 0.3                | -0.1       | 0.0        | 1.8        | 1.5        | 1.4        |
| - Miscellaneous goods and services                             | 0.0                | 0.1        | 0.0        | 1.7        | 1.7        | 1.6        |

\* Excluding administered goods

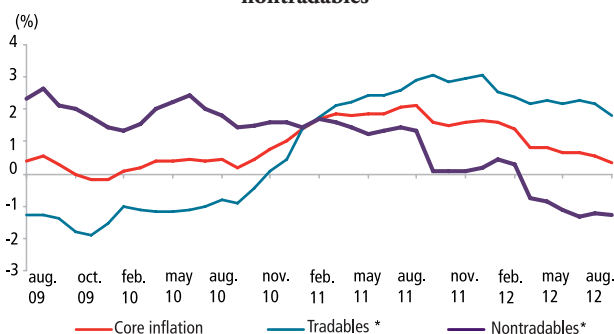
Sources: HCP, and BAM calculations

**Table 5.2 : Domestic selling price of oil products**

| Products (Dh/Liter)      | Feb. 2012 | March 2012 | Apr. 2012 | May 2012 | June 2012 | July 2012 | Aug. 2012 |
|--------------------------|-----------|------------|-----------|----------|-----------|-----------|-----------|
| Premium gasoline         | 10.18     | 10.18      | 10.18     | 10.18    | 12.18     | 12.18     | 12.18     |
| Diesel 350/50            | 7.15      | 7.15       | 7.15      | 7.15     | 8.15      | 8.15      | 8.15      |
| Industrial fuel (Dh/Ton) | 3 678     | 3 678      | 3 678     | 3 678    | 4 666     | 4 666     | 4 666     |

Source : Ministère de l'énergie et des mines

**Chart 5.3: YoY change in price indexes of tradables\* and nontradables\***



\* Excluding volatile food products and administered goods

Sources: HCP, and BAM calculations



Contributions of the prices of tradables and nontradables to core inflation amounted respectively to 1.0 and -0.6 percentage point in July and August. Thus, inflation of tradable goods reached 2.2 percent and 1.8 percent in July and August 2012, respectively, averaging 2.3 percent over the first eight months of the year. The main changes affected the prices of cereal products with 1.4 percent as opposed to 1.7 percent, oils with 7.5 percent as against 9.8 percent and passenger cars with 0.7 percent versus 1.2 percent. Meanwhile, the tradables price index excluding volatile and regulated goods continues to reveal the absence of significant inflationary pressures internally, with an annual decline of -1.3 percent in August, from -1.2 percent, thus averaging -1.1 percent in the second quarter and -0.7 percent in the first eight months of the year. The main components of this category of goods recorded annual changes differing from each other, but similar from one month to another, ranging from lower prices for communications services and fresh meat to higher rent prices and pre-primary and primary education fees (Tables 5.3 and 5.4).

### 5.3 Goods and services

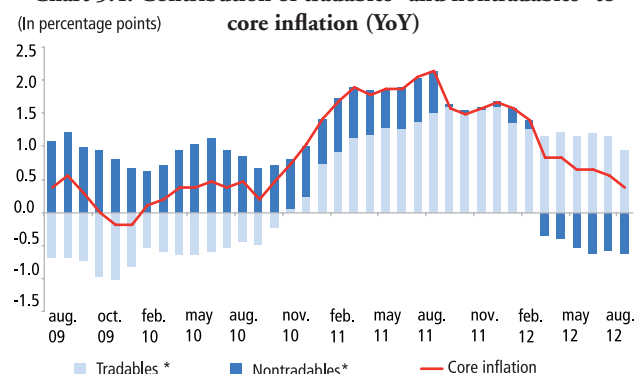
The breakdown of the CPI basket into goods and services shows that the short-run momentum in inflation remains influenced largely by changes in prices of unprocessed goods, as well as services prices, which continue to contribute negatively to inflation. Indeed, year-on-year inflation trend in August is due, on the one hand, to the prices of unprocessed goods, which rose by 0.9 percent as against 3.4 percent, contributing up to

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

|               | Monthly change (%) |         |         | YoY change (%) |         |         |
|---------------|--------------------|---------|---------|----------------|---------|---------|
|               | June 12            | July 12 | Aug. 12 | June 12        | July 12 | Aug. 12 |
| Tradables*    | 0.1                | 0.2     | 0.1     | 2.3            | 2.2     | 1.8     |
| Nontradables* | 0.1                | 0.2     | 0.3     | -1.3           | -1.2    | -1.3    |

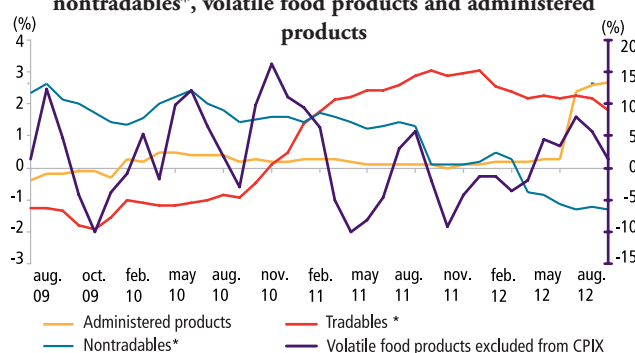
\* Excluding volatile food and administered products  
Sources: HCP, and BAM calculations

**Chart 5.4: Contribution of tradables\* and nontradables\* to core inflation (YoY)**



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

**Chart 5.5: YoY change in the prices of tradables\*, nontradables\*, volatile food products and administered products**



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

**Table 5.4: Contribution of tradables\* and nontradables\* prices to headline inflation**

|  | Monthly contribution to inflation |         | Yoy contribution to inflation |         |
|--|-----------------------------------|---------|-------------------------------|---------|
|  | July 12                           | Aug. 12 | July 12                       | Aug. 12 |
| Products excluded from core inflation index Including: | 0.2                               | 0.5     | 1.3                           | 0.7     |
| Administered products                                  | 0.0                               | 0.0     | 0.5                           | 0.5     |
| Volatile food products                                 | 0.2                               | 0.5     | 0.8                           | 0.2     |
| Tradables*   | 0.0                               | 0.0     | 0.8                           | 0.6     |
| Nontradables*  | 0.0                               | 0.1     | -0.4                          | -0.4    |

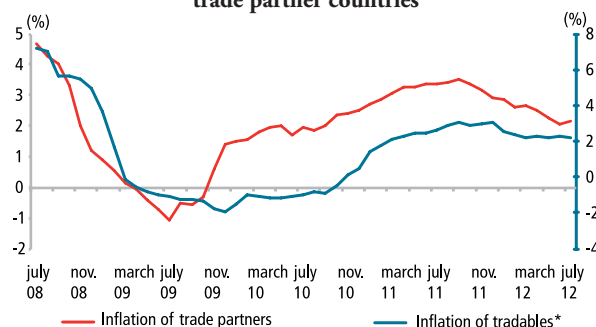
\* Excluding volatile food and administered products  
Sources: HCP, and BAM calculations

0.2 percentage point to inflation and, on the other hand, the 0.8 percent decline of services prices, with a negative contribution of 0.2 percentage point. The annual growth of prices of processed goods excluding fuels and lubricants slightly decelerated from 1.8 percent in July to 1.5 percent in August. The contribution of this category of goods to overall inflation averaged 0.7 percentage point in July and August 2012 (Table 5.5).

## 5.4 Industrial producer price index

Earlier declines in world energy and non-energy commodity prices continue to feed through to producer prices. The general price index recorded a monthly decline of 1.7 percent in July from -1.4 percent and -2.3 percent in May and June, respectively. This trend covers primarily the decline in coking and refining industry, whose price index was down 5 percent month on month as opposed to -7 percent a month earlier. Its contribution to the decline in the general index was estimated at -1.7 percentage point. Excluding coking and refining, the producer price index did not change significantly, standing at 0.1 percent in July from 0.2 percent in June. This change covers respective increases of 0.2 percent and 0.7 percent in prices of "food industries" and "rubber and plastic industries", and a 0.1 percent decrease in prices of "chemical industry". Year on year, growth of the overall index continued to slow down from 4.8 percent in May and 3.2 percent in June to 1.1 percent in July. This trend is largely due to the continued deceleration in the prices of coking and refining industry, whose growth rate slowed from 10.1 percent and 5.3 percent in May and June, respectively, to 0.1 percent in July. The non-refining index was up

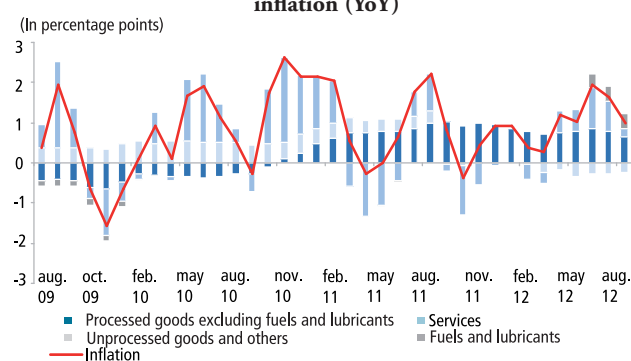
Chart 5.6: YoY change in inflation of tradables\* and inflation in trade partner countries



\* Excluding volatile food and administered products

Sources: HCP, IFS, and BAM calculations

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



Sources: HCP, and BAM calculations

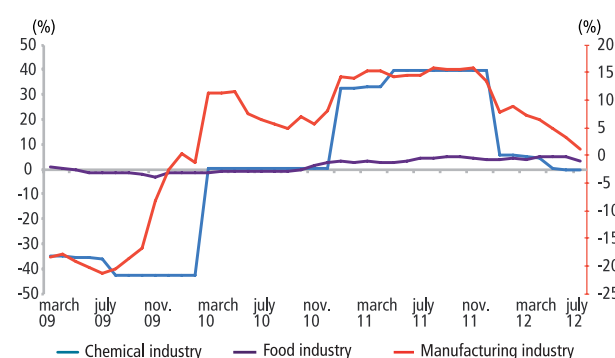
Table 5.5: Price indexes of goods and services

|                              | Monthly change (%) |         |         | YoY change (%) |         |         |
|------------------------------|--------------------|---------|---------|----------------|---------|---------|
|                              | June 12            | July 12 | Aug. 12 | June 12        | July 12 | Aug. 12 |
| Processed goods*             | 0.1                | 0.1     | 0.1     | 1.9            | 1.8     | 1.5     |
| Unprocessed goods and others | 0.3                | 1.1     | 2.8     | 4.6            | 3.4     | 0.9     |
| Services                     | 0.3                | 0.1     | 0.1     | -0.8           | -0.8    | -0.8    |
| Fuels and lubricants         | 16.7               | 0.0     | 0.0     | 16.8           | 16.8    | 16.8    |

\* Excluding fuels and lubricants

Sources: HCP, and BAM calculations

Chart 5.8: YoY change in industrial producer price indexes



Sources: HCP, and BAM calculations

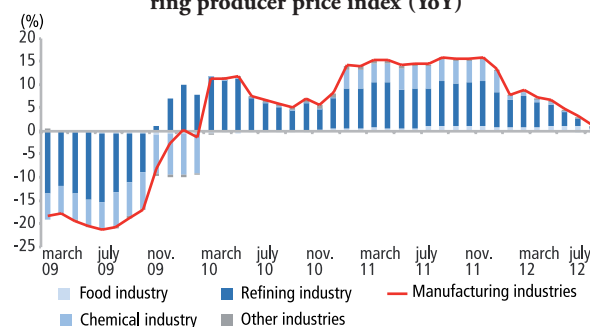
only 1.6 percent, as against 2.1 percent a month earlier (Charts 5.8, 5.9 and 5.10).

## 5.5 Inflation expectations

Based on the results of BAM business survey in July 2012, industrial prices are expected to remain at moderate levels over the next three months<sup>1</sup>. Indeed, the percentage of corporate managers expecting stagnation remained at 73 percent, the same rate compared to its average over the last three months, while 24 percent of manufacturers predict higher prices and 3 percent projecting decrease, with a balance of opinion of 21 percent (Chart 5.11).

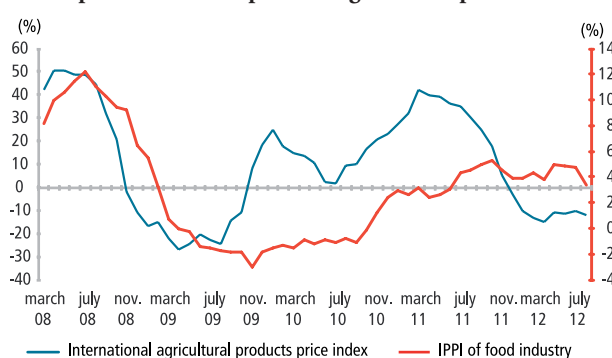
In addition, the survey results highlight that inflation would continue to moderate in the next three months<sup>1</sup> with a slight upward trend. Thus, the percentage of corporate managers anticipating increase remained at 33 percent in July, its average over the past three months. Meanwhile, the proportion of corporate managers expecting stagnation remained unchanged at 62 percent from its average over the last three months (Chart 5.12).

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



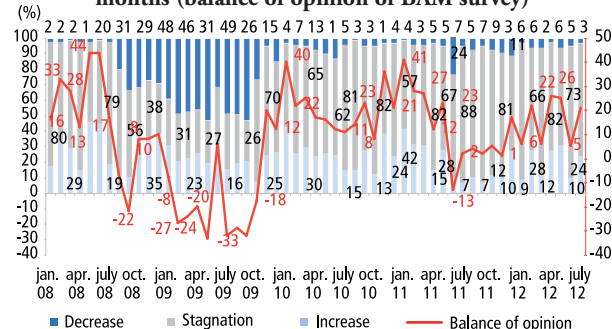
Sources: HCP and BAM calculations

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



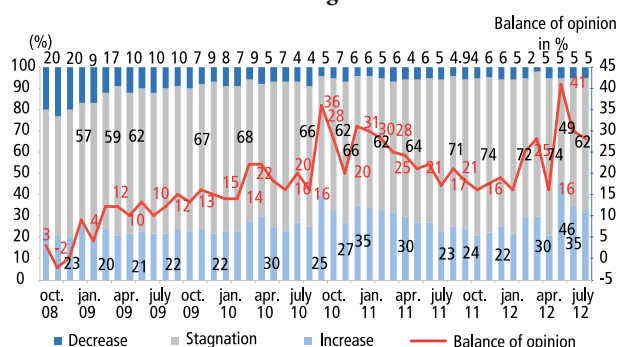
Sources: World Bank, HCP and BAM calculations

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



Source: BAM monthly business survey

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



Source: BAM monthly business survey

<sup>1</sup> The expectations horizon of BAM business survey for July 2012 includes July, August and September 2012.

## 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 remains consistent with the price stability objective, with an average forecast of 2 percent, a level similar to that projected in the last Monetary Policy Report (1.9 percent). During 2012, inflation should be around 1.4 percent. For the year 2013, average inflation rate is expected to stand at 1.9 percent. Assuming that fuel prices at the pump would continue at their current level, established at 8.15 DH per liter, the balance of risks to this forecast exercise is broadly at equilibrium, due to uncertainties surrounding the change in non-energy commodity prices and growth in partner countries.*

### 6.1 Baseline scenario assumptions

#### 6.1.1 International environment

In advanced countries, economic activity slowed down significantly in the second quarter of this year and was marked particularly by the entry of the euro area into recession. In emerging and developing countries, economic growth remains overall strong, despite a certain strain caused by decelerated exports, slow domestic demand as well as increased investor risk aversion. Nevertheless, the easing of economic policies undertaken by a number of emerging countries, in late 2011, would suggest more favorable trends.

Deterioration of the euro area's activity in the second quarter is due to adverse changes in some demand components, as evidenced by the contraction of private consumption, which was caused by the decline in household spending and investment. Financially, uncertainties surrounding the ability of governments to restore fiscal sustainability, viability of political and financial institutions in Greece, as well as stability of the Spanish banking sector heightened tensions in financial markets. Meanwhile, the U.S. economic growth broke up with its uptrend when it registered a virtual stagnation in the second quarter of the year. This underperformance is due to slower government expenditure and private consumption spending, as well as the negative contribution of exports. However, higher residential and non-residential investment, rising households' real disposable income and positive contribution from inventories

helped the U.S. economy continue showing some resilience in a highly unfavorable international environment.

With respect to the labor market, the latest available statistics on advanced economies show persistently high unemployment and significant loss of jobs in both industrial and tertiary branches. Thus, the unemployment rate stagnated between June and July at 11.3 percent and 8.3 percent in the euro area and the United States, respectively. In key partner countries, it stabilized between June and July at 5.5 percent and 10.7 percent in Germany and Italy, respectively, and rose slightly in France (from 10.2 percent in June to 10.3 percent in July) and Spain (from 24.9 percent in June to 25.1 percent in July).

Under these conditions, economic activity in the euro area declined 0.5 percent, after recording zero growth in the first quarter of the year. The U.S. economy registered a growth rate of 2.3 percent, slightly down from 2.4 percent in the first quarter of 2012. The recession in the euro area is attributed to a slow growth in Germany (1 percent as against 1.2 percent in the first quarter), stagnated growth in France (0.3 percent in both the first and second quarters) and a recession in Italy (-2.5 percent in the second quarter), Spain (-1.3 percent) and euro zone peripheral countries, mainly Portugal (-3.3 percent) and Greece (-6.2 percent).

Regarding growth prospects, the International Monetary Fund, in its July report, projects for 2012 respective growth rates of 2 percent and -0.3 percent for the United States and the euro area (no major changes compared

to April forecasts). For the year 2013, growth rates forecasts are 2.3 percent for the United States and 0.7 percent for the euro area, as against 2.4 percent and 0.9 percent projected in April, which is a slight downward revision.

Risks to economic activity in advanced economies are still tilted to the downside. In the short term, the persistent tensions in the euro area's financial markets, though under deceleration following the debt repurchase measures taken by the ECB, could continue to negatively impact the real economy. Meanwhile, excessive tightening of fiscal policy in the United States and dithering over raising the public debt ceiling could destabilize the confidence of investors and households, and significantly restrain the U.S. growth in the coming quarters.

In the medium term, the lack of progress in developing fiscal adjustment plans in the United States and Japan would impact growth of these countries in the coming years, as well as foreign exchange markets and sovereign bonds. Finally, international trade would suffer a significant contraction, if economic growth in emerging countries was lower than expected.

Given these developments, the weighted growth rates of major trading partners (Germany, Spain, France, Italy and the United Kingdom) assumed in this forecast exercise are about -0.5 percent for this year and 0.2 percent for 2013. Compared to those presented in the June MPR (-0.6 percent in 2012 and 0.6 percent in 2013), these assumptions did not undergo significant revisions for 2012 and were revised slightly downward for 2013. It should be noted that this growth rate 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 2.4 percent in May, June and July before increasing moderately in August to 2.6 percent (Eurostat flash estimate). The ECB expects, in its August bulletin, an inflation rate of 2.3 percent for

2012 and 1.7 percent for 2013, which are the same estimates presented by the ECB in June.

Risks to inflation trends in the euro area remain broadly balanced. Indeed, higher commodity prices and the possible increase in indirect taxes (due to the need for fiscal adjustments) are offset by the outlook for a very weak economic growth.

With regard to the three-month Euribor, the baseline scenario of this forecast exercise assumes an average rate of 0.22 percent for the second half of this year. This rate should stagnate in the first half of 2013 before increasing gradually to stand at 0.27 percent, on average, in the second half of the same year.

Finally, estimates of non-energy import prices, included in the forecast models developed by Bank Al-Maghrib, did not undergo significant revisions compared to the June MPR and report a more pronounced decline in 2012 than in 2013.

### 6.1.2 National environment

Growth prospects of the national economy for the year 2012 suggest a slowdown in economic activity, owing to the decline in the agricultural sector and the slowdown in nonagricultural activities, in connection with the continuing deterioration of economic conditions in the euro area.

Cereal production for the 2011-2012 crop year stood, according to the latest estimates by the Ministry of Agriculture, at 51 million quintals, down 39 percent compared to the previous year. This underperformance of the primary sector will contribute to the contraction of the overall growth in the current year.

Regarding the 2012-2013 crop year and given the lack of forecasts on precipitation and their spatio-temporal distribution as well as on the area of cereal crops, the baseline scenario assumes an average cereal production of about 68 million quintals.



Nonagricultural activity in 2012 should continue to grow at a steady pace, albeit slower than in 2011. This momentum would be largely attributable to strong domestic demand. As such, the household final consumption would be maintained thanks to price stability, continued consumer loans, relative decline in unemployment, positive impact of wage increases and resilience of remittances from Moroccan living abroad (although lower than in the previous year). However, the negative impact of this crop year is likely to limit the momentum in rural household consumption.

The momentum in private investment is expected to continue, as evidenced by higher imports of industrial capital goods in the first half of the year. Public investment should register a contraction, due to the delay in executing investment expenditure planned under the Finance Act 2012 and the pressures of subsidization costs on the State budget.

This outlook suggests the continued growth of nonagricultural value added in 2012, as expected in the previous MPR. Under these conditions, a growth rate of nonagricultural GDP ranging from 3 percent to 4 percent is retained.

Thus, BAM forecasts for overall growth were not revised from the previous quarter and a growth rate of below 3 percent is still expected.

The latest data on the labor market for the second quarter of 2012 indicate a 0.6 percent decline in the national unemployment rate, compared to the same period of 2011, standing at 8.1 percent. This improvement covers a decrease in urban unemployment, which stood at 12.3 percent, and a virtual stagnation of 3.5 percent in rural unemployment.

Regarding employment trends by sector, "services" and "construction" provided 112,000 new jobs, while the sectors of "ground transportation" and "hotels and restaurants" lost 42,000 and 13,000 jobs, respectively.

Employment prospects in the industrial sector suggest stagnation for the current quarter. Indeed, according to the BAM's quarterly business survey, manufacturers forecast stagnation in the total number of employed people in all industries.

These conditions should not influence wage developments and a minimum wage of 12.24 dirham/hour, in line with the decisions taken as part of the social dialogue, is assumed within the framework of the baseline scenario.

In addition, the first half of the year was marked by an increase in subsidization costs, totaling 32.5 billion dirhams at end-July, almost 100 percent of the costs programmed under the Finance Act. However, the decision to increase fuel prices, as of June 2, 2012, and the projected price of Brent per barrel should limit the pressure on the subsidization fund. In this respect, the IMF, in its July edition, revised downward its forecast price of Brent per barrel, which should now stand at \$101.8 a barrel in 2012 and \$94.16 in 2013. Similarly, the World Bank expects the price per barrel to be \$106.6 in 2012 and \$103 in 2013.

Under these conditions, the central scenario of this forecast exercise assumes the diesel pump price to remain at 8.15 dirhams a 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 should stand at 2 percent, a level similar to 1.9 percent projected in the last MPR. In addition, inflation forecast for 2012 revealed an average rate of around 1.4 percent (unchanged from the forecast of the previous year).

Forecast inflation in the third quarter of 2012 should be around 1.8 percent, up from 1.5 percent reported in the last MPR. In the fourth quarter, it is expected to stand at 2.1 percent (as against 2 percent). Forecast inflation in the first quarter of 2013 would be 2.4 percent as opposed to 2.1 percent projected earlier. In the second quarter, inflation is

expected to be 2.2 percent as against 2.1 percent projected in the last MPR. In the third quarter, it will be 1.8 percent (as against 2 percent). Finally, the average rate projected for the fourth quarter of 2013 is approximately 1.4 percent (see Table 6.1). 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 projected inflation rate either upward or downward. The analysis of the balance of risks generates a forecast range, represented as a fan chart. This is a probabilistic assessment of uncertainty areas surrounding the central projection (see Chart 6.1).

Overall, the fan chart of this forecast exercise is balanced, involving an equal probability that inflation would deviate from the central forecast. This trend arises from uncertainties surrounding commodity prices and economic growth in partner countries.

The materialization of one or more of these risks could cause the inflation rate to deviate from the central forecast, at a value within the forecast range represented on the fan chart (with a probability of 90 percent).

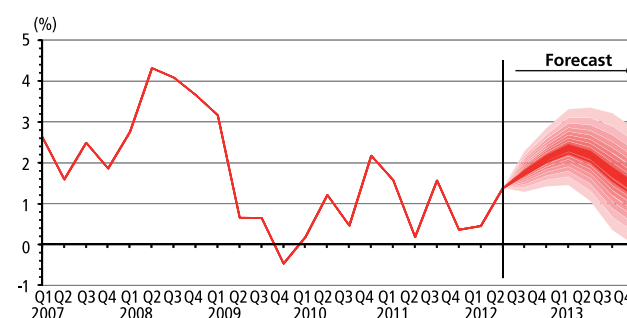
**Table 6.1: Inflation outlook for 2012 Q3 –2013 Q4**

|                      | 2012 |     | 2013 |     |     |     | Average |      | FH* |
|----------------------|------|-----|------|-----|-----|-----|---------|------|-----|
|                      | Q3   | Q4  | Q1   | Q2  | Q3  | Q4  | 2012    | 2013 |     |
| Central forecast (%) | 1.8  | 2.1 | 2.4  | 2.2 | 1.8 | 1.4 | 1.4     | 1.9  | 2.0 |

(Quarterly data, YoY)

\*Forecast horizon

**Chart 6.1: Inflation forecast, 2012 Q3 – 2013 Q4**  
(Quarterly data, YoY)



(\*) This chart represents the confidence interval of inflation forecast based on the baseline scenario (dark red); confidence intervals between 10 percent and 90 percent are also reported. Each addition of intervals with the same color, on both sides of the central forecast, increases by 10 percent the probability that headline inflation would fall within the range delimited 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 headline inflation would fall within this range in the future.



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