BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 23 / 2012

Document prepared for
the Bank Board
June 19, 2012

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بنك المغرب

LIST OF ABBREVIATIONS

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

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 19, 2012

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, June 19, 2012.
2. During this meeting, the Board examined and approved the 2011 Annual Report on Morocco's economic, monetary and financial situation as well as on the Bank's activities.
3. The Board also reviewed recent economic, monetary and financial trends, and inflation forecasts up to the third quarter of 2013.
4. The Board noted that inflation remained moderate, in line with the assessment made at its March meeting. After 0.4 percent in February and 0.3 percent in March, year-on-year inflation reached 1.2 percent in April 2012, mainly driven by higher volatile food prices. Core inflation did not change significantly month-on-month, hovering around 0.8 percent in March and April, down from 1.4 percent in February. This slowdown is largely due to the decline in the prices for "telephony and fax services" in March at a monthly rate of 9.5 percent and an annual rate of 22.3 percent. Moreover, the slowdown in international energy prices and the fall in non-energy commodity prices continue to feed through to domestic industrial producer prices, which rose at a year-on-year rate of 6.5 percent in April, down from 7.2 percent in March and 8.7 percent in February.
5. The international environment is still marked by considerable uncertainties, particularly in the euro area. National accounts results for the first quarter 2012 show zero growth in this region, while the U.S. economy improved somewhat. However, after a relatively quiet first quarter, the financial indicators for April and May point to the emergence of new difficulties, largely because of risks from the fiscal and political situation in the euro area. Altogether, the easing inflation internationally and the weakening activity in Morocco's partner countries suggest that external inflationary pressures would remain subdued in coming quarters.
6. Nationally, growth projections are expected to remain at less than 3 percent for overall GDP and between 3 and 4 percent for nonagricultural GDP, in conjunction with the materialization of risks from economic slowdown in the main partner countries and lower cereal production. In terms of external accounts, preliminary data show that the trade deficit widened further as at end May, whereas transfers of Moroccans living abroad slowed down from 8.2 percent to 2 percent year on year, and travel receipts fell 0.2 percent after rising by 13 percent as at end May 2011. Net foreign direct investment was down 11.8 percent. Given the other elements of the capital account and financial operations, foreign exchange reserves decreased by nearly 15.5 percent from their May 2011 level, totaling more than 4 months of goods and services imports.
7. Analysis of monetary developments as at end April 2012 shows a year-on-year increase of 5.2 percent in money supply, from 5.5 percent in the first quarter 2012. Bank credit growth slowed down from 9 percent in the first quarter to 6.9 percent in April, as loans to the private sector decelerated from 7 percent to 5.1 percent. In this context, the money gap remained negative, indicating the absence of monetary pressures on prices. For the full year, bank credit would expand between 7 and 8 percent, a level close to its long-term trend.

8. Based on all these elements, and considering the Government's recent decision to increase energy prices, the central inflation forecast is in line with the price stability objective. At the end of the forecast horizon (third quarter of 2013), headline inflation is projected at about 2 percent, while core inflation should remain subdued, not exceeding 2 percent. The average inflation forecast for 2012 was revised down from 1.7 percent to 1.4 percent, mainly in connection with the one-off effect of the further decline in prices for communication services.
9. 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.

OVERVIEW

In line with the assessment made by the Board at its meeting of last March, change in consumer prices remained moderate. After reaching 0.4 percent in February and 0.3 percent in March, year-on-year headline inflation stood indeed at 1.2 percent in April 2012, as against 0.9 percent throughout 2011. Core inflation stabilized at around 0.8 percent in March and April, from 1.4 percent in February. This trend reflects a virtually stable inflation of tradable goods, in a context of receding inflationary pressures internationally. It is also attributed to a sharp decline in nontradable goods' prices, in conjunction with the continued moderation in inflationary pressures internally and with a further decline in prices for some communication services. Moreover, the slowdown in energy prices and the decline of non-energy ones are partly transmitted to industrial producer prices, whose year-on-year growth slowed down from 8.7 percent in February and 7.2 percent in March to 6.5 percent in April.

Internationally, economic activity is still marked by low growth, with a difference in magnitude between advanced and emerging countries. However, the results of national accounts in the first quarter of 2012 indicate a slight improvement in the United States, while there was no growth in the euro area. In emerging markets, albeit under deceleration, growth remains relatively strong, benefitting from the macroeconomic policy easing. In the labor market, the latest available data show that unemployment rate remained high in most advanced countries, except Germany. Commodity prices continued their downward trend that began last month, contributing hence to the moderation of inflationary pressures internationally.

With regard to financial conditions, markets were under tensions during the first two months of the second quarter, after having improved in the first quarter. They were mainly due to uncertainty about fiscal and political situations in the euro area. This resulted in further increases in yields on sovereign bonds, mainly for Greece, Spain, Italy and Ireland. In stock markets, major indexes fell both in advanced and emerging countries, while in foreign exchange markets, the euro depreciated again against major currencies.

Nationally, the foreign trade data available to the end of April 2012 revealed that trade deficit worsened by 6 percent over the same period of the previous year, standing at 64.2 billion dirhams. Export growth slowed to 5 percent, with a 5 percent increase in exports excluding phosphates and derivatives. Imports rose 5.7 percent, with respective increases of 15.6 percent and 2.5 percent in energy products and non-energy ones. Meanwhile, growth of remittances from Moroccans living abroad and that of travel receipts dropped, respectively, from 5.4 percent to 5.1 percent and from 13.8 percent to 1 percent, in one year. Net foreign direct investment totaled 5.8 billion dirhams, down 12.7 percent compared to April 2011. On this basis and given other capital account elements, foreign exchange reserves, totaling 156.5 billion dirhams, fell by 12.2 billion dirhams compared to end-December 2011, and by 14 percent, year on year. At end-April, they dropped from 6 months and 3 days to about 4 months and 18 days of imports of goods and services, in one year.

Against this backdrop, the latest estimates based on available indicators show that GDP growth averaged nearly 2 percent during the first half of 2012. At the end of this half, consumption would have maintained a steady growth, while investment would have registered a decline, which should continue over the coming quarters, in conjunction with an expected destocking, after exceptionally high levels of inventory change during the last four years. Over the full year, the materialization of risk factors analyzed in the previous Monetary Policy Report, mainly those related to agricultural performance and activity in major partner countries, results in a continued growth forecast at below 3 percent for overall GDP and within a range between 3 percent and 4 percent for nonagricultural GDP, as well as a cereal production estimated at about 40 million quintals. Nonagricultural output gap, more relevant to the assessment of inflationary pressures, should be close to zero in the coming quarters.

Available data on monetary conditions suggest moderate growth of money supply. M3 aggregate rose by 5.2 percent at end-April, as against 5.5 percent in the first quarter of 2012, thus keeping a negative money gap. Meanwhile, bank credit growth declined from 9 percent to 6.9 percent, reflecting a slowdown of cash advances, and to a lesser extent, that of real-estate loans. Concerning lending rates, BAM survey among banks for the first quarter of 2012 shows a decrease of 13 basis points in loans' weighted average rate, due mainly to lower rates on cash advances and real-estate loans. The effective exchange rate of the dirham depreciated by 0.68 percent in nominal terms from one quarter to the next and by 1.1 percent in real terms due to inflation differential for Morocco. The real-estate price index in the first quarter of 2012 increased by 1.1 percent, year on year, as opposed to 2.8 percent a quarter earlier.

Based on all these elements, inflation should remain broadly consistent with the price stability objective over the medium term. At the end of the forecast horizon, i.e. the third quarter of 2013, inflation would stand at 2 percent, while it would average 1.9 percent over the same horizon. Compared to the previous forecast (MPR of March 2012), the inflation projections for 2012 were revised downward to 1.4 percent from 1.7 percent, due to the significant decline of some communication services in last March.

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

1. AGGREGATE SUPPLY AND DEMAND

In the fourth quarter of 2011, the overall GDP growth stood at 5.3 percent, covering a nonagricultural growth of nearly 5.4 percent and an increase in agricultural value added of 4.5 percent, as against 4.1 percent a quarter earlier. Over the full year 2011, growth stood at 5 percent, with respective increases of 5.6 percent and 4.9 percent in agricultural value added and nonagricultural GDP. These trends are overall in line with recent estimates of Bank Al-Maghrib. In the first quarter of 2012, overall growth would have slowed to 2 percent, reflecting the combined effect of the adverse impact of the economic situation in key partner countries and the sharp decline in agricultural activity. At the end of this quarter, consumption would have maintained a steady growth, as evidenced by the available coincident indicators. However, in conjunction with an anticipated destocking, after the exceptionally high levels of inventory change during the last four years, investment[1] would have registered a decline that should persist over the coming quarters, thus negatively impacting growth. Over the full year 2012, despite the anticipated relative resilience of nonagricultural activities, contraction of the primary value added should bring the overall GDP growth to below 3 percent. Domestic demand should continue to support growth, albeit to a lesser extent compared to 2011, while the contribution of the net external demand should again be negative. This outlook remains dependent on the extent of economic slowdown in the major partner countries as well as the degree of diffusion of cereal production decline to other sectors.

1.1 Output

In 2011, the national growth stood at 5 percent, in response to respective increases of 5.6 percent and 4.9 percent in agricultural value added and nonagricultural GDP. These trends are broadly in line with the estimates of Bank Al-Maghrib published in the Monetary Policy Report of March 2012.

In the first quarter of 2012, the estimate based on available indicators shows a 2 percent growth, under deceleration compared to the last four quarters. This trend covers a 10.4 percent decrease of agricultural value added and 4.3 percent growth of nonagricultural one. The performance of nonagricultural activities would be mainly due to dynamic construction, and electricity and water industries, as well as the overall positive trend in tertiary sectors, with the exception of tourism activities.

Regarding the most recent economic indicators, those related to primary sector confirm a low cereal production. According to data as at May 31, 2012, the cumulative rainfall was down nearly 56 percent compared to the previous year. This is a situation almost common to all regions.

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

Activity sectors. in%	2010				2011				2012	
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI_E	QII_F
Agriculture	0.6	-3.4	0.0	-3.6	3.7	4.6	4.1	4.5	-10.4	-12.5
Nonagricultural VA	**6.0**	**4.4**	**4.3**	**2.3**	**4.8**	**4.2**	**4.7**	**5.8**	**4.3**	**4.2**
Extractive industry	74.7	51.3	23.3	18.8	13.7	2.3	-1.8	9.2	-2.9	-2.2
Processing industry	1.8	1.7	3.2	4.5	2.7	2.3	1.9	3.4	2.8	3.2
Electricity and water	5.1	8.7	9.3	5.6	2.3	6.2	4.9	9.5	8.6	6.5
Construction	5.9	3.7	1.4	-0.3	2.5	3.0	7.1	7.2	6.8	6.1
Trade	2.8	-0.5	3.6	-7.0	3.8	4.1	4.7	4.7	3.1	3.1
Hotels and restaurants	8.8	8.0	8.7	6.8	7.5	-3.7	-2.6	-5.5	-2.6	-2.6
Transportation	11.7	6.7	6.2	4.4	5.5	4.3	3.7	1.9	2.1	2.1
Post and telecommunication	2.1	2.6	3.4	9.6	7.7	10.5	19.0	18.0	16.0	15.0
General government and social security	4.4	3.2	2.3	1.7	6.5	6.6	6.6	6.6	5.5	5.5
Other services*	5.0	4.1	4.2	2.7	5.8	5.8	6.0	6.0	5.0	4.5
Taxes on products net of subsidies	6.8	6.6	6.5	7.0	7.9	3.6	6.6	4.0	4.3	4.2
Nonagricultural GDP	6.1	4.7	4.6	2.9	5.5	4.3	5.0	5.4	4.3	4.2
Gross domestic product	**5.4**	**3.6**	**3.9**	**2.0**	**5.0**	**4.2**	**4.8**	**5.3**	**2.0**	**1.5**

(*) 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

1 Indeed, investment corresponds to the increased gross fixed capital formation of inventory change.

Similarly, according to the Royal Center for Remote Sensing in late April, the state of vegetation cover deteriorates compared to the same period a year earlier. Under these conditions, Bank Al-Maghrib maintained its cereal production forecast at about 40 million quintals (Chart 1.2).

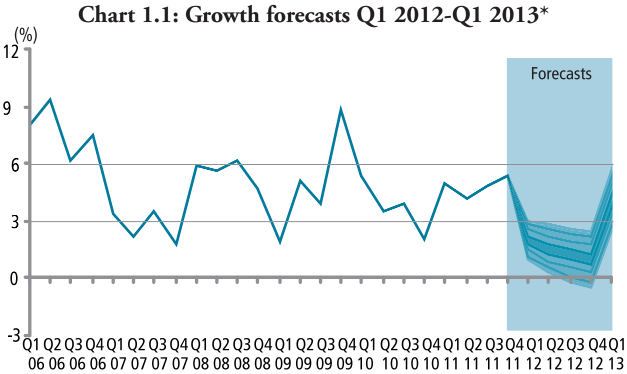
In the secondary sector, the value added is expected to grow 3.9 percent in the first quarter, a slowdown mainly due to the contracted mining activities and decelerated growth of the processing industry. In the first half of 2012, the secondary sector contributed 0.7 percentage point to overall growth as against 0.8 point on average in 2011. In the coming quarters, its growth should decline again, mainly in connection with the expected underperformance of activities that are most dependent on foreign demand.

By industry, the growth of the mining sector should decline in the first quarter of 2012 after a recovery in the fourth quarter of 2011. The market output of the Moroccan Phosphates Office (OCP), the main operator in the sector, shrank from one year to the next, bringing the mining value added from 9.2 percent in the fourth quarter of 2011 to -2.9 percent in the first quarter and to -2.2 percent in the second quarter of 2012.

Mainly reflecting the impact of weaker foreign demand, the growth of the processing industry should also slow to 2.8 percent and 3.2 percent, respectively, in the first and second quarters of 2012, from 3.4 percent in the fourth quarter. Bank Al-Maghrib's business survey of April 2012 confirms this trend, indicating some improvement in industrial production and sales, while highlighting a level of the inventory of finished goods higher than normal. This finding is in line with the increase of inventory change observed in light of national accounts data.

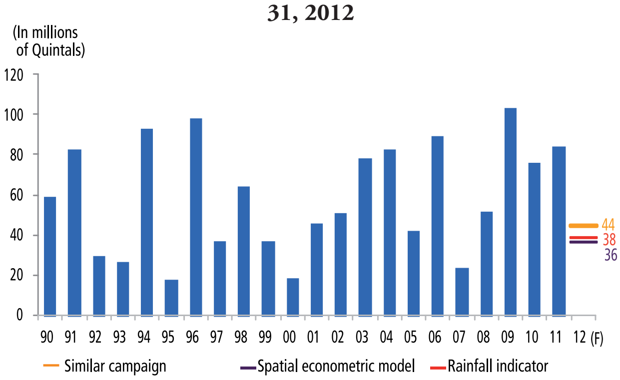
The value added of the "electricity and water" sector should maintain a steady growth, estimated at 8.6 percent in the first quarter of 2012 as against 9.5 percent a quarter earlier. Indeed, the net production

Chart 1.1: Growth forecasts Q1 2012-Q1 2013*



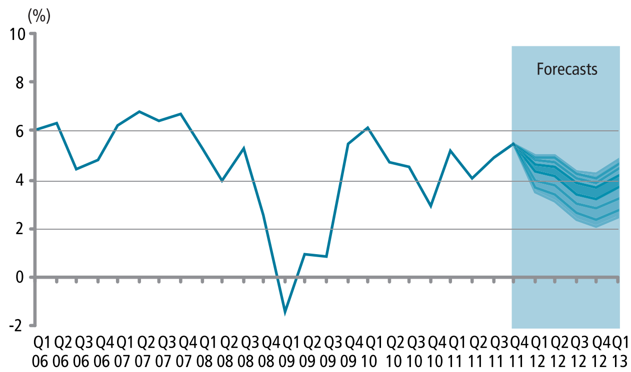
(*) Fan chart based on the standard deviation
Sources: HCP, and BAM forecasts and estimates

Chart 1.2: Cereal production evolution and forecast as at May 31, 2012



Sources: Ministry of Agriculture, rural development and marine fisheries and BAM forecasts

Chart 1.3: Nonagricultural growth forecasts Q1 2012-Q1 2013*



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

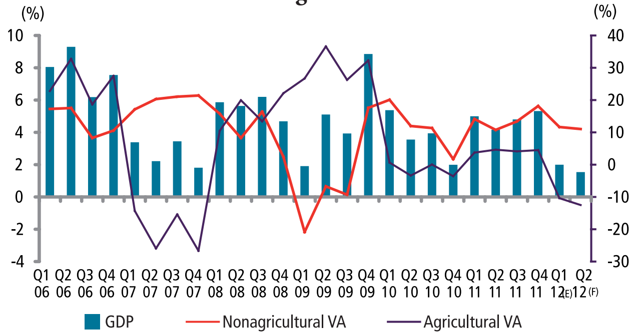
of the National Electricity Office grew 12.4 percent in the first quarter of 2012. Meanwhile, sales rose 12 percent, year on year, reflecting an increase of 12.4 percent in the sales of medium- and high-voltage electricity, and 10.3 percent in the sales of low-voltage electricity. The momentum of this industry should overall continue in the second quarter of 2012, with growth forecast estimated at 6.1 percent.

The construction sector, which grew about 7 percent over the last two quarters, should continue its momentum in the first quarter of 2012, with a growth of 6.8 percent. High-frequency indicators show a rise of 21.7 percent of cement sales in the first quarter of 2012 from 17 percent a quarter earlier, as well as an increase of 8.6 percent of real-estate loans. The sector should grow steadily during the year 2012, driven by continued low-income housing construction, as well as several infrastructure projects of great magnitude.

The growth of the tertiary sector should amount to 5.4 percent in the first quarter, down slightly from the fourth quarter of 2012. Indeed, in addition to the downturn in trade and general government activities (Table 1.1), the "hotels and restaurants" sector should shrink by 2.6 percent. This trend is confirmed by the latest indicators, as tourist arrivals and overnight stays in classified hotels registered respective declines of 4 percent and 8 percent at end-April 2012. Travel receipts, meanwhile, rose by only 1 percent, as against 13.7 percent over the same period in 2011. The very short-term prospects of the sector remains broadly unfavorable. Its value added should fall again by 2.6 percent in the second quarter of 2012.

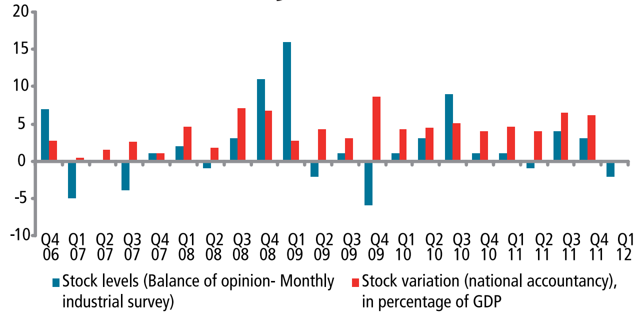
Based on various available data and analysis elements, particularly the materialization of risks to the performance of the agricultural sector and foreign demand, GDP growth forecasts prepared by BAM for 2012 were maintained below 3 percent as in the March Monetary Policy

Chart 1.4: Quarterly change in the GDP and the agricultural and nonagricultural VA



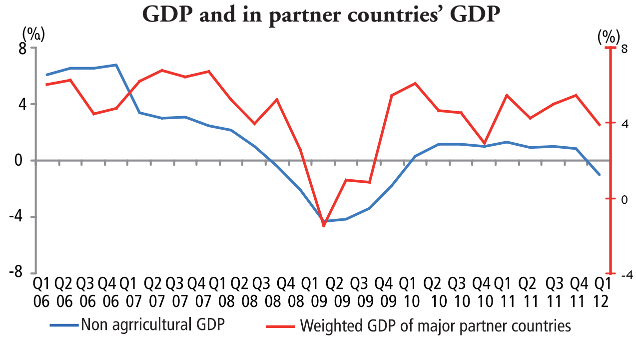
Sources: HCP. and BAM forecasts

Chart 1.5: Stock variation



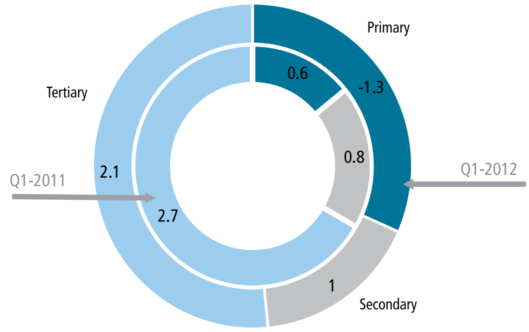
Sources: HCP, and BAM's monthly industrial survey

Chart 1.6: YoY quarterly change in domestic non agricultural GDP and in partner countries' GDP



Sources: IMF, HCP, and BAM forecasts

Chart 1.7: Contribution of the primary, secondary and tertiary sectors to overall growth. in percentage points



Sources: HCP, and BAM calculations and forecasts

Report (MPR), as against a range between 4 percent and 5 percent in December 2011 MPR. These prospects remain dependent on the extent of economic slowdown in the major partner countries, as well as on the degree of diffusion of cereal production decline to other sectors.

1.2 Consumption

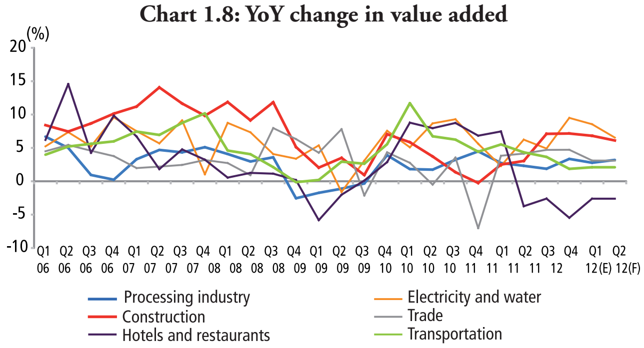
With respective real-term increases of 7.4 percent and 4.6 percent in household consumption and general government, national final consumption was up 6.7 percent in 2011, after a rise limited to 1.5 percent in 2010.

In 2012, national final consumption should be directly impacted by the contraction in agricultural income as well as relatively adverse trends in the labor market. It should be also influenced indirectly, especially through slower current transfers and weaker activity in our major partner countries.

Indeed, agricultural value added would have decreased 10.4 percent in the first half of 2012. Net job creation was negative, with a total loss of 109,000 positions from one year to the next, the first since the second quarter of 2011. Similarly, the growth of remittances from Moroccans living abroad and travel receipts was limited respectively to 3.7 percent and 1 percent at end-April as opposed to 5.4 percent and 13.7 percent over the same period one year before.

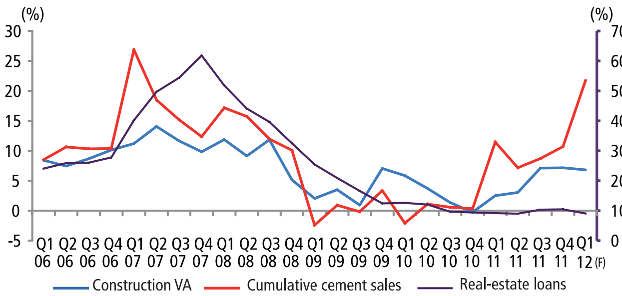
Despite these adverse trends, household consumption should show some resilience, benefitting from continued low inflation rates, appreciated wages (Chapter 2), as well as dynamic consumer loans, which increased by 13.2 percent at end-April 2012, year on year, as against 6.2 percent a year earlier. This expected resilience is confirmed in light of available coincident indicators, with particularly year-on-year increase of 4.5 percentage points in

Chart 1.8: YoY change in value added



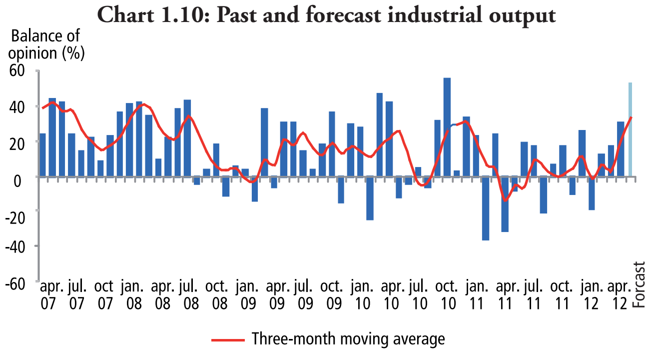
Sources: HCP, and BAM forecasts

Chart 1.9: YoY change in the construction sector's value added. cement cumulative sales and real-estate loans



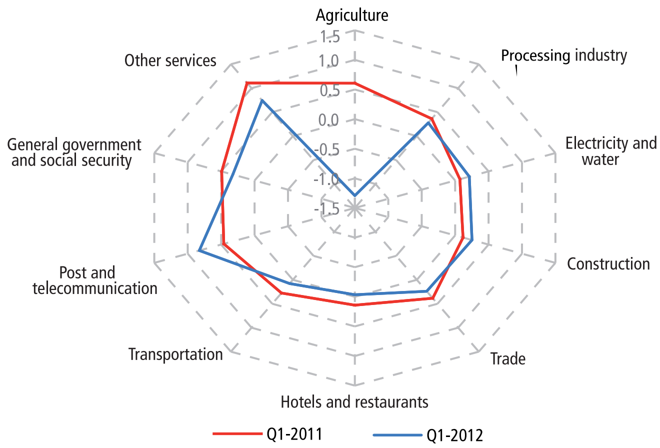
Sources: APC, BAM and BAM forecasts

Chart 1.10: Past and forecast industrial output



Source: BAM monthly business survey in the industry

Chart 1.11: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations household confidence index, published by the HCP, in the first quarter 2012, and a 9.6 percent rise in imports of finished consumer goods at the end of April 2012, as against 9.5 percent for the whole of 2011.

The general government consumption should be more dynamic, as evidenced by the anticipated increase in operating expenses in the Finance Act. Indeed, these expenses were up 9 percent at end-April, covering an increase of 16.7 percent in personnel costs and a decline of 7.4 percent of expenses of miscellaneous goods and services.

In total, the analysis of these various elements does not suggest a revision of Bank estimates for 2012 compared to those presented in the March Monetary Policy Report. National final consumption should decelerate, with a growth rate of around 4 percent as against 6.7 percent in 2011 and 1.5 percent in 2010.

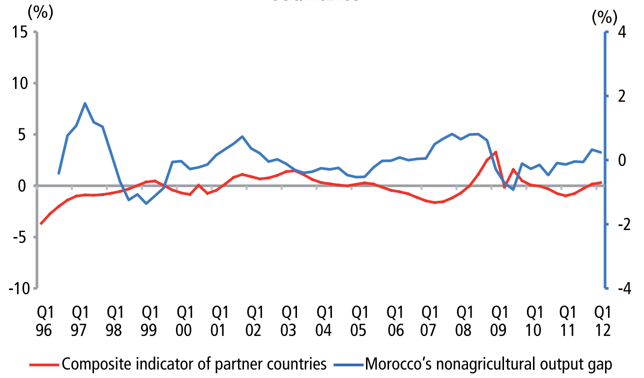
1.3 Investment

After rising in real terms by almost 3.3 percent in 2011, investment should decline in 2012 in a context of slower national economy and deteriorating prospects internationally, especially in the major partner countries (Chapter 3).

The latest available data show, indeed, that imports of finished equipment goods decelerated at end-April, up 7.8 percent as against 14.5 percent in the first quarter of 2012. Similarly, receipts from investments and private loans were down 3.7 percent, after a 2 percent increase over the first three months. Equipment loans slowed down, registering a growth limited to 2.5 percent at end-April, compared to an increase of 11.8 percent a year earlier.

Public investment should decline in 2012, as evidenced by the trends projected in the Finance Act, with a decrease of 7.9 percent compared to the performance of 2011 and 4.4 percent compared to the previous Finance Act, as well as those observed at end-April,

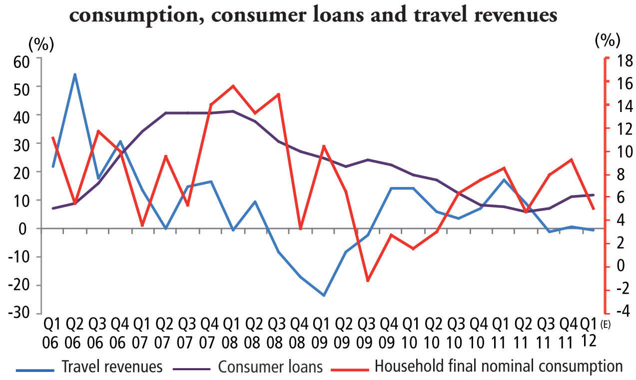
Chart 1.12: Weighted composite leading indicator of partner countries*



**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.*

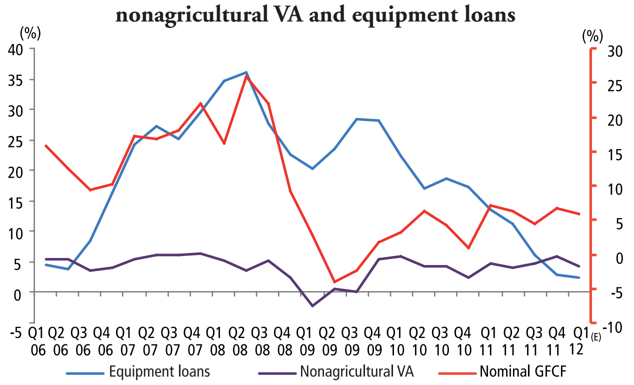
Sources: OECD, and BAM calculations

Chart 1.13: YoY quarterly change in household final consumption, consumer loans and travel revenues



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

Chart 1.14: YoY quarterly change in total investment, nonagricultural VA and equipment loans



Sources: High Commission for Planning, Foreign Exchange Office and BAM forecast indicating a contraction of 33.2 percent of Treasury investment spending from one year to the next.

The impact of risk factors analyzed above should be mitigated, particularly by the uptrend in the construction sector and the business climate deemed generally favorable by corporate managers, as highlighted in the monthly business survey for the first quarter 2012. Overall, the gross fixed capital formation should be tilted to the upside. However, in conjunction with the anticipated slowdown in inventory change, which reached over the last four years an exceptionally high level, which is an average of 4.5 percent of GDP, as against 1.3 percent between 2000 and 2006, investment should slightly decrease nearly 1 percent in 2012 as opposed to 2 percent laid out in the previous Monetary Policy Report.

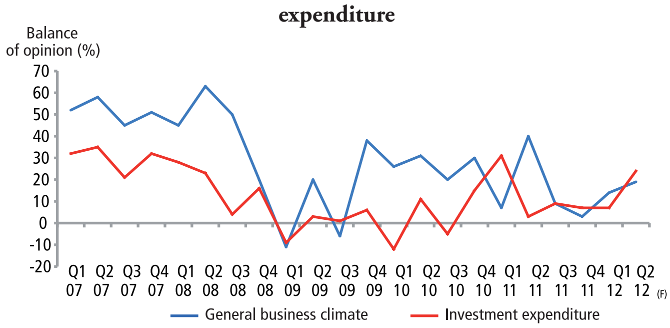
1.4 Foreign trade

The data available to the end of April 2012 indicate a further widening trade deficit, year on year, in conjunction with the faster increase of imports compared to exports.

Indeed, trade balance to the end of April posted a deficit of 64.2 billion dirhams, down 6.3 percent from the same period of the previous year, as against 25.1 percent at end-April 2010. This trend is due to a 5.7 percent increase or 6.7 billion of imports, higher than 5 percent or 2.9 billion of exports. Thus, the coverage ratio stood at 48.3 percent.

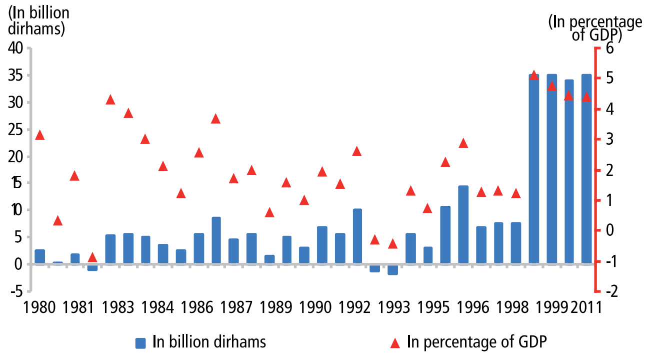
The observed trend in exports is mainly due to an increase in sales of energy products from 907.7 million dirhams to 3.8 billion. Thus, their share stood at 6.3 percent of total exports as against 1.6 percent in the previous year. Shipments of phosphates and derivatives, reaching 14.9 billion dirhams, rose by 5 percent as against 62.1 percent a year earlier. Non-phosphate and derivatives, and non-energy exports, totaling 41.3 billion dirhams, were down 1.7 percent, as

Chart 1.15: Change in general business climate and investment expenditure



Source: BAM monthly business survey in the industry

Chart 1.16: Stock variation, at current prices



Source: HCP, and BAM calculations and estimates

Table 1.2: YoY change in the trade balance. to the end of April 2012

(In millions of dirhams)	Jan.-Apr. 2011	Jan.-Apr. 2012*	Change	
			Amount	%
Total exports	**57 148.5**	**60 010.4**	**+2 861.9**	**+5.0**
Energy and lubricants	907.7	3 776.0	+2 868.3	-
Phosphate and derivatives' exports	14 214.4	14 921.4	+707.0	+5.0
Exports excluding phosphates and derivatives	42 934.1	45 089.0	+2 154.9	+5.0
Other exports**	42 026.4	41 313.0	- 713.4	-1.7
Electricity wires and cables	5 736.2	5 007.4	-728.8	-12.7
Electronic components	1 830.6	1 486.0	-344.6	-18.8
Canned fish	1 205.5	1 599.4	+393.9	+32.7
Articles de bonneterie	2 290.8	2 481.6	+190.8	+8.3
Total imports	**117 546.2**	**124 228.2**	**+6 682.0**	**+5.7**
Energy imports	28 378.5	32 796.8	+4 418.3	+15.6
Non-energy imports	89 167.7	91 431.4	+2 263.7	+2.5
Consumer goods	19 484.0	21 253.5	+1 769.5	+9.1
Capital goods	22 326.1	24 142.3	+1 816.2	+8.1
Semi-finished goods	24 460.4	25 234.0	+773.6	+3.2
Food products	16 075.5	14 243.8	-1 831.7	-11.4
Trade balance	**-60 397.7**	**-64 217.8**	**+3 820.1**	**+6.3**

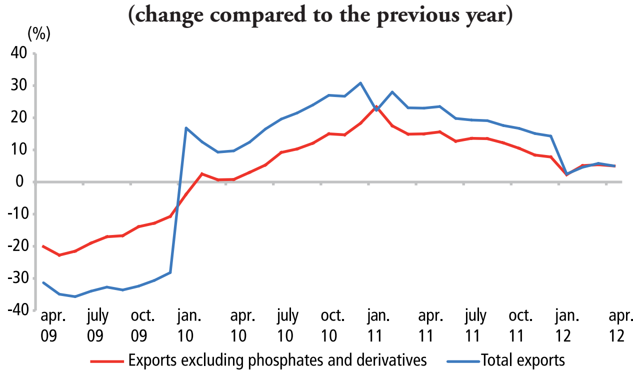
** Provisional data*
*** Exports excluding phosphates ans derivatives and energy*
Source: Foreign Exchange Office

against 17.4 percent last year. Thus, sales of wires and cables, electronic components and citrus decreased respectively by 12.7 percent, 18.8 percent and 17.5 percent, and thus limited to 5, 1.5 and 1.2 billion dirhams. In contrast, shipments of canned fish, hosiery and crustaceans, and mollusks and shellfish recorded respective increases of 32.7 percent, 8.3 percent and 8.6 percent to 1.6, 2.5 and 2.2 billion dirhams.

Import growth is attributed to the increase in most categories of goods. Thus, the energy bill, amounting to 32.8 billion dirhams, grew by 15.6 percent, mainly in conjunction with respective increases of 17 percent and 15 percent of the average tonne price of imported diesel and fuel and that of crude oil, which amounted respectively to 7,591 and 7,013 dirhams. However, the volume imported of crude oil fell by 9.8 percent, to 1,409.2 thousand tonnes. Similarly, purchases of petroleum gas, and hard coal and coke (brown coal) rose 27.8 percent and 14.6 percent, respectively.

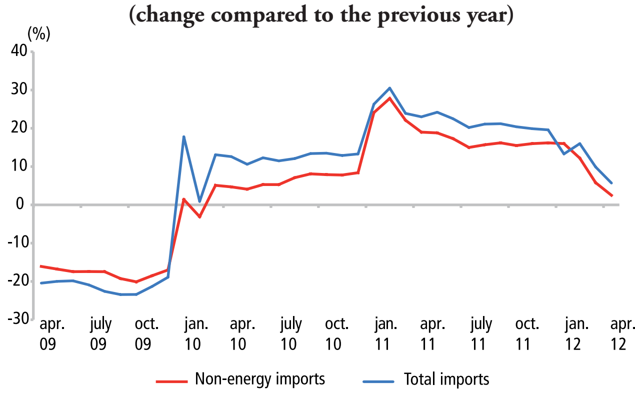
Non-energy imports grew 2.5 percent to 91.4 billion dirhams. Thus, imports of consumer goods totaled 21.3 billion, up 9.1 percent, mainly due to respective increases of 10.5 percent and 11.4 percent in purchases of passenger cars and fiber fabric and yarns. Capital goods imports rose 8.1 percent to 24.1 billion, covering mainly more than half increase in purchases of industrial vehicles and 2.8 percent decline in machines and miscellaneous goods. Similarly, imports of semi-finished products increased 3.2 percent to 25.2 billion dirhams, mainly due to the 10.5 percent increase in purchases of plastics. In contrast, food purchases, down 11.4 percent, were limited to 14.2 billion dirhams, reflecting a decline of 28.3 percent in wheat supply, reaching 4.7 billion dirhams, and respective drops of 9.8 percent and 6.6 percent of imports of corn and sugar, to 1.6 and 1.7 billion dirhams.

Chart 1.17: Total exports (change compared to the previous year)



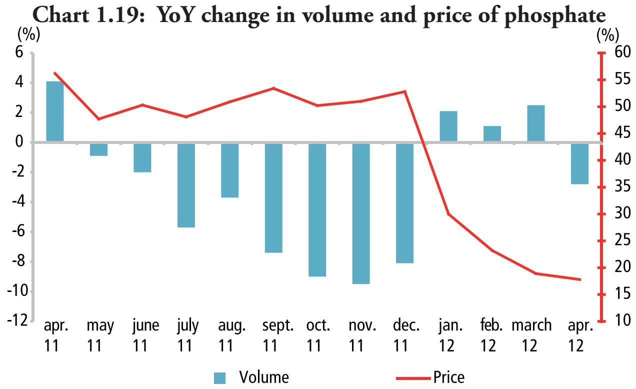
Source: Foreign Exchange Office

Chart 1.18: Total imports (change compared to the previous year)



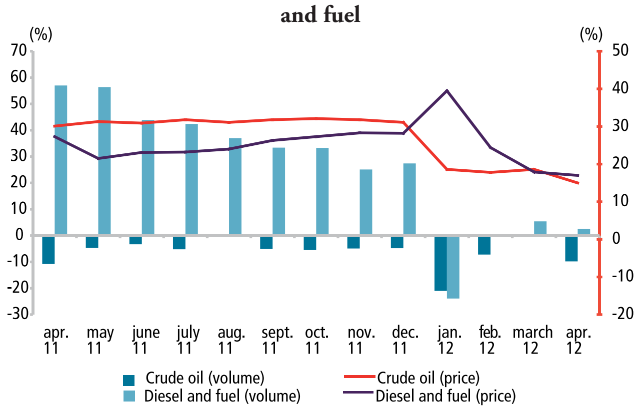
Source: Foreign Exchange Office

Chart 1.19: YoY change in volume and price of phosphate



Source: Foreign Exchange Office

Chart 1.20 : 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 divergent effect of the weak economic activity at the international level, particularly in our major partner countries, and the strong domestic demand, the nonagricultural output gap would have remained at levels close to zero in the first and second quarters 2012 according to the different estimates of Bank Al-Maghrib. The results of BAM April business survey show that the overall capacity utilization rate and that of nonrefining industries reached 75 percent and 73 percent, respectively, rates close to historical averages. Unemployment in the first quarter of 2012 was up 0.8 point to 9.9 percent compared to the same period of last year, reflecting an increase of 1.1 percentage point in urban areas and 0.5 point in rural areas. For the same period, data on private sector wages confirm their continued rise in nominal and real terms. Overall, although data show some pressure on production costs, mostly those relating to non-energy commodities and, to a lesser extent, financial and personnel expenses, the analysis of all factors does not suggest significant pressures on prices in the coming quarters.

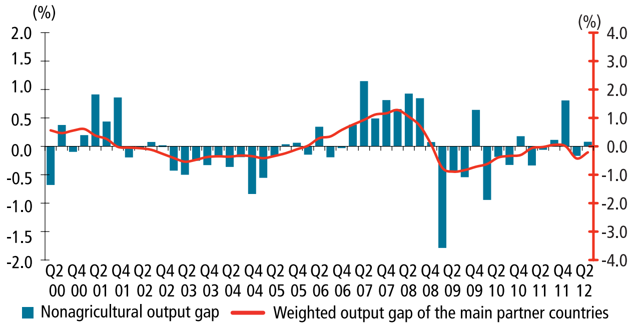
2.1 Pressures on output capacity[1]

The latest estimates of Bank Al-Maghrib indicate that nonagricultural output gap would not be significantly different from zero in the first and second quarters 2012. For the coming quarters, despite the expected resilience of domestic demand in a context of weaker activity internationally, particularly in our main partner countries, the aggregate demand pressure on prices would remain subdued (Chart 2.1).

Capacity utilization rate (CUR) has slightly fluctuated since the beginning of the year to stand at around its historical average of 75 percent in April 2012, as reported by Bank Al-Maghrib monthly business survey in industry. By sector, only chemicals and related industries recorded an increase of the CUR in April, from 74 percent to 78 percent, while that of the other industries broadly stagnated (Chart 2.3).

The survey results also point to an increase in the unit production cost in the first quarter of 2012, with a balance of opinion of 47 percent, up 2 percentage points from one quarter to the other. Manufacturers attribute this trend to higher non-energy commodity prices and labor costs, with a balance of opinion of 45 percent and 43 percent, respectively. Financial costs were the main cause of increase in the unit production cost in both the metallurgical and mechanical industries and the textile and leather industries, while non-energy

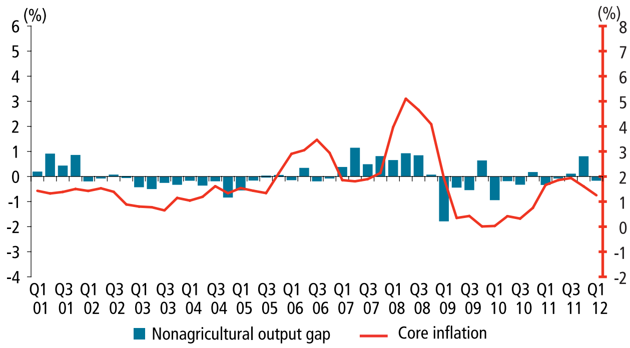
Chart 2.1: Nonagricultural output gap



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

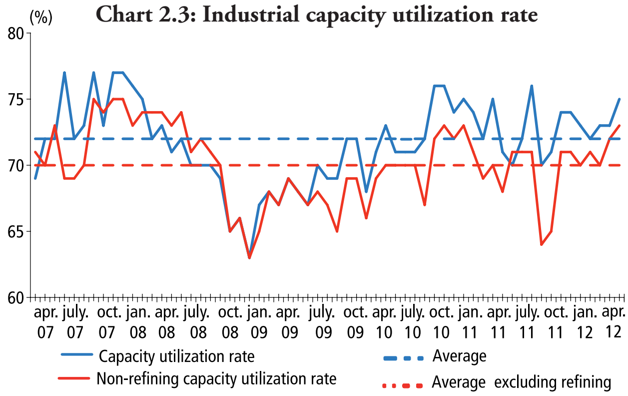
Sources: HCP, and BAM estimates

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



Sources: HCP, and BAM estimates

Chart 2.3: Industrial capacity utilization rate



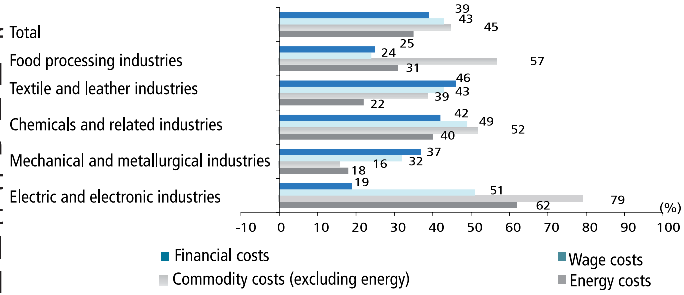
Source: BAM monthly business survey

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

commodity costs were identified as the main factor in other industries (Chart 2.4).

Reflecting a year-on-year decline of 1.6 percent in urban employment, and despite the slowdown in nonagricultural growth from 5.4 percent in the fourth quarter of 2011 to 4.3 percent in the first quarter of 2012 (Chapter I), apparent labor productivity[1] in nonagricultural activities was higher than the same period of last year. It rose by 5.9 percent from 2.9 percent on average over the whole year 2011 (Chart 2.5).

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

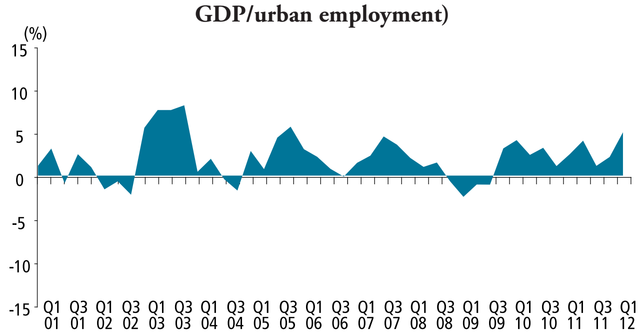


Source: BAM monthly business survey

2.2 Pressures on the labor market

At the end of the first quarter of 2012, the labor force aged 15 and over decreased by a mere 0.1 percent to 11.43 million people, concealing a 0.3 percent decline in urban areas and stagnation in rural areas. This trend resulted in a lower labor force participation rate by 0.9 percentage point to 48.2 percent (Table 2.1). In this context, the unemployment rate was up 0.8 percentage point year on year to 9.9 percent, the first increase since the second quarter of 2011.

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



Sources : HCP, and BAM estimates

Unemployment rate in urban areas moved up from 13.3 percent to 14.4 percent and in rural ones from 4.3 percent to 4.8 percent (Table 2.1). The largest increase was among the age groups 15-24 and 25-34, with respective increases of 1.8 and 1.4 percentage point.

Employed labor force shrank by 1 percent to 10.3 million in the first quarter of 2012, bringing the employment rate to 43.4 percent, down by 1.2 percentage point nationally, 1.4 point in urban areas and 0.8 point in rural regions (Table 2.1).

The labor market thus experienced a net loss of 109,000 job positions, the first since the second quarter 2011, resulting from the creation of 96,000 paid positions

Table 2.1: YoY quarterly change in activity and unemployment indicators per place of residence[1]

In million / in %	Q1 - 2011			Q1 - 2012		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force [2]	6093	5351	11444	6075	5353	11428
Labor force participation rate (%) [3]	43.7	57.1	49.1	42.6	56.6	48.2
Employed labor force	5284	5123	10407	5202	5096	10298
Employment rate (%) [4]	37.9	54.7	44.6	36.5	53.9	43.4
Unemployment						
Unemployed labor force	809	228	1 037	873	257	1130
Unemployment rate (in %) [5]	13.3	4.3	9.1	14.4	4.8	9.9
By age						
.15 - 24 years	29.3	8.9	17.4	32.8	10.3	19.2
.25 - 34 years	18.9	5	13.1	20.9	5.6	14.5
.35 - 44 years	7.5	2.5	5.5	8.2	2.5	5.9
By degree						
. Non-graduates	7.8	2.3	4.4	7.7	3.3	5.0
. Graduates	17.8	13.6	16.8	19.4	10.7	17.4

(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.

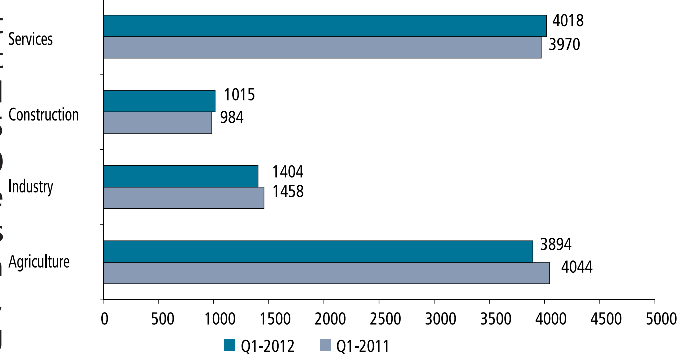
and the loss of 205,000 unpaid jobs. By place of residence, 75 percent of jobs lost concerned urban areas and, for the first time since 2006, paid jobs lost totaled 26,000, as against a creation of 136,875 jobs between 2008 and 2009 and 160,350 jobs between 2006 and 2010. At the sectoral level, the industrial and services sectors were the only job providers, with a net creation of 86,000 jobs. In contrast, other sectors lost 199,000 jobs, including 21 percent in the construction sector and 79 percent in agriculture, especially in connection with the adverse weather conditions (Chart 2.6).

The latest available data on labor costs show a slight year-on-year increase of 0.3 percent in unit labor costs (ULC) in the manufacturing sector. The results of the Bank's business survey in industry also indicate a rise in labor costs in the fourth quarter of 2011, with a balance of opinion of 19 percent. Compared with other countries, domestic ULC grew higher than that of Poland, Hungary and Germany, with a difference of 3.1 percent, 1.4 percent and 1.2 percent, respectively. However, it grew less rapidly than that of Italy, the United Kingdom and Canada (Chart 2.7).

The quarterly average wage index, based on CNSS data, posted a year-on-year increase of 8.5 percent in nominal terms and 8 percent in real terms in the first quarter of 2012, due in particular to the propagation of the effects of the 10 percent revaluation in the minimum wage, which occurred in July 2011 (Box 2.1, MPR No. 7, June 2008) (Chart 2.8).

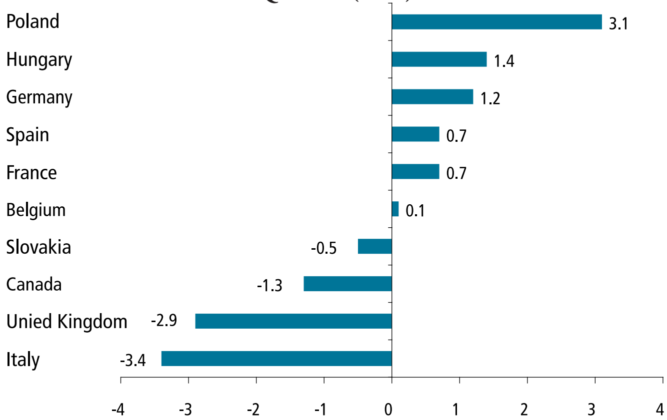
The minimum wage stagnated in the first quarter compared to the previous two quarters, both in nominal and real terms. For the coming quarters, following the agreement between the government and unions in 2011 as part of social dialogue, the hourly minimum wage will be increased by 5 percent in July 2012 to 12.24 DH/hour from 11.7 DH/hour (Chart 2.9).

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



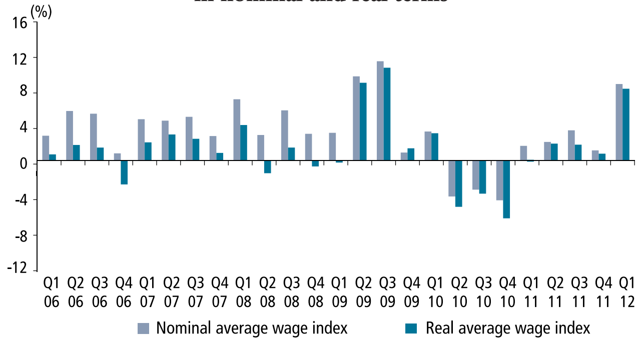
Source: HCP

Chart 2.7: Change in the unit costs of the manufacturing labor force in Morocco compared with other countries, Q4 2010 – Q4 2011 (in %)



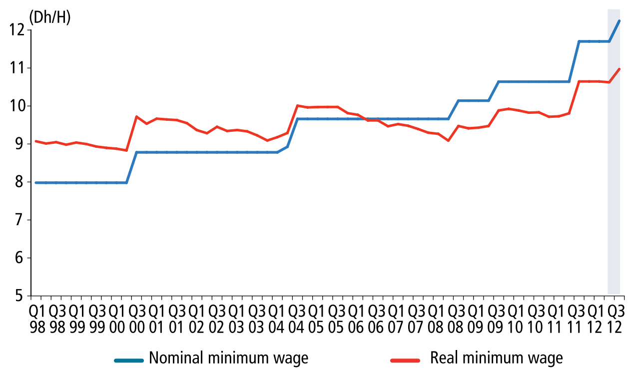
Sources: Datastream, and BAM calculations

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

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The latest data do not suggest an improvement in the international environment and its outlook in relation to the assessment made in the last MPR, as tensions in financial markets increased and growth weakened almost across the board. After a relatively quiet first quarter, the financial indicators for April and May show the emergence of new difficulties, mostly due to the prospect of recession and rising concerns about the financial situation in the euro area, especially in peripheral countries. Stock market indexes trended downward in the United States, Europe and emerging countries. Similarly, bond yields further increased, particularly in countries most affected by the sovereign debt crisis. At the same time, the difficulties facing the euro area weighed down on the foreign exchange market, as the euro further depreciated against major currencies. Concerning economic activity, national accounts for the first quarter 2012 show uneven results across the major advanced economies, with some improvement in the United States and zero growth in the euro area, which covers a deterioration in most partner countries. Unemployment remained at high levels, particularly in Spain, Portugal and Greece, and increased slightly in the United States for the first time in a year, while it was historically low in Germany. In emerging and developing economies, growth slowed down but remained relatively strong, helped by the easing of macroeconomic policies. The latest outlook updates point to lower growth in major advanced and emerging economies, with rising uncertainty that led to a significant dispersion between the projections of various international organizations. Indeed, if the last updates of the IMF in April and the OECD in May reported upward revisions to growth in 2012 and 2013 compared to previous forecasts, in the major advanced countries as well as in emerging and developing ones. The European Commission in May lowered its growth projections, particularly for the euro area. In this context, commodity prices continued the decline that began in the previous month, thus contributing to the moderation of inflationary pressures worldwide. Despite the month-on-month decline, commodity prices generally remain high. With regard to monetary policy in advanced economies, central banks kept their policy rates unchanged at low levels. Overall, the easing inflation internationally and the weakening activity in Morocco's partner countries suggest that external inflationary pressures would remain subdued in the coming quarters.

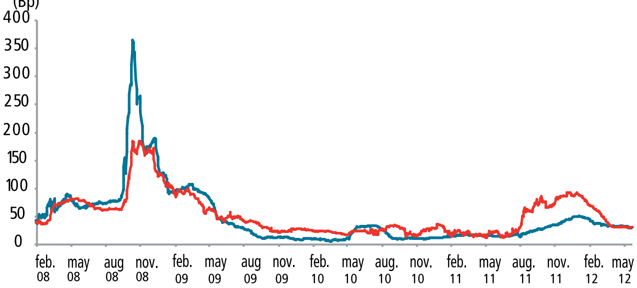
3.1 Global financial conditions and economic activity

After a relative return to normal in the first quarter of 2012, financial markets, with the exception of interbank segments, again showed signs of strain during the first two months of the second quarter, in connection with uncertainties about the political and financial situation in the euro area, especially in peripheral countries.

3.1.1 Financial conditions

Bond markets experienced varying trends from one country to another, with more tension in the euro area peripheral countries. Yields were up in these countries, particularly after Fitch cut Greece's sovereign rating by a notch and Moody's downgraded 16 Spanish banks. Indeed, the average yield of Greece's 10-year government bonds again rose to 24.9 percent in May 2012 from 21.3 percent a month earlier. Similarly, yields on Spanish, Italian and Irish bonds slightly increased

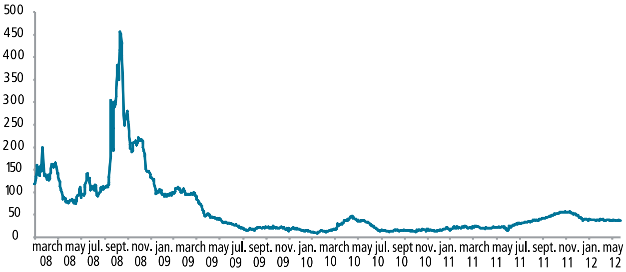
Chart 3.1: Change in the OIS-LIBOR spread*



** 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*



Source: Datastream

** 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.*

from 5.8 percent, 5.5 percent and 6.9 percent in April to 6 percent, 5.6 percent and 7 percent in May, respectively.

Portuguese 10-year sovereign bond yields continued their downward trend, averaging 11.2 percent in May from 11.8 percent in April. French government bond yields also declined slightly, from an average of 3 to 2.9 percent. Similarly, yields on 10-year German Bunds reached a record low, to a monthly average of 1.4 percent from an average of 1.8 percent during the first four months and 3.4 percent over the last five years.

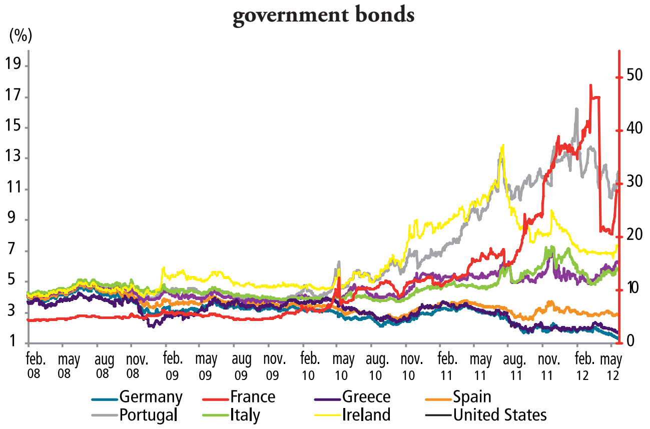
Against this background, the CDS of euro area peripheral countries significantly increased in May, notably in Greece, Italy, Spain, Ireland and Portugal.

In the U.S. bond market, Treasury bond yields fell 20 basis points to 1.8 percent in May.

However, tensions in the interbank markets eased somewhat, as evidenced by the change in interbank rates and spreads both in the United States and the euro area. The 3-month Euribor in May stood at 0.69 percent, down from 0.75 percent the previous month. The Libor remained unchanged at 0.47 percent for the third consecutive month. Similarly, the euro Libor-OIS spread was flat at 31 basis points in May, while the dollar Libor-OIS spread continued to decline, reaching 31 basis points instead of 33 points in April.

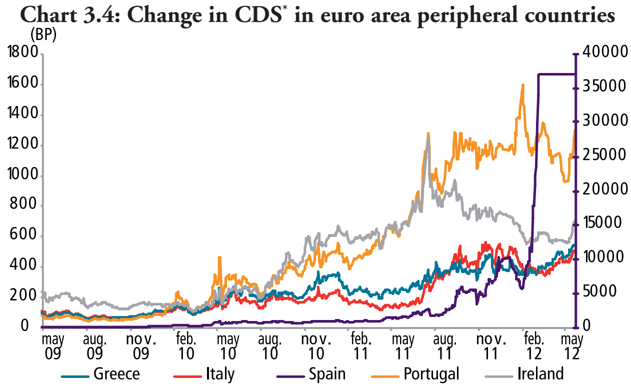
In stock markets, April's poor performance continued in May, especially with rumors about the possible exit of Greece from the euro area. The Dow Jones was down 1.7 percent, and the European stock indexes fell month on month, by 3.4 percent for the FTSE, 3.6 percent for the DAX, 4.4 percent for the CAC 40 and 5.2 percent for the Eurostoxx. The fastest decline was recorded in Japan where the Nikkei fell 6.3 percent between April and May, especially as Fitch downgraded Japan's long-term credit rating by two notches. Similarly, the emerging countries stock

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



Source: Datastream

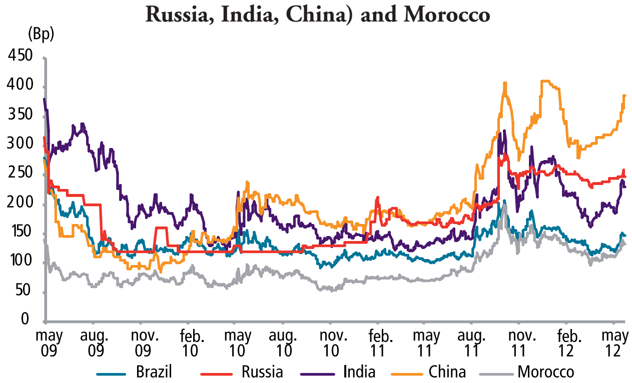
Chart 3.4: Change in CDS* in euro area peripheral countries



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

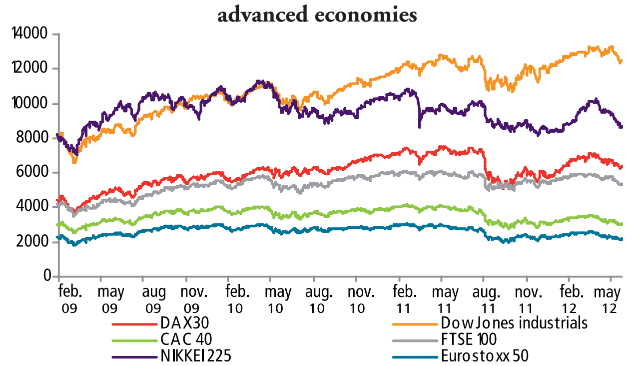
Source: Datastream

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

indexes continued the downward trend that began a month earlier, as the MSCI showed a monthly decrease of 5.5 percent.

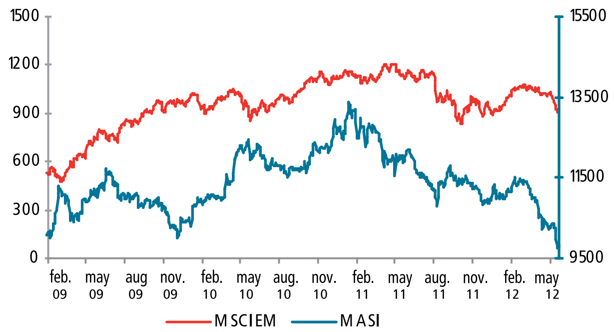
After an almost uninterrupted decline since October 2011, volatility indicators rose in May to 20.4 basis points for the VIX (U.S.) and 30.5 basis points for the VSTOXX (euro area).

The economic, financial and even political difficulties facing the euro area have weighed on currency markets, with the continued depreciation of the euro vis-à-vis major currencies. After moving to $1.32 in April, the euro depreciated against the dollar by 1.8 percent to a monthly average of $1.29, its lowest in four months. The latest available data indicate that the euro on May 29th hit a record low since June 29, 2010, at $1.2366. Though sharply declining since Fitch downgraded Japan's rating, the yen remained higher versus the euro, with an appreciation of 3.6 percent from one month to the other. The euro also lost 2.1 percent against the pound sterling.

Loans to the private sector in the United States continued the uptrend that began in the second half of 2011, marking an increase of 0.5 percent between March and April and 5.2 percent year on year. Data for the euro area highlight the continued year-on-year deceleration of credit, at 0.3 percent in April from 0.6 percent in March and 0.8 percent in February. The latest surveys on credit conditions indicate that banks in the euro area and the United States continued to tighten credit conditions for households and businesses.

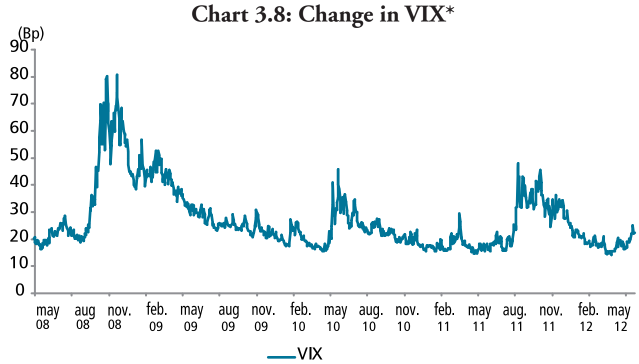
Concerning the latest monetary policy decisions, the Bank of England and the European Central Bank, at their meetings of May 2012, maintained their policy rates unchanged at 0.5 percent and 1 percent, respectively. The Bank of England also kept the size of its Asset Purchase Program at £325 billion. Meanwhile, the Federal Reserve decided to keep the target range for its key rate at 0 to 0.25 percent, at its meeting of April 2012.

Chart 3.7: Change in the MSCI EM and MASI



Source: Datastream

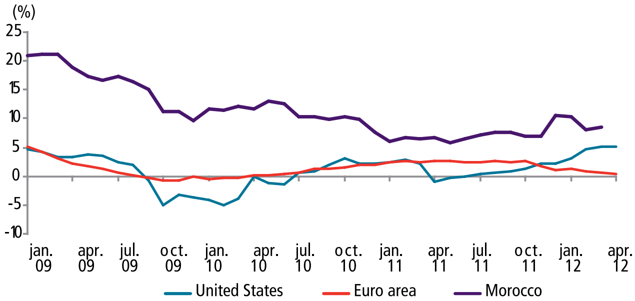
Chart 3.8: Change in VIX*



** 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
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
United States	3.5	3.1	2.4	1.6	1.5	1.6	2.1
Euro area	2.1	2.1	2.4	1.6	1.3	0.7	0.0
France	1.6	1.8	2.4	1.7	1.5	1.2	0.3
Germany	4	3.8	4.6	2.9	2.7	2.0	1.2
Italy	1.4	1.5	1.0	0.8	0.2	-0.4	-1.3
Spain	0.4	0.7	0.9	0.8	0.8	0.3	-0.4
China	9.6	9.8	9.7	9.5	9.1	8.9	8.1

Source: Eurostat

3.1.2 Global economic activity

U.S. national accounts data for the first quarter 2012 show a GDP growth of 2.1 percent year on year, from 1.6 percent the previous quarter. Household consumption remained the main engine of growth with an increase of 2.9 percent in the first quarter, up from 2.1 percent a quarter earlier. Rising exports and accelerated restocking pace also contributed positively to growth.

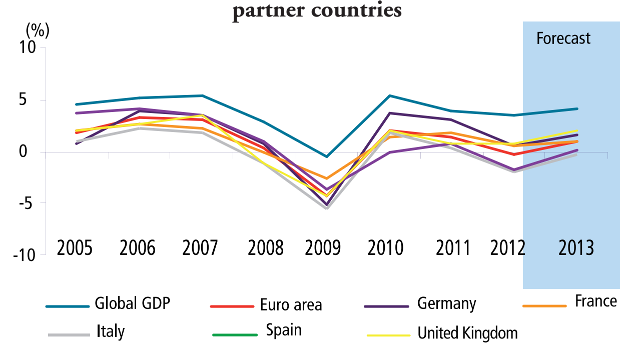
In the eurozone, a first Eurostat estimate points to a zero growth in the first quarter, year on year, after a 0.7 percent increase in the previous quarter, largely reflecting the decrease in household consumption. In the partner countries, growth in Germany decelerated to 1.2 percent, from 2 percent in the previous quarter. In contrast, growth in France was zero, while Spain and Italy's GDP contracted by 0.4 percent and 1.3 percent respectively year on year, after rising 0.3 percent and declining 0.4 percent, respectively, in the fourth quarter.

In Japan, growth in the first quarter of 2012 rebounded to 2.6 percent year on year, after a contraction of 0.7 percent on average over the whole of 2011. This improvement is due to the strong recovery of household consumption, higher exports and buoyant investment.

Economic activity in most of emerging Asia, although decelerating, remained relatively strong, as evidenced by data for growth in China in the first quarter of 2012, where GDP expanded 8.1 percent year on year after 8.9 percent a quarter before. In India, the latest national accounts data relate to the fourth quarter of 2011, indicating a fall of growth to 5.3 percent year on year, compared to 6.1 percent in the third quarter.

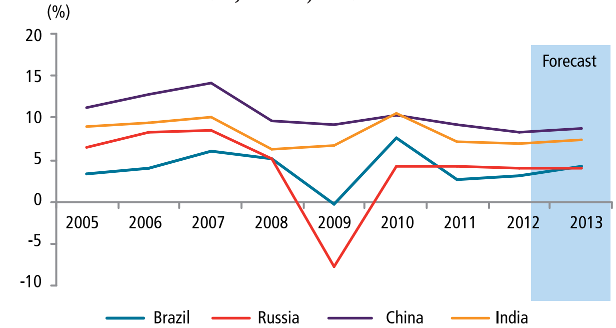
The sluggish economic growth in the first quarter is expected to continue, as reflected in the development of high-frequency indicators as at end May. In the euro area, both the manufacturing and

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) and Morocco



Source: IMF

Table 3.2: Global growth outlook

	Forecasts (%)							
	OECD*		European Commission*		IMF*		Central banks	
	2012	2013	2012	2013	2012	2013	2012	2013
Global GDP	-	-	-	-	3.5	4.1	-	-
United States	2.4	2.6	2.0	2.1	2.1	2.4	(2.4-2.9)	(2.7-3.1)
Euro area	-0.1	0.9	-0.3	1.0	-0.3	0.9	-0.2	1.0
Germany	1.2	2	0.7	1.7	0.6	1.5	0.7	1.3
France	0.6	1.2	0.5	1.3	0.5	1.0	0.7	1.8
Italy	-1.7	-0.4	-1.4	0.4	-1.9	-0.3	-1.2	-0.2
Spain	-1.6	-0.8	-1.8	-0.3	-1.8	-0.1	-1.7	0.2
United Kingdom	0.5	1.9	0.5	1.7	0.8	2.0	0.8	2.0
China	8.2	9.3	-	-	8.2	8.8	-	-
India	7.3	7.8	-	-	6.9	7.3	-	-
Brazil	3.2	4.2	-	-	3.0	4.1	-	-
Russia	4.5	4.1	-	-	4.0	3.9	-	-

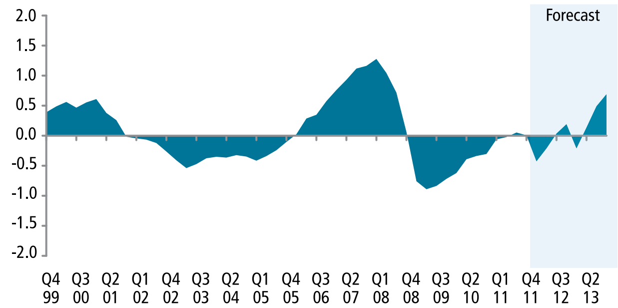
**OECD and European Commission May 2012, IMF: April 2012, Central banks January 2012*

Sources: IMF, European Commission, OECD composite PMI fell in May at a monthly rate of about 2 percent and a year-on-year rate of 17.5 percent. Germany's IFO Business Climate Index was down 2.7 percent to 106.9 points. Similarly, the ZEW Economic Sentiment Index fell more than a half from the previous month, to 10.8 points. In the United States, the Conference Board Consumer Confidence Index in May showed a monthly decline of 5.5 percent to 64.9 basis points, and 5.2 percent year on year. The manufacturing ISM index also fell at a monthly rate of 2.4 percent to 53.5 basis points, but remained unchanged from the same period of last year.

Regarding the world economic outlook, in its April update, the IMF broadly revised up growth projections for most advanced and emerging countries from the January 2012 edition. Growth in the United States would be 2.1 percent and 2.4 percent in 2012 and 2013, respectively, while euro area's GDP would fall by 0.3 percent in 2012 before increasing by 0.9 percent in 2013. In Morocco's partner countries, the new projections show a GDP growth of 0.6 percent and 1.5 percent in Germany and 0.5 percent and 1 percent in France. In Italy, the updated forecasts show a lower contraction of GDP to -1.9 percent and -0.3 percent in 2012 and 2013, respectively, while in Spain, GDP would decrease by 1.8 percent in 2012 and then increase by 0.1 percent in 2013 (see Table 3.2).

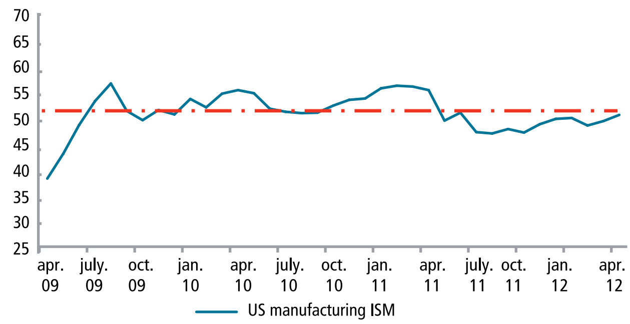
The OECD, in its preliminary economic outlook of May 22, 2012, also revised up its projections for the major advanced economies, albeit with decreases for euro area peripheral countries. It now expects a U.S. GDP growth of 2.4 percent and 2.6 percent in 2012 and 2013, respectively, while euro area's will contract by 0.3 percent before increasing by 0.9 percent over the same period. In partner countries, particularly France and Germany, growth would reach 0.6 percent and 1.2 percent, respectively, in 2012 before rising to 1.2 percent and 2 percent in 2013. In contrast, GDP in Italy and Spain would fall by 1.7 percent and 1.6 percent in 2012, and 0.4 percent and 0.8 percent in 2013.

Chart 3.12: Output gap of main partner countries



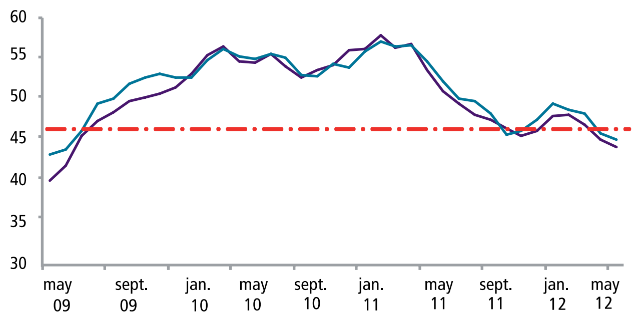
Sources: European Commission, and BAM calculations

Chart 3.13: ISM growth in the United States



Sources: Dtatstream

Chart 3.14: Composite and manufacturing PMI change in the euro area



Sources: Dtatstream

Projections for the United Kingdom remain broadly unchanged from the November 2011 edition, with an increase of 0.5 percent in 2012 and 1.9 percent in 2013.

The European Commission, in its May projections, reviewed downward growth forecasts for most advanced economies, especially in the euro area, compared to last November's prospects. The United States are the exception, as growth forecasts were revised upward to 2 percent in 2012 and 2.1 percent in 2013, from 1.5 percent and 1.3 percent estimated earlier. However, in the euro area, GDP is projected to decline 0.3 percent in 2012 before growing by 1 percent in 2013. In Morocco's partner countries, growth in France and Germany in 2012 would be limited to 0.5 percent and 0.7 percent, respectively, before increasing to 1.3 percent and 1.7 percent in 2013. Italy's GDP would contract by 1.4 percent in 2012 and slightly increase by 0.4 percent in 2013, while Spain's GDP is projected to fall by 1.8 percent and 0.3 percent in 2012 and 2013, respectively.

With regard to central banks, the Fed forecasts of late April expect U.S. GDP to expand between 2.4 and 2.9 percent in 2012, and between 2.7 and 3.1 percent in 2013. Meanwhile, the ECB projections for the euro area predict a GDP contraction of 0.2 percent in 2012 and an increase of 1 percent in 2013.

In partner countries, the Banque de France forecasts of late April show an increase of 0.7 percent in 2012 and 1.75 percent in 2013, while the Bundesbank projects a growth of 0.6 percent and 1.6 percent for the same periods. The Bank of Italy expects a contraction of 1.2 percent and 0.2 percent. For the Central Bank of Spain, GDP would decline 1.7 percent in 2012 and rise 0.2 percent in 2013.

3.1.3 Job market

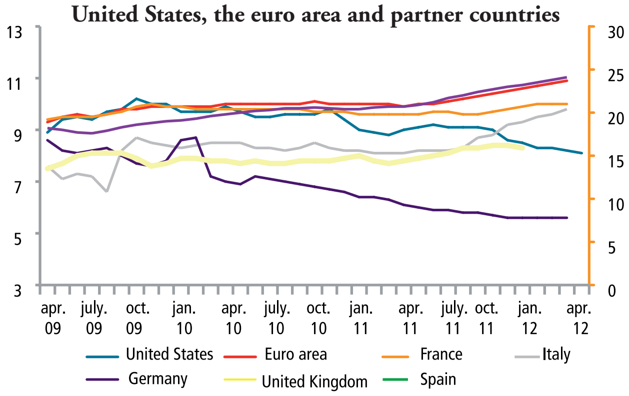
Unemployment rates in most advanced countries remained at similar levels to those seen in 2011, particularly in the first quarter of 2012, with the exception of Germany

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

	2010	2011	feb. 2011	march 2011	apr. 2011
United States	9.6	9	8.3	8.2	8.1
Euro area	10.1	10.2	10.8	10.9	N.A
France	9.8	9.7	10	10	N.A
Italy	8.4	8.5	9.6	9.8	N.A
Germany	7.1	5.9	5.6	5.6	N.A
Spain	20.1	21.7	23.8	24.1	N.A
United Kingdom	7.8	8	N.A	N.A	N.A

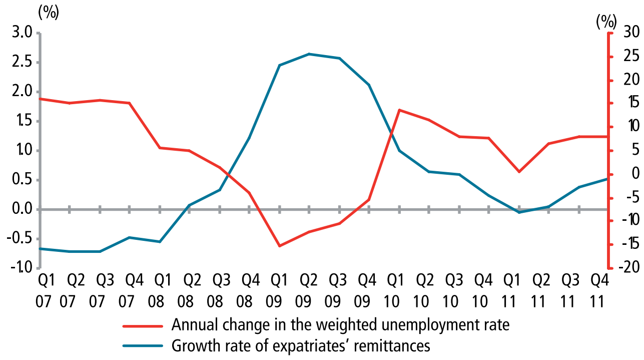
Sources: Eurostat

Chart 3.15: Change in monthly unemployment rate in the United States, the euro area and partner countries



Source: Eurostat

Chart 3.16: YoY change in main partner countries' weighted unemployment rate and growth rate of expatriates remittances*



** The weighted unemployment indicator is prepared on the basis of the unemployment rate in Morocco's main partner countries (France, Spain, Germany, Italy, Benelux, United States, the Netherlands and United Kingdom) which alone constitute 90.1 percent of Moroccan expatriates' remittances, weighted by the share of these countries in these remittances.*

Sources: Datastream, Foreign Exchange Office, and BAM calculations where it was still lower than the pre-crisis level.

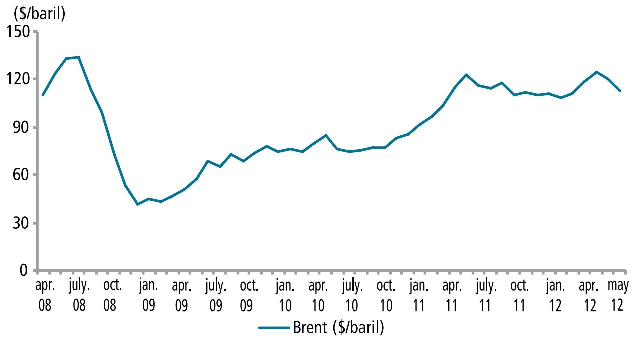
In the United States, the unemployment rate increased for the first time in a year, to 8.2 percent in May 2012 from 8.1 percent the previous month. In the euro area, it remained stable at 11 percent in April 2012 month on month. By country, in France it increased to 10.2 percent in April from 10.1 percent the previous month, and slowed in Germany to 5.4 percent as against 5.5 percent in March. In Italy and Spain, the unemployment rate further increased to 10.2 percent and 24.3 percent in April, from 10.1 percent and 24.1 percent a month earlier.

The outlook for labor market in advanced countries shows that the economic deterioration should lead, over the short-term, to persistently high rates in 2012, but at varying degrees across countries. However, some countries like the United States and Germany may see a further decline in unemployment rates in 2012 and 2013. In fact, IMF's latest projections of April suggest that unemployment in the United States would reach 8.2 percent in 2012 and slow to 7.9 percent in 2013, while in the euro area it would increase to 10.9 percent in 2012 and fall to 10.8 percent in 2013. In partner countries, the unemployment rate in Germany would decline to 5.6 percent in 2012 and 5.5 percent in 2013. In France, it would average 10 percent over the same period, and should hover around 9.6 percent in Italy. Spain's labor market is not expected to improve in the short term, as unemployment rate would remain at around 24 percent in 2012 and 2013.

3.2 Commodity prices and inflation

The heightened level of risk to economic conditions, particularly in the euro area, engendered a general decline in commodity prices in May. Similarly, inflationary pressures eased somewhat in April, as evidenced by the decline in inflation in advanced as well as emerging and developing economies.

Chart 3.17: World price of brent oil in dollar



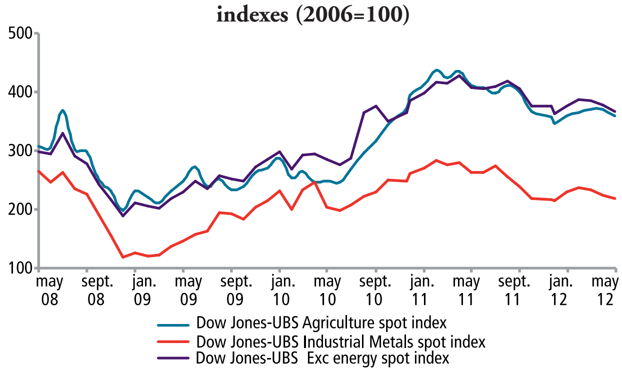
Source: Datastream

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

	Q2:12	Q3:12	Q4:12	Q4:13	2012	2013	2014
Oil	113.07	106.92	105.68	104.64	110.99	102.91	98.29

Source: Bloomberg

Chart 3.18: Change in the DJ-UBS non-energy commodity indexes (2006=100)



Source: Datastream

Table 3.5: Futures prices of wheat, corn and sugar

	Q2:12	Q3:12	Q4:12	2012	2013	2014
Wheat (cents/bu)	653.1	698.8	718.6	731.3	678.5	741.3
Corn (cents/bu)	618	535.5	523.7	579.1	533.5	525.7
Sugar (11cents/bl)	20.9	20.2	21.13	21.42	21.59	21.51

Source : Bloomberg

3.2.1 Energy commodity prices

The stronger dollar, combined with the effect of sluggish demand, particularly from developed countries, led to a decrease in the price of Brent for the second consecutive month, which fell to an average price of $111.2 a barrel, down 7.7 percent month on month and 4 percent year on year.

However, forecasts point to upside risks, as the IMF revised its projections in April from $99.09 to $114.71 a barrel in 2012, and from $95.5 to $110 a barrel in 2013. On the futures market, contract prices are expected at $110.9 per barrel for 2012 and $102.9 for 2013.

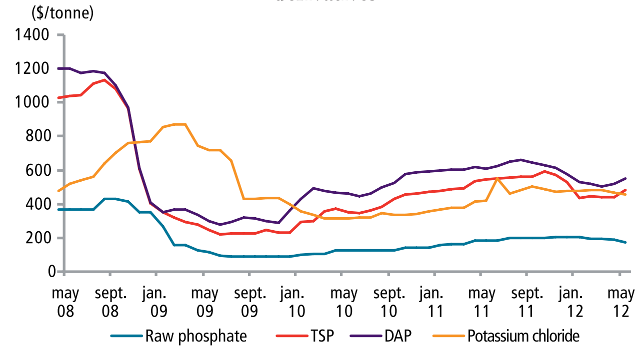
Similarly, the IEA revised up its forecast for global oil demand by 0.9 percent in 2012 to 90 mb/d, while OPEC raised its forecast by a mere 0.1 percent to 88.7 mb/d, due to persistent concerns about the demand from European countries.

Although it remains 10 percent higher than the level reported in 2011, natural gas price in April was down 4.6 percent from the previous month, mainly because of the large supply and the continued excess inventory. Coal prices also fell by 4.1 percent month on month and 17.6 percent year on year, mainly in connection with the abundant U.S. production.

3.2.2 Non energy commodity prices

In May, non-energy commodity prices were down, as reflected in the decline of the Dow Jones-UBS index by 3.8 percent month on month and 10.7 percent year on year. Industrial metal prices were impacted by the signs of slowing demand from China and new tensions in financial markets. Thus, the Dow Jones-UBS industrial metals spot index declined by 3.6 percent from the previous month and 17.8 percent from last year. By product, the price of tin, nickel and copper fell 7.3 percent, 4.4 percent and 3 percent month on month, down 28.2 percent, 29.3 percent and 10.2 percent year on year.

Chart 3.19: Change in the world prices of phosphate and derivatives

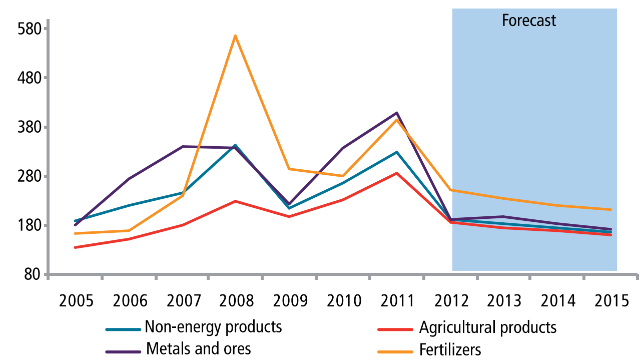


Source: World Bank

Table 3.6: Trends in commodity prices

	Forecasts (in %)					
	Month-on-month (%)			Year-on-year (%)		
	march	apr.	may	march	apr.	may
DJ UBS-Spot Commodity Index	-0.7	-2.8	-3.2	-8.1	-14.3	-12.9
DJ UBS-Energy Spot Index	-0.4	-4.5	-1.8	-10.8	-19.3	-17.4
- Brent	4.6	-3.4	-7.7	8.5	-2	-4
- Natural gas	7.6	-4.6	N.D	27.7	10.2	N.D
DJ UBS-Exc Energy Spot Index	-0.9	-2	-4.5	-7	-11.7	-10.7
- DJ UBS Agriculture Spot Index	1.3	-0.2	-4.3	-12.6	-14.9	-13.7
- DJ UBS-Indust. Metal Spot Index	-1.8	-3.8	-3.6	-15.2	-19.5	-17.8
Raw phosphate	0	-2.3	-6.9	20.3	3.1	-4.1
- TSP	-0.8	0	9.9	-10.7	-17.6	-11.4
- DAP	-2.9	3.1	6.7	-17	-16	-9.3
-Urea	7.2	20.2	0.6	25.3	44.9	25
-Potassium chloride	-0.6	-2.3	-2.4	26.3	13.3	9.3

Chart 3.20: Outlook for commodity price indexes



Source: World Bank

The prices of agricultural commodities were down in May, impacted by the increase in production, especially in the United States. The Dow Jones-UBS Agriculture Spot Index fell 4.3 percent from the previous month and 13.7 percent from the same period of last year. This decline mostly reflects lower prices for cotton, sugar and wheat, which were down at a monthly rate of 10.4 percent, 4 percent and 1.6 percent and an annual rate of 50.2 percent, 18.5 percent and 11.9 percent, respectively.

In the fertilizer markets, prices in May showed divergent monthly changes across products. The price of crude phosphate declined for the second consecutive month, from $188.1 to $175 a tonne. In contrast, prices of TSP, DAP and urea increased 9.9 percent, 6.7 percent and 0.6 percent, respectively. The price of potassium chloride reported a monthly fall of 2.4 percent, continuing the decrease that began in March 2012.

3.2.3 Inflation in the world

In April, lower commodity prices and weaker economic activity caused inflationary pressures to ease, as global inflation reached 3.6 percent down from 3.8 percent in March. In advanced economies, inflation fell from 2.3 percent to 2.1 percent, primarily reflecting the monthly decrease from 2.7 to 2.3 percent in the United States and from 2.7 to 2.6 percent in the euro area. In the main partner countries, except Spain where inflation rose from 1.8 to 2 percent, the CPI grew less rapidly, from 2.6 to 2.4 percent in France, 3.8 to 3.7 percent in Italy, and from 2.3 to 2.2 percent in Germany. In the United Kingdom, inflation reached 3 percent in April, the lowest since February 2010.

In emerging and developing economies, inflation fell by 0.3 percentage points to 5.8 percent in April. It decreased from 3.6 to 3.4 percent in China, 5.2 to 5.1 percent in Brazil and 3.7 to 3.4 percent in Chile.

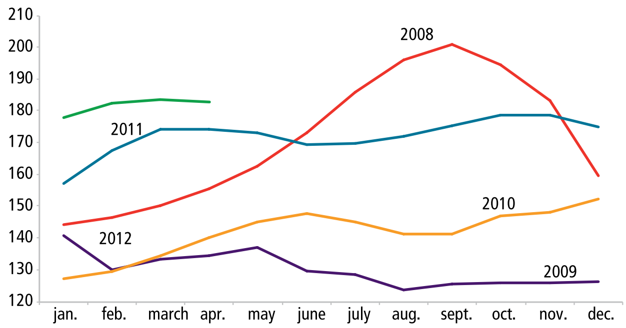
Looking ahead, the IMF in April projected further moderation in consumer prices in 2012 and 2013, expecting an inflation rate

Table 3.7: Recent trend in world inflation, YoY

	apr. 2011	feb. 2012	march 2012	apr. 2012	Forcasts 2012	Forcasts 2013
United States	3.2	2.9	2.7	2.3	2.1	1.9
Euro area	2.8	2.7	2.7	2.6	2	1.6
Germany	2.7	2.5	2.3	2.2	1.9	1.8
France	2.2	2.5	2.6	2.4	2	1.6
Spain	3.5	1.9	1.8	2	2.9	1.5
Italy	2.9	3.4	3.8	3.7	2.5	1.8
Japan	-0.4	0.3	0.5	n.a	0.0	0.0
China	5.3	3.2	3.6	3.4	3.3	3.0

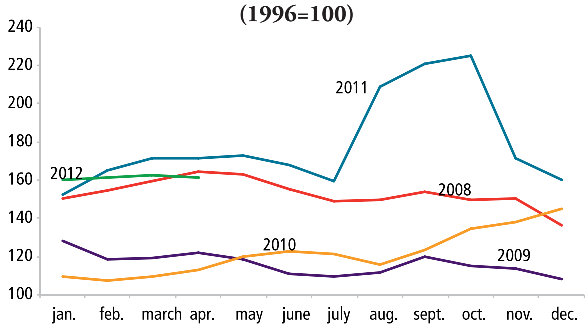
Sources : IMF. Eurostat

Chart 3.21: Non-energy import price index (1996=100)



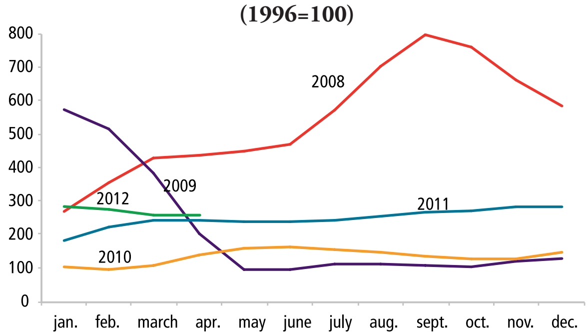
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.22: Food product's import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.23: Mining products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations of 1.9 percent in 2012 and 1.7 percent in 2013 in the developed countries, compared with 6.2 percent and 5.6 percent in emerging economies for the same period.

3.3 Morocco's import unit price index

Based on the latest available data, the non-energy import price index (IPI) declined 0.6 percent in April 2012, versus 0.8 percent in March. In fact, the food IPI was down 0.9 percent, after rising 1 percent a month earlier, reflecting in particular the 1.3 percent decline in the average import unit price of maize.

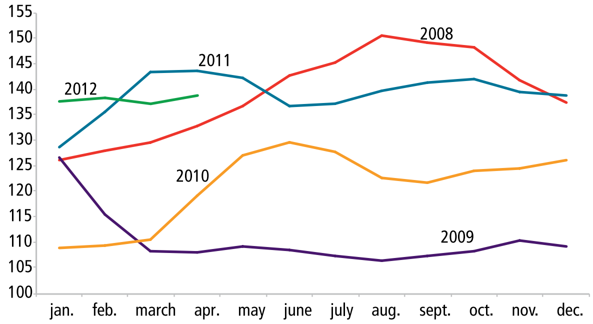
Similarly, the mining IPI fell 1.3 percent from 3.8 percent in March. This was due primarily to the 2.1 percent decline in the average import unit price of crude sulfur.

However, the IPI of semi-finished goods recorded an increase of 1.2 percent, compared with a 0.8 percent decline the previous month, mainly in connection with the 4.6 percent growth in the average import unit price of wires and rods.

Year on year, the non-energy IPI rose by 5 percent, down from 5.4 percent a year earlier. The mining IPI was up 6.9 percent, due primarily to the 12.2 percent increase in the average import unit price of crude sulfur. In contrast, the food IPI posted a decline of 6.1 percent, mainly attributable to a decrease of 7.1 percent in the average import unit price of wheat. Meanwhile, the IPI of semi-finished goods was down 3.4 percent, reflecting in particular the decline of 10.8 percent in the average import unit price of paper and paperboard.

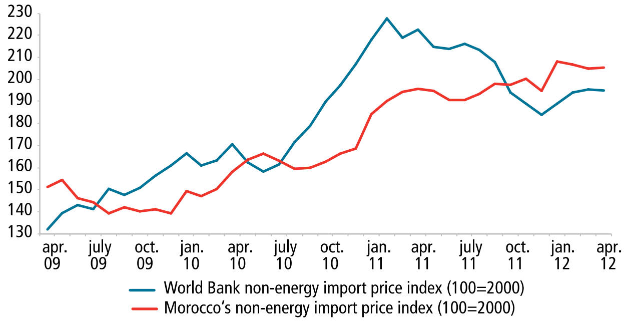
All these elements point to easing inflationary pressures from commodity import prices. The outlook for commodity prices suggests that they would continue to trend broadly downward.

Chart 3.24: Semi-finished products' import price index (1996=100)



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

Chart 3.25: Change in world commodity price index and domestic non-energy import price index (2000=100)



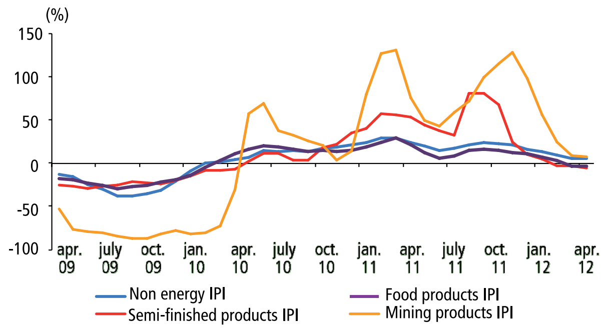
Sources: Foreign Exchange Office, and BAM calculations

Table 3. 8 : Change in import price index (IPI)

	Monthly change in %			Annual change in %		
	feb. 12	march 12	apr. 12	feb. 12	march 12	apr. 12
Non energy IPI	2.4	0.8	-0.6	8.8	5.4	5.0
Food IPI	0.5	1.0	-0.9	-2.5	-4.0	-6.1
Semi-finished products IPI	0.4	-0.8	1.2	2.0	-4.3	-3.4
Mining IPI	-4.1	-3.8	-1.3	23.9	8.4	6.9

Indexes calculated on the basis of unit prices in Dirhams.

Chart 3.26: YoY change in import price index



Sources: Foreign Exchange Office, and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

The latest data point to a continued moderate growth of money supply, as M3 aggregate was up 5.2 percent in April, as against 5.5 percent on average during the first quarter of 2012. Under these conditions, the money gap remained negative. Meanwhile, the annual growth of bank lending decelerated from 9 percent in the first quarter of 2012 to 6.9 percent in April, in conjunction, essentially, with slowing annual growth of cash advances and, to a lesser extent, that of real-estate loans. By institutional sector, the credit trend covers a decline in the growth of loans to the private sector and an acceleration of that of loans to the public sector. As to lending rates, Bank Al-Maghrib's survey among banks for the first quarter of 2012 indicates a decrease of 13 basis points in loan's weighted average rate, mainly reflecting lower rates on cash advances. The dirham's effective exchange rate depreciated by 0.68 percent from one quarter to another in nominal terms, while in real terms it depreciated by 1.1 percent, as the inflation rate in Morocco was generally lower than in the major partner and competitor countries. The real estate price index was up 0.6 percent, quarter on quarter, after a virtual stagnation in the last quarter of 2011. Year on year, it rose 1.1 percent, as against 2.8 percent in the previous quarter. The analysis of all elements of monetary conditions and asset prices generally revealed the absence of inflationary pressures in the medium term.

4.1 Monetary conditions

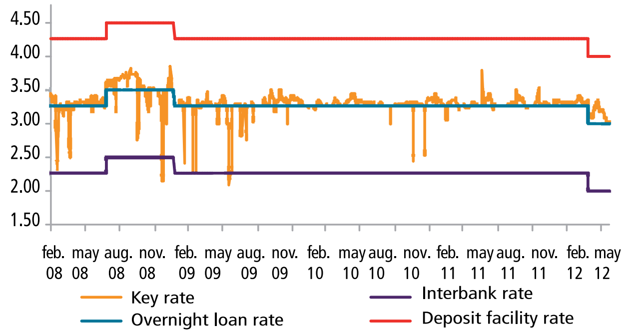
4.1.1 Interest rates

In a context marked by a significant decline in economic activity and a permanent inflation central forecast in line with the price stability objective and a balance of risks tilted to the downside, the Board of Bank Al-Maghrib decided, at its last meeting on March 27, 2012, to reduce the key rate from 3.25 percent to 3 percent. Against this backdrop, the weighted average rate on the interbank market stood at 3.13 percent on average between April and May 2012, down 17 basis points from the previous quarter.

Thus, the rates on short, medium and long-term primary market Treasury bonds decreased significantly in April compared to the first quarter of 2012, with the exception of 15-year bond rates, which increased by 4 basis points. In the secondary market, various maturity rates were also down between the first quarter and the first two months of the second quarter of 2012, with the exception of 15 and 20-year bond rates, which increased slightly.

The weighted average rate of 6 and 12-month deposits remained unchanged

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



Source :BAM

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

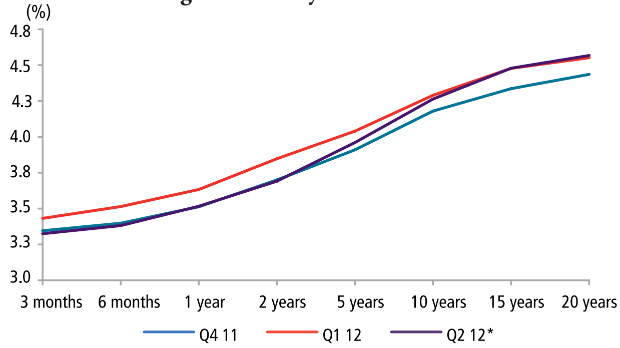
	2010			2011		2012	
	Q3	Q4	Q2	Q3	Q4	Q1	apr.12
21 days	-	-	-	3.28	-	-	-
13 weeks	-	3.29	3.30	3.30	3.34	3.42	3.20
26 weeks	3.41	3.33		3.33	3.33	3.55	3.38
52 weeks	3.49	3.48	3.45	3.46	3.49	3.65	3.51
2 years	3.68	3.62	3.61	3.61	3.71	3.88	3.70
5 years	3.90	3.85	3.84	3.85	3.91	4.05	3.98
10 years	4.17	4.15	4.12	4.13	4.20	4.32	4.28
15 years	-	4.34	4.33	4.34	4.45	4.46	4.50

Source :BAM

between the first quarter and April 2012. However, this stagnation covers a rise of 4 basis points in the 6-month deposit rates and a decrease of one basis point in the one-year deposit rates.

As to lending rates, the findings of BAM survey among banks, for the first quarter of 2012, indicate a decrease of 13 basis points in the weighted average rate of bank loans, which fell to 6.52 percent. This trend mainly reflects respective declines of 13 and 3 basis points in rates on cash advances and, to a lesser extent, on real-estate loans.

Chart 4.2: Change in maturity structure of TB interest rates



**Observation of the first quarter of 2012 corresponds to the arithmetic average of data from April 1 to May 25. 2012*

Source : BAM

Table 4.2: Rates on time deposits

	2010		2011			2012	apr. 12
	Q3	Q4	Q2	Q3	Q4	Q1	
6 months	3.32	3.33	3.34	3.33	3.35	3.49	3.53
12 months	3.71	3.77	3.72	3.78	3.74	3.84	3.83
Weighted average	3.59	3.60	3.55	3.63	3.59	3.68	3.68

Source : BAM

Box 4.1: Liquidity and monetary policy implementation

During the first quarter of 2012, banks' liquidity deficit widened by nearly 14 billion dirhams compared to the end of the previous quarter (from 35.6 billion to 49.5 billion dirhams), due to a restrictive effect related to lower net foreign assets.

Indeed, foreign exchange transactions led to a liquidity drain of 10 billion dirhams, owing to continued faster pace of foreign currency purchases by commercial banks from Bank Al-Maghrib (16.4 billion dirhams), partially offset by foreign banknotes reflow, which was limited to 6.4 billion dirhams.

Similarly, Treasury operations (excluding interventions in the money market) contributed to tightening bank treasuries for nearly 1.6 billion dirhams: bank subscriptions to T-bills' auctions (29.8 billion dirhams), combined with the collection of tax revenues, were partially offset by the repayment of domestic debt maturities to the banking system (18.1 billion dirhams), the settlement of civil service salaries (15.3 billion dirhams) and subsidization expenses (13 billion dirhams). Finally, net withdrawals of currency in circulation amounted to 497 million dirhams.

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

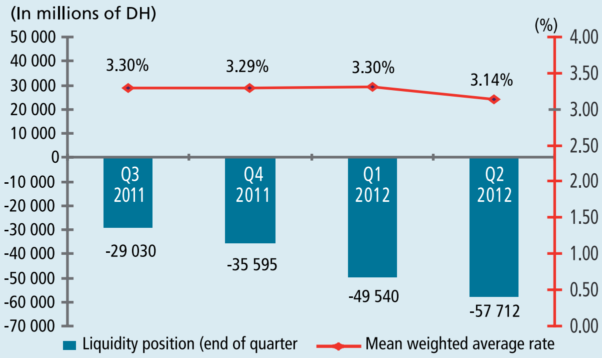
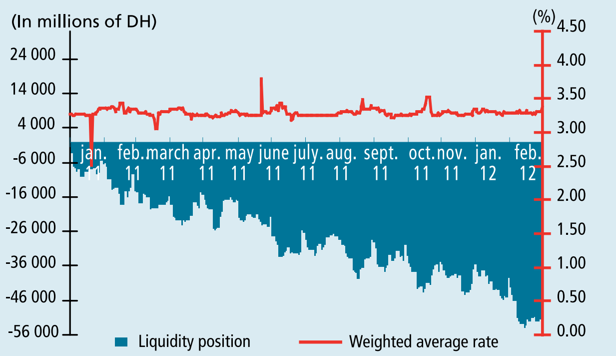


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



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

During the second quarter of 2012[1], bank liquidity deficit increased, as a result of the continued restrictive trend of all autonomous factors (-9.3 billion dirhams).

Chart B 4.1.3: Change in reserve requirements

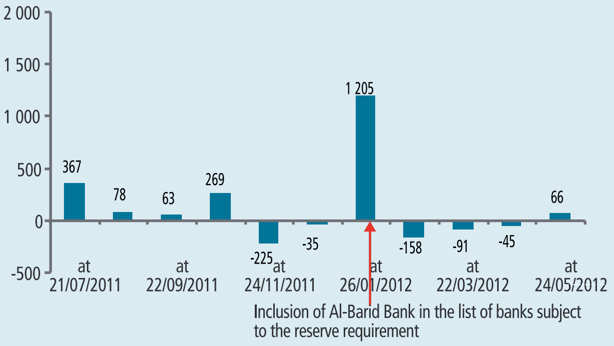
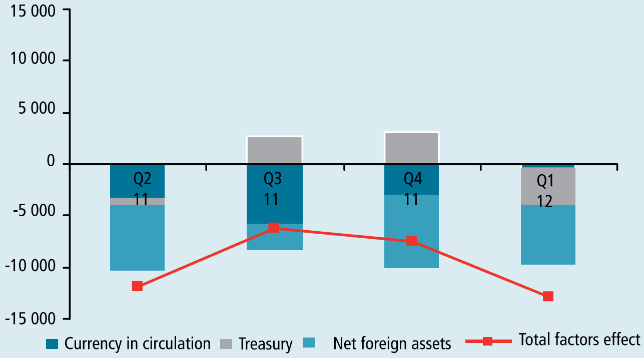


Chart B 4.1.4: Change in liquidity factors' effect



Indeed, Treasury operations (excluding interventions in the money market) had negative impact of 4.5 billion dirhams on banks' liquidity due to the difference between, on the one hand, bank subscriptions to T-bills' auctions (16.3 billion dirhams) and collection of tax revenues, including the first installment of corporate tax for fiscal 2012, and on the other hand, the repayment of domestic debt maturities to the banking system (15.1 billion dirhams), payment of subsidization expenses (10.5 billion dirhams) and payment of salaries of civil servants (5 billion dirhams).

In addition, foreign asset transactions caused a liquidity drain of 3.9 billion dirhams from the difference between purchases of foreign currencies by commercial banks, which totaled 7.6 billion dirhams, and foreign currency sales that reached 3.7 billion dirhams. Finally, the outstanding amount of currency in circulation registered an increase of 1.1 billion dirhams.

Moreover, due to improved revenues of the Treasury (particularly following the collection of the first installment of corporate tax), the latter rose strongly its outstanding money market investments, from 2.3 billion dirhams during the first quarter of 2012 to 4.6 billion dirhams on daily average during the second quarter.

To fill the shortage in bank liquidity which exceeded 60 billion dirhams in this quarter (as against 48.1 billion a quarter earlier), Bank Al-Maghrib intervened primarily through the 7-day advances with an average daily amount of 41.4 billion dirhams, as against 31 billion in the previous quarter. The central bank also renewed the three-month refinancing operation, due on May 24, thus maintaining its outstanding long-term interventions at 15 billion dirhams.

Money market weighted average rate was down 3.13 percent on average during this quarter, as against 3.30 percent in the first quarter of 2012, following the decrease of 25 basis points in the key rate, on March 27. However, its volatility stood at 9 basis points as against 4 basis points a quarter earlier.

Chart B 4.1.5: BAM interventions on the money market

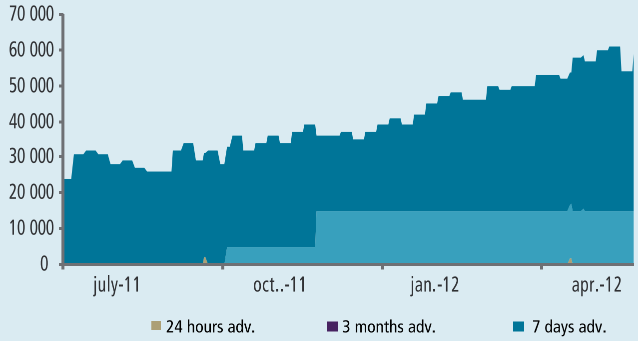
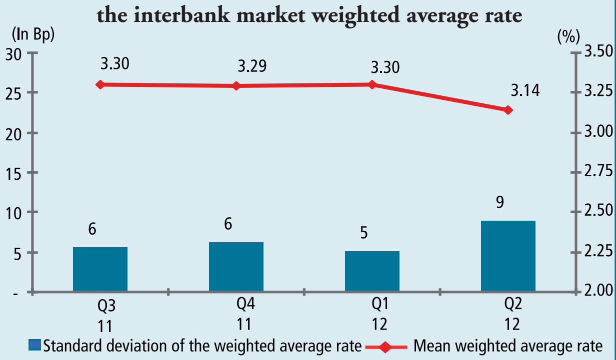


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



[2] The first quarter of 2012 only includes the period from April 1 to May 28, 2012.

4.1.2 Money. credit and liquid investments

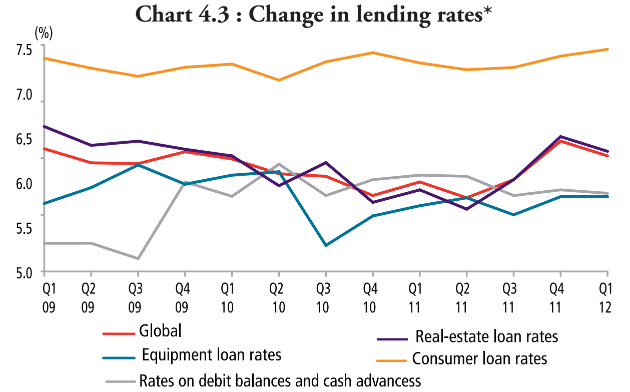
M3 growth

Data for the month of April show a continued moderate growth of money supply. Consequently, the money gap remained negative, thus indicating the absence of monetary inflationary pressures in the medium term.

After having stood at 5.5 percent in the first quarter of 2012, the annual M3 growth rate fell to 5.2 percent in April. This trend reflects mainly the continued decline in net foreign assets and slowdown in the bank credit growth, which undermined the positive effect of the accelerating growth of net claims on central government.

The analysis of the main components of money supply indicates that, overall, their shares declined, except for the securities of money market UCITS. Indeed, the annual growth of currency in circulation fell from 7.7 percent in the first quarter to 6.2 percent in April, thus continuing its slow trend that began in the fourth quarter of 2011. Similarly, and following a monthly decrease of 2 percent, bank money increased by 3.9 percent year on year, as against 5.1 percent on average during the first three months of 2012. Time deposits were down 4.1 percent year on year, after a contraction of 3.7 percent in the previous quarter, despite the observed increase in deposit rates. However, the securities of money market UCITS expanded by 32.4 percent in April, as against 20.6 percent in the first quarter, reflecting, in addition to a base effect related to the decrease seen a year earlier, the importance of transfers in recent months to this type of deposits. Demand deposits did not change significantly between the first quarter and April 2012.

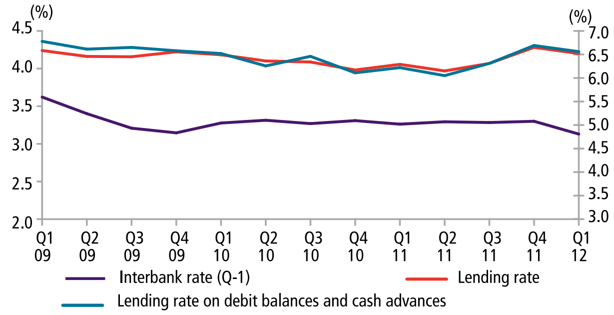
Chart 4.3 : Change in lending rates*



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

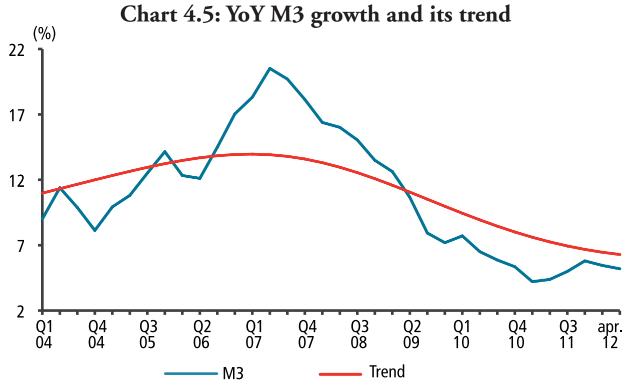
Source: BAM quarterly survey among banks

Chart 4.4: Change in interbank rate and lending rates



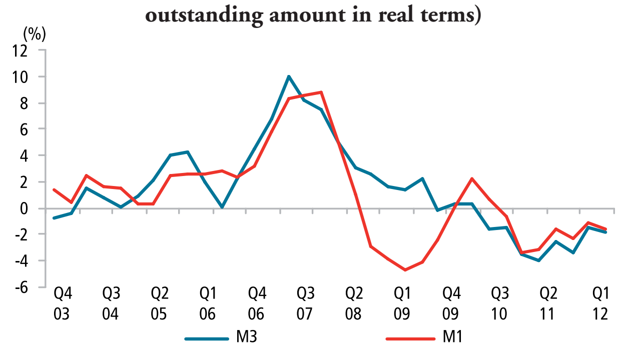
Source: BAM

Chart 4.5: YoY M3 growth and its trend



Source: BAM

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



Source: BAM

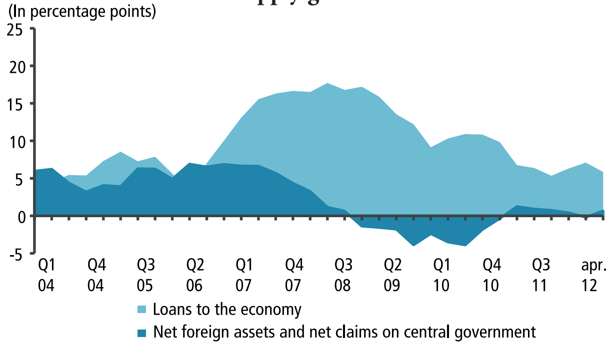
By institutional sector, the moderate growth of deposits included in M3, which can be due to a shift towards money market UCITS, is reflected in lower contribution of all depositors, except for households whose deposits grew by 6.6 percent in April, as opposed to 6.4 percent in the first quarter. Thus, after having recorded an annual increase of 4.8 percent last quarter, deposits of nonfinancial private companies were down 4.1 percent in April. Public sector deposits and financial corporation ones continued their downward trend observed in recent months.

Credit

The latest developments show a slower annual growth of bank lending, from 9 percent in the first quarter of 2012 to 6.9 percent in April, mainly owing to lower rate of change in loans to businesses. The latter recorded a significant slowdown, which seems to be due to the repayment of amounts taken out in March for the payment of corporate tax.

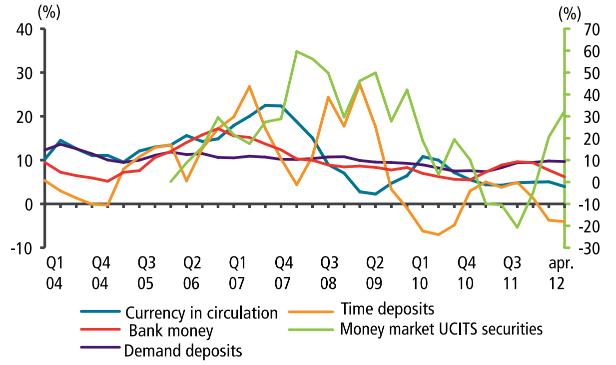
By economic purpose, the deceleration in bank credit annual growth is broadly attributable to that of cash advances, and to a lesser extent, that of real-estate loans. Indeed, the growth of cash advances registered a downturn, falling year on year from 16.6 percent in the first quarter to 9.3 percent in April 2012, down 3.4 percent from one month to another, probably reflecting the effect of repayment of loans granted in March for the payment of corporate tax. Meanwhile, the year-on-year growth of real-estate loans decelerated to 7.6 percent in April after it grew by 8.6 percent on average in the first three months of 2012, mainly due to the declining growth rate of loans to property developers. The annual variation in equipment loans remained unchanged at 2.5 percent between

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



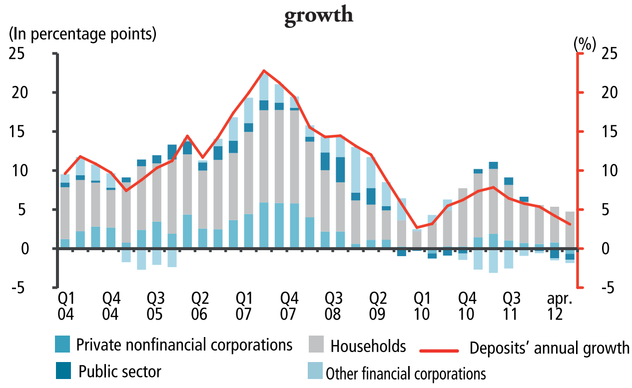
Source : BAM

Chart 4.8: YoY change in the major M3 components



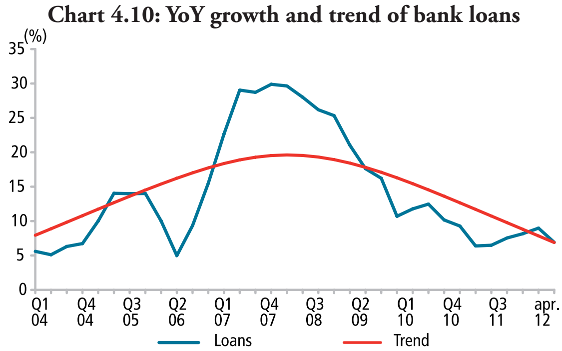
Source : BAM

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



Source : BAM

Chart 4.10: YoY growth and trend of bank loans



Source : BAM

April and the first quarter. However, the growth rate of consumer loans stood at 13.2 percent in April, up from 12 percent in the previous quarter. Various claims on customers showed a monthly drop of 1.6 percent and rose 4.8 percent year on year, down from the previous quarter. AS for non-performing loans, their rate of increase also slowed from 11.8 percent to 9.4 percent in April, but with a 0.5 percent increase from one month to the next.

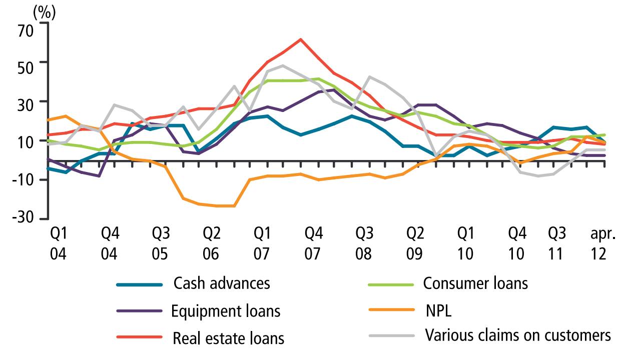
The breakdown of credit by institutional sector indicates a slower growth rate of loans to the private sector and accelerated growth of loans to the public sector. Indeed, the annual growth of loans to the private sector slowed from 7 percent in first quarter of 2012 to 5.1 percent in April. However, this deceleration, resulting from the slower growth of loans to nonfinancial corporations which fell to 3.9 percent from 9.2 percent last quarter, was mitigated by higher loans to households whose growth rate stood at 7.3 percent in April, up from 4.3 percent on average in the first three months of 2012.

Also, the contribution of this sector to credit growth fell to 4.2 percentage points, from 5.8 percentage points in the first quarter. However, the rate of change in loans to the public sector increased by 58.4 percent year on year in April, from 52.2 percent last quarter, thus contributing 2.4 percentage points to bank loans' growth.

Other sources of money creation

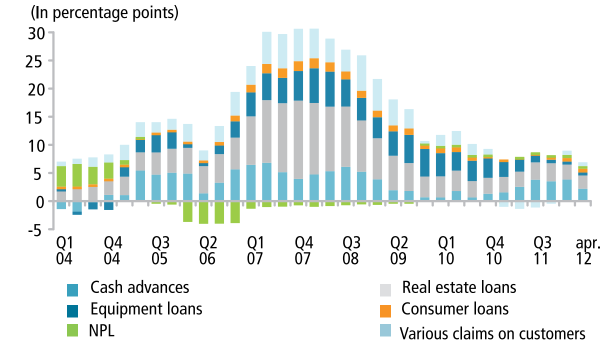
As part of their continued downtrend that began in August 2011, net foreign assets were, in the first quarter of 2012, down 15.3 percent compared to the rate registered a year earlier, mainly in connection with the widening trade deficit. In April 2012, these reserves

Chart 4.11: YoY growth of major bank loan categories



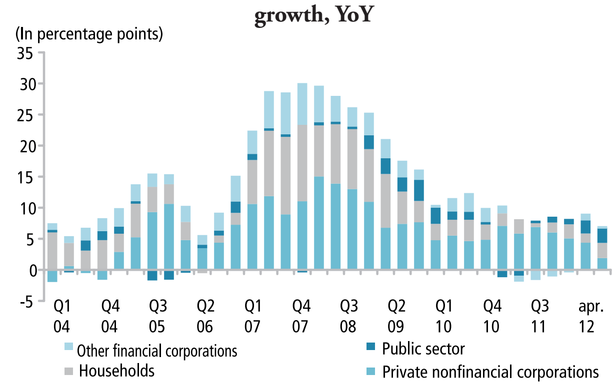
Source : BAM

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



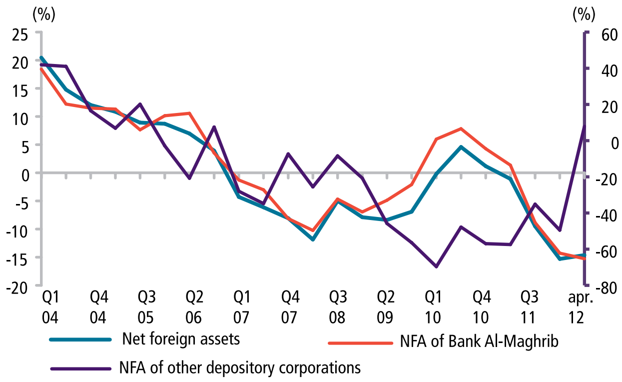
Source : BAM

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



Source : BAM

Chart 4.14: Annual growth of net foreign assets



Source : BAM

dropped by 14.6 percent year on year, covering a 15.3 percent decrease in net foreign assets of Bank Al-Maghrib and an increase of 7.9 percent of those of other depository corporations.

Concerning net claims on central government, despite a monthly contraction of 0.7 percent in April, their growth pace accelerated from 30.6 percent in the previous quarter to 38.5 percent year on year. Such an evolution reflects the increasing borrowing of the central government from other depository corporations.

Liquid investments

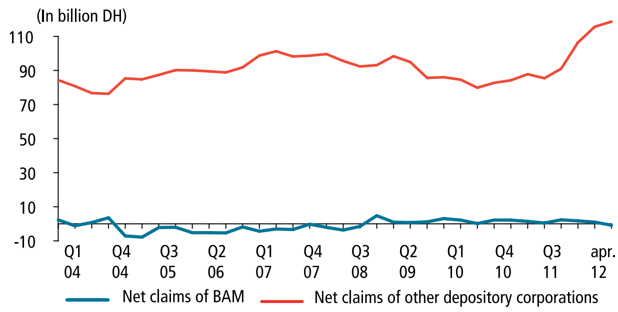
Liquid investment aggregates were up 4.9 percent in April year on year, as against 3.8 percent last quarter. The trend pattern of these investments primarily reflects higher annual growth of securities included in the LI1 aggregate, particularly that of marketable Treasury bonds, which rose from 5.8 percent in the first quarter of 2012 year on year to 7.1 percent in April. Meanwhile, bond UCITS securities included in the LI2 aggregate rose only 2.4 percent in April, as against 4.7 percent in the first quarter 2012, mainly in connection with the growing demand for this category of investment.

Securities of equity and diversified UCITS, which make up the LI3 aggregate, registered an annual decrease of 11.2 percent in April, as against 17.5 percent in the previous quarter, primarily reflecting the stock trends on the Casablanca stock exchange.

Exchange rate

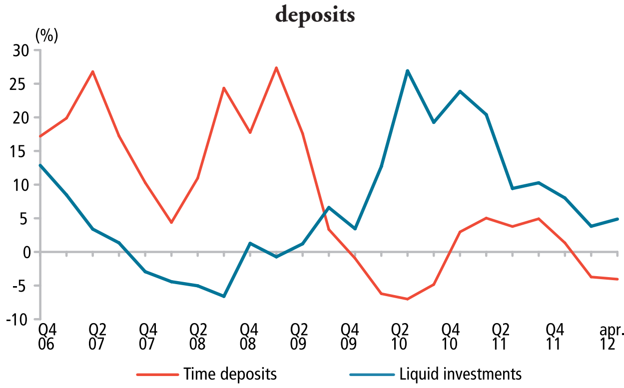
At the end of the first quarter of 2012 and compared with the previous quarter, the dirham appreciated 0.49 percent against the euro. However, it depreciated 2.16 percent and 2.12 percent vis-à-vis the U.S. dollar and the pound sterling, respectively. This trend continued in April and May 2012,

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



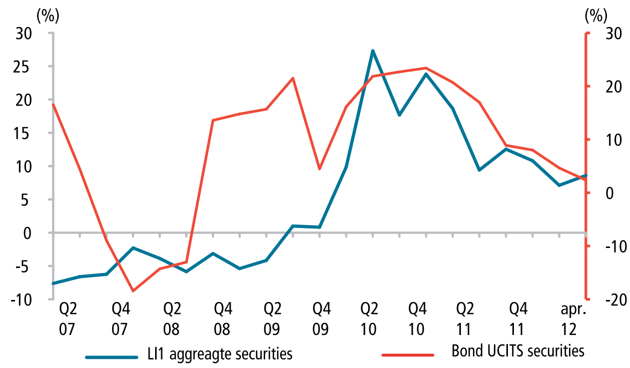
Source : BAM

Chart 4.16: YoY change in liquid investments and time deposits



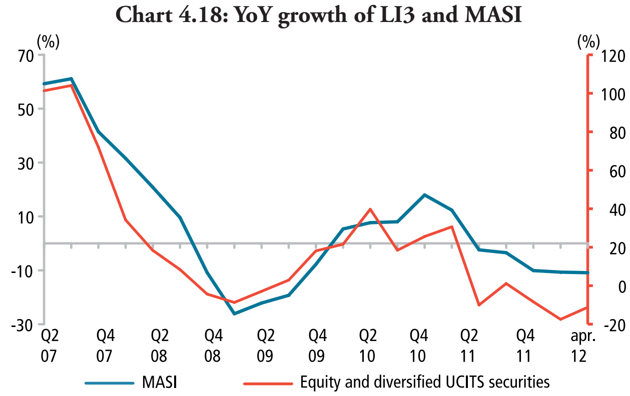
Source : BAM

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 as the national currency registered an average increase of 0.20 percent against the euro and declines of 2.41 percent and 0.89 percent against the pound sterling and the dollar, respectively.

The nominal effective exchange rate of the dirham, calculated on the basis of bilateral exchange rates with Morocco's major partners and competitors, depreciated by 0.68 percent from the previous quarter. In real terms, the national currency depreciated by 1.1 percent, as inflation rate in Morocco was generally lower than in the major trading partners and competitors.

4.2. Asset prices

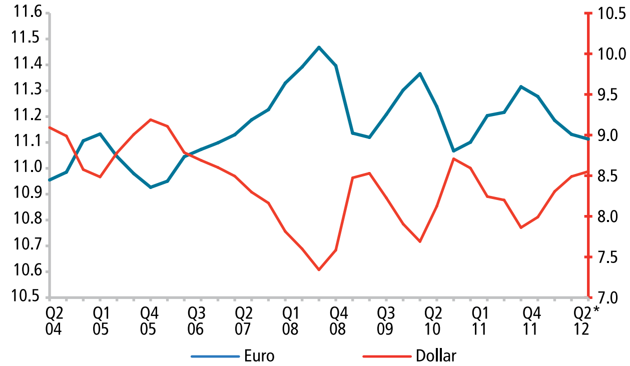
4.2.1 Real estate assets

At the end of the first quarter of 2012, real-estate prices rose 0.6 percent, quarter on quarter, after a virtual stagnation in the last quarter of 2011. This trend covers virtually stable prices of residential and commercial properties, and an increase of 1.7 percent of land property. Year on year, these prices rose 1.1 percent, as against 2.8 percent in the previous quarter.

The number of property sales registered at the ANCFCC, captured 35 days after the end of the first quarter, was down 1 percent from one quarter to the next, while it increased by 18.4 percent year on year, to 27,670 transactions. The structure of transactions is still dominated by sales of residential property, with a share of 67 percent, while urban land and commercial properties represent 27 percent and 6 percent, respectively.

During the same period, housing loans, amounting on average to 138.6 billion dirhams, grew 10.3 percent, an annual rate lower than 11.1 percent recorded in the previous quarter.

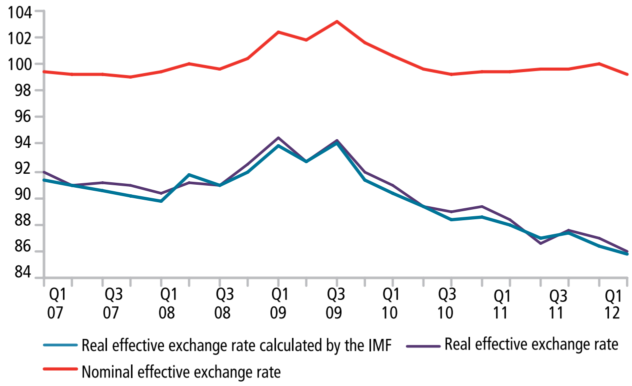
Chart 4.19: Exchange rate of the dirham



**Observation of the second quarter of 2012 corresponds to the arithmetic average of data from April 1 to May 30. 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)

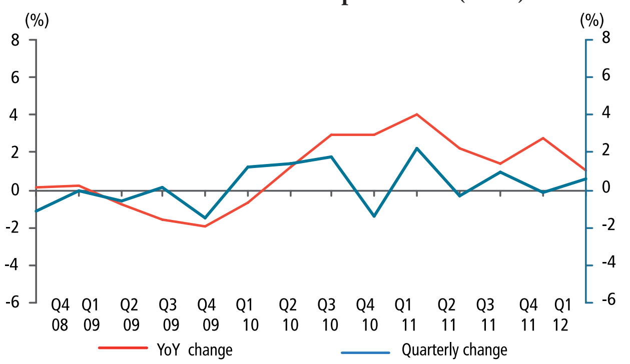
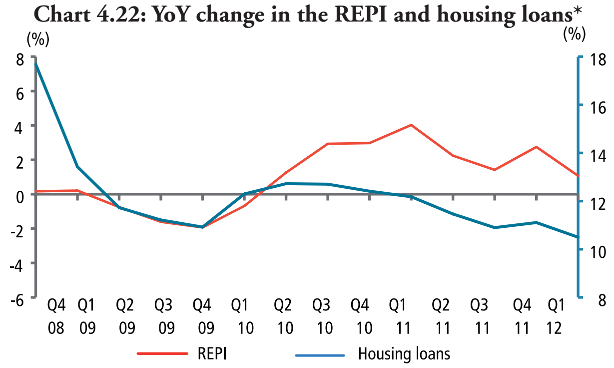


Chart 4.22: YoY change in the REPI and housing loans*



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

Sources: BAM and ANCFCC

4.2.2 Share prices

After the year-on-year decline of 13 percent in December 2011, the MASI index did not change significantly in the first quarter of 2012, as monthly increases in January and February were offset by the decline of prices in March.

The decline in share prices continued during the first two months of the second quarter, albeit at a less marked monthly rate, or 1.4 percent at May 28 as against 6 percent in April. The MASI underperformance since the beginning of the year stood at 8 percent. Real-estate stock prices recorded a monthly increase of 3.2 percent on May 28, after it fell 11.5 percent in April and remained virtually unchanged in the first quarter of 2012, thus standing at a lower rate of nearly 8 percent compared to last December.

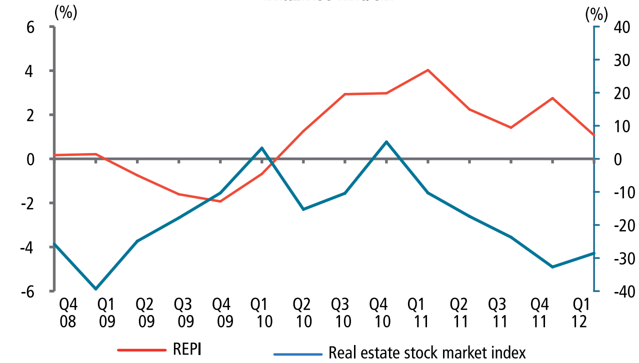
Regarding other sectoral indexes, most share prices decreased between April and May 2012. Indeed, only the indexes of the banking system, software and IT services, oil and gas, and agri-business registered respective monthly gains of 4.3 percent, 3 percent, 1.9 percent and 0.9 percent. However, the values of other sectors recorded declines ranging from 1.7 percent for the chemistry sector to 12.3 percent for telecommunications.

Largely in conjunction with the fall in prices, market capitalization dropped by 4 percent to 509.6 billion dirhams, between the last quarter of 2011 and the first quarter of 2012. At May 28, it shrank by 1.4 percent from the previous month and 8.2 percent since the beginning of the year, to 474 billion dirhams.

In this context, PER[1] of the Casablanca stock market stood at 14.2 in May 2012,

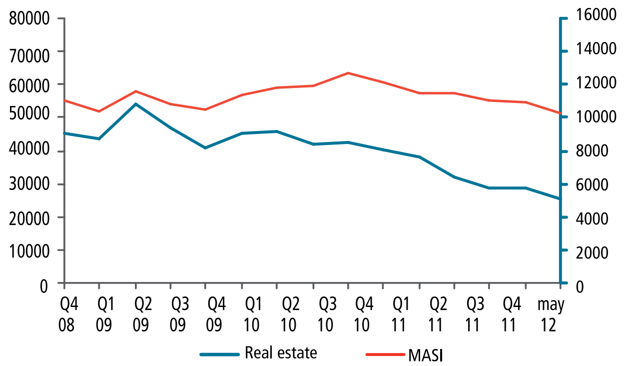
1 PER: The Price Earning Ratio is the ratio between a company's share price compared and the per-share earnings.

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: Change in sectoral indexes between April and May 2012*

*Data as at May 28, 2012.

Source: Casablanca stock exchange

as against 15.1 in the previous quarter and 16.3 in the last quarter of 2011. It remains, however, relatively high compared to some markets of similar size. Likewise, the price-to-book ratio1, estimated at 2.9 in May 2012, after 3.1 in the previous two quarters, was higher than levels reached in sampled markets.

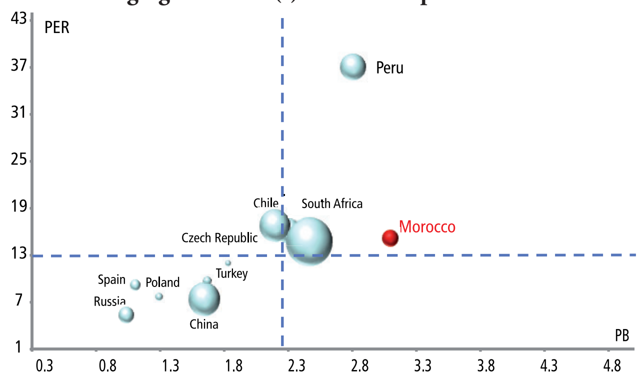
In terms of activity in the stock market, the overall volume of transactions stood at 10.8 billion dirhams at the end of the first quarter of 2012, down from 26.1 billion a quarter earlier. For the months of April and May, it totaled nearly 7 billion, of which over half is performed on the central compartment.

Table 4.3: Equity market valuation

PER	Q4 :10	Q1 :11	Q2 :11	Q3:11	Q4:11	Q1:12	may.12
				PER			
Argentina	12.6	13.6	11.2	9.8	8.5	8.1	7.4
China	13.5	13	11.3	8.4	7.5	9.2	7.3
Mexico	15.7	15.1	13.4	12.5	13.5	17.6	16.8
Turkey	12.3	11.5	11.8	10.2	10.1	10.9	9.7
Morocco	**19.1**	**16.6**	**16.1**	**16.9**	**16.3**	**15.1**	**14.2**
				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
Morocco	**3.7**	**3.5**	**3.4**	**3.9**	**3.1**	**3.1**	**2.9**

Sources : Datastream, CFG

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



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

Sources: Datastream, CFG, and BAM calculations

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

5. RECENT INFLATION TRENDS

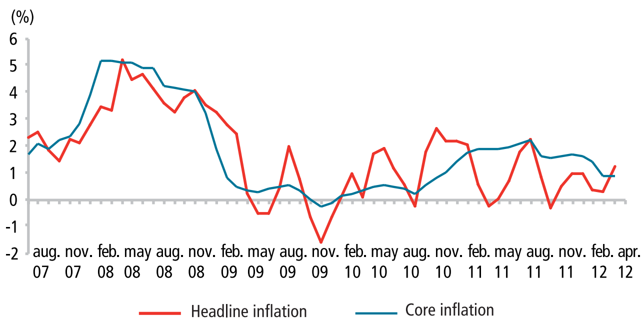
In line with the assessment that the Board made at its March meeting, inflationary pressures remained moderate. Headline inflation, as measured by the year-on-year change in the consumer price index (CPI), stood at 1.2 percent in April 2012, up from 0.3 percent in March and 0.4 percent in February, averaging only 0.5 percent in the first quarter and 0.7 percent in the first four months of the year. Excluding volatile food and regulated products, core inflation (CPIX) fell to 0.8 percent in March and April, from 1.4 percent in February, averaging 1.1 percent in the first four months of the year. Its absolute deviation from headline inflation reached 0.4 percentage point in April, after 0.5 point a month earlier. Recent developments in core inflation cover a roughly unchanged inflation of tradables (CPIXT) and a sharp drop in that of nontradables (CPIXNT). Reflecting a slight easing of pressures on world commodity prices and consumer prices in key partner countries, the inflation of tradable goods included in the CPIX remained about unchanged at 2.3 percent over the last three months, while that of nontradable goods fell from 0.3 percent in February to -0.7 percent in March and -0.8 percent in April, in conjunction with the continued moderation of internal inflationary pressures and the further decline in prices for communication services. Moreover, recent developments in world commodity prices, characterized by the slowdown in energy prices and the decline in non-energy prices, continue to feed through to industrial producer prices, whose year-on-year growth increased from 8.7 percent and 7.2 percent in February and March, respectively, to 6.5 percent in April.

5.1 Inflation trends

Despite buoyant domestic demand, the latest data show continued moderation in inflationary pressures, driven by the dampening effect of the subsidy system that insulates domestic prices of changes in world commodity prices. After growing by 0.4 percent and 0.3 percent in February and March, headline inflation as measured by the change in the consumer price index, was limited to 1.2 percent in April, averaging 0.7 percent over the first four months of 2012 (table 5.1).

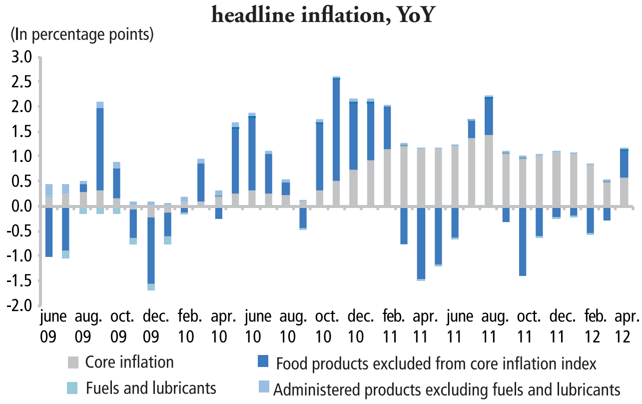
The change in consumer prices in April was mainly driven by higher volatile food prices, as the prices of regulated products and the core inflation indicator did not experience significant monthly variations (chart 5.2). Indeed, after declining since September 2011, volatile food prices were up 4.4 percent in April, reflecting a year on year increase in prices of “poultry and rabbit” and “fresh fish” and higher prices of “fresh vegetables”, “eggs” and “unprocessed cereals” due to base effects relating to the low levels

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

seen a year earlier. Prices for regulated products rose by 0.2 percent in March and April, year on year. Excluding these two components, core inflation stood at 0.8 percent, a rate unchanged from March and slower than February (1.4 percent). This slowdown in core inflation largely stems from the further decline of 9.5 percent on a monthly basis and 22.3 percent on an annual basis in prices of "telephone and fax services"[1] in March. This decrease, which resulted in a negative contribution of -0.8 percentage point to the change in core inflation, entailed a level effect that should keep inflation at low rates for several months. The absolute gap between headline inflation and core inflation, of about one percentage point in February, was reduced to 0.5 point in March and 0.4 point in April.

By major components, the virtual stagnation in core inflation over the last two months covers the acceleration in the prices of "restaurant and hotels" and "transportation excluding regulated products", as well as the deceleration in the prices for "furnishings, household equipment and routine household maintenance".

5.2 Tradable and nontradable goods

The detailed analysis of price trends by tradable and nontradable goods shows that the change in core inflation over the last three months was significantly influenced by variations in prices of nontradables (charts 5.3 and 5.4). The growth rate of tradables price index excluding volatile and regulated goods, whose development remains substantially related to that of inflation in major trading partners, remained broadly stable (chart 5.6).

1 A first monthly decline of 14.2 percent was observed in September 2011.

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	feb. 12	march 12	apr. 12	feb. 12	march 12	apr. 12
Headline inflation	**0.3**	**-0.2**	**-0.2**	**0.4**	**0.3**	**1.2**
Including:						
- Volatile food products excluded from core inflation	2.1	0.6	-1.6	-3.7	-2.0	4.4
- Fuels and lubricants	0.0	0.1	0.0	0.0	0.1	0.1
- Administered goods excluding fuels and lubricants	0.0	0.0	0.0	0.2	0.2	0.3
Core inflation	**0.0**	**-0.5**	**0.0**	**1.4**	**0.8**	**0.8**
Including:						
- Food products	0.1	-0.2	-0.1	2.7	2.3	2.1
- Clothing and footwear	-0.2	-0.1	0.0	2.5	2.5	2.5
- Housing. water. gas. electricity and other fuels*	0.0	0.1	0.1	1.0	1.0	1.1
- Furniture. household appliances and common house maintenance	0.0	0.0	-0.1	0.7	0.6	0.4
- Health*	-0.1	0.0	0.0	2.2	2.2	2.3
- Transportation*	-0.1	-0.2	0.1	0.9	0.5	0.8
- Communication	0.0	-8.2	0.1	-12.6	-19.7	-19.6
- Entertainment and culture	-0.2	0.1	-0.1	-0.2	0.0	-0.1
- Education	0.0	0.0	0.0	3.0	3.0	3.0
- Restaurants and hotels	0.1	0.0	0.4	2.2	2.0	2.4
- Miscellaneous goods and services	0.1	0.1	0.0	1.7	1.7	1.7

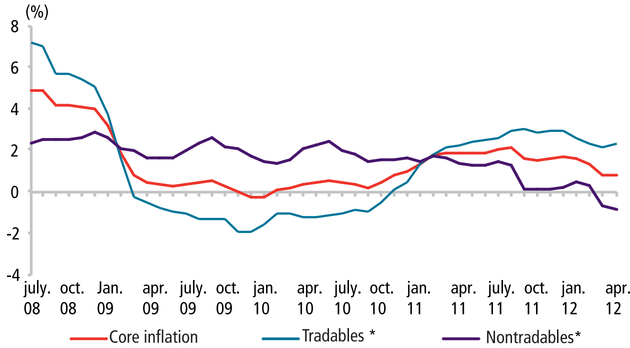
** Excluding administered goods*
Sources: HCP, and BAM calculations

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	apr. 2010	oct. 2010	jan. 2011	apr. 2011	oct. 2011	feb. 2012	apr. 2012
Premium gasoline	10.18	10.18	10.18	10.18	10.18	10.18	10.18
Diesel 350/50 *	7.15	7.15	7.15	7.15	7.15	7.15	7.15
Industrial fuel (Dh/Ton)	3074	3074	3 678	3 678	3 678	3 678	3 678

(*) The Diesel 50PPM replaced the diesel 350 in February 2009 and the ordinary diesel in April 2009.
Source: Ministry of Energy and Mining

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



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

The year-on-year change in the prices of tradable goods, up since November 2010, slowed down as from January 2012, reaching 2.2 percent and 2.3 percent in March and April, respectively, with an average of 2.3 percent during the first four months of 2012 instead of 1.9 percent over the same period of the previous year. This largely reflects the trend in unregulated food prices, particularly "oil" and "oils and fats" that jointly contributed to the increase in the CPIXT by 0.8 percentage point in April 2012 after 0.7 point a month earlier, and to a lesser extent "cereal products" which contributed 0.3 point in March and April. The year-on-year change in the prices of nontradable goods decreased from 0.3 percent in February to -0.7 percent and -0.8 percent in March and April respectively, with an average of -0.2 percent in the first four months of 2012 (tables 5.3 and 5.4). This decline is due largely to the level effect induced by lower prices of communication services in March, particularly those of "telephony and fax services".

5.3 Goods and services

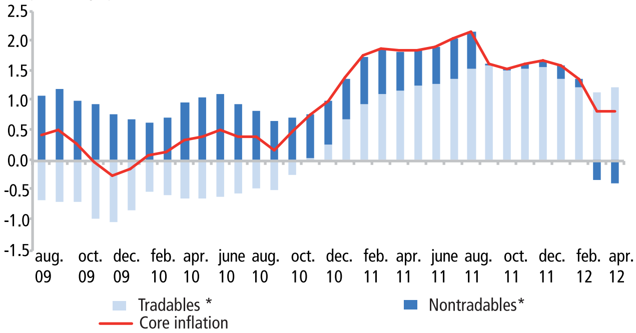
The breakdown of the CPI basket into goods and services shows that the short-run momentum in inflation is influenced largely by changes in prices of unprocessed goods. Indeed, after the successive reductions observed over the last two months, prices in this category, whose pattern of change mainly depends on fluctuations of volatile food prices, rose 2.4 percent year on year in April and contributed 0.5 percentage point to inflation from 0.3 point a month earlier (chart 5.7). The prices of processed goods excluding fuels and lubricants grew from 1.8 percent in March to 1.9 percent in

Table 5.3: Change in tradables* and nontradables* price indexes

	Monthly change (%)			YoY change (%)		
	feb. 12	march 12	apr. 12	feb. 12	march 12	apr. 12
Tradables*	0.3	0.3	0.2	3.0	3.0	2.6
Nontradables*	0.1	0.1	0.0	0.1	0.2	0.5

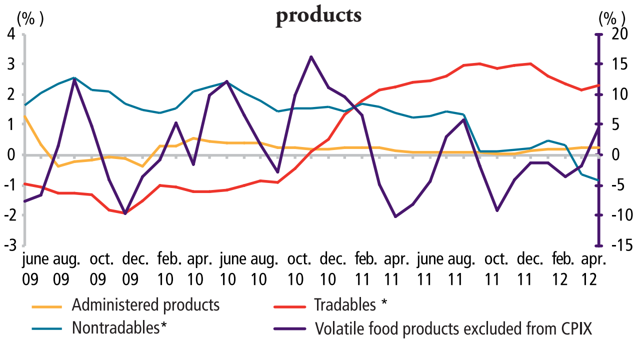
** Excluding volatile food and administered products*
Sources: HCP, and BAM calculations

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	
	march 12	apr. 12	march 12	apr. 12
Products excluded from core inflation index	0.1	-0.2	-0.2	0.6
Including:				
Administered products	0.0	0.0	0.0	0.0
Volatile food products	0.1	-0.2	-0.3	0.6
Tradables*	0.0	0.0	0.7	0.8
Nontradables*	-0.3	0.0	-0.2	-0.3

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

April, the same average pace seen in the first four months of the year 2012. The contribution of this category of goods to the change in the overall index in April is estimated at 0.8 percentage point.

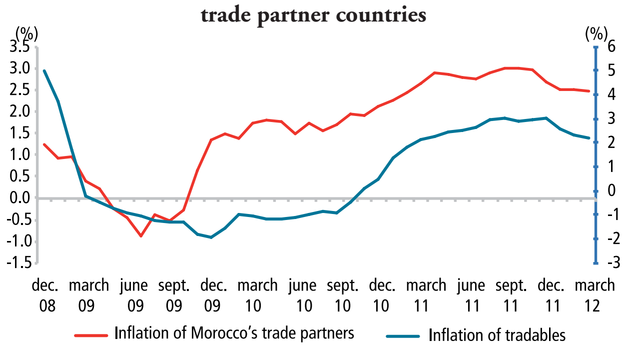
Prices for services varied at a rate almost identical to the previous month, -0.5 percent, making a negative contribution of 0.2 percentage point to inflation. The prices of fuels and lubricants did not change significantly (Table 5.5).

5.4 Industrial producer price index

Industrial producer prices continue to reflect recent developments in world commodity prices, especially energy prices. After a monthly increase of 1.7 percent and 1.5 percent in February and March respectively, the producer price index rose only 0.6 percent in April, driven mainly by higher prices of coking and refining industry. These were up 1.2 percent from 4.4 percent a month earlier, making a contribution of 0.4 percentage point to the change in the general index (Chart 5.9).

Non-refining producer prices edged up 0.2 percent in April after stagnating in March, covering price rises in "food industries" and "wood working and wood products manufacturing" by 0.6 percent and 4.6 percent, respectively. These increases more than offset the decline by 0.7 percent in prices of the "fur garment industry" and 0.1 percent in the "chemical industry". In annual comparison, the growth in the overall index continued to slow down, falling from 8.7 percent in February and 7.2 percent in March to 6.5 percent in April. This is largely due to the continued deceleration in the prices of coking and

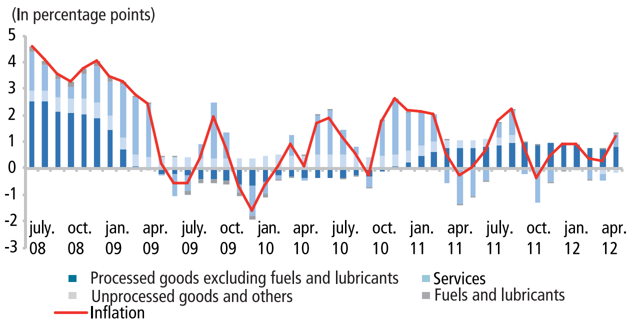
Chart 5.6: YoY change in inflation of tradables* and inflation in trade partner countries



** 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

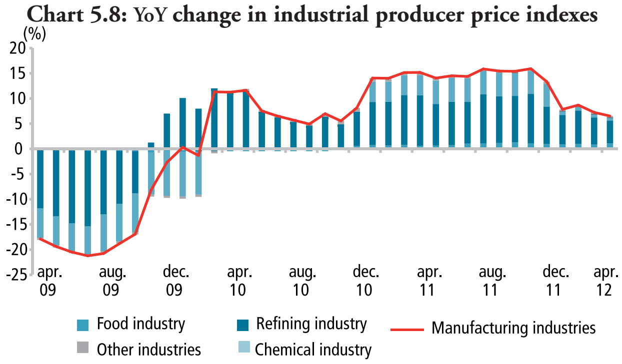
Table 5.5: Price indexes for goods and services

	Monthly change (%)			YoY change (%)		
	feb. 12	march 12	apr. 12	feb. 12	march 12	apr. 12
Processed goods*	0.1	0.0	0.0	1.9	1.8	1.9
Unprocessed goods and others	1.1	-0.1	-1.1	-1.7	-1.1	2.4
Services	0.0	-0.6	0.1	0.0	-0.6	-0.5
Fuels and lubricants	0.0	0.1	0.0	0.0	0.1	0.1

** Excluding fuels and lubricants*

Sources: HCP. and BAM calculations

Chart 5.8: YoY change in industrial producer price indexes



Sources: HCP. and BAM calculations

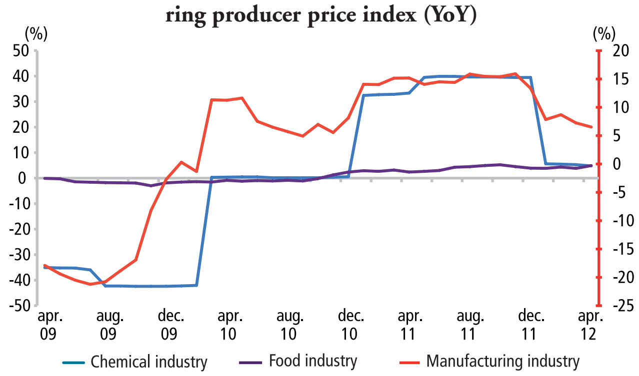
refining industry, whose growth rate contracted from 21.1 percent and 16.2 percent in February and March, respectively, to 13.4 percent in April. The non-refining index was up 3 percent in April, from 2.8 percent a month earlier.

5.5 Inflation expectations

The results of BAM business survey in April 2012 show that industrial producer prices should remain at moderate levels over the next three months[1], with a slight upward trend. In spite of the decline, the percentage of corporate managers expecting stagnation remained high at 70 percent in April 2012, from 79 percent on average during the first quarter. The proportion of corporate managers predicting higher prices reached 28 percent, up from 16 percent on average in the first quarter (Chart 5.11).

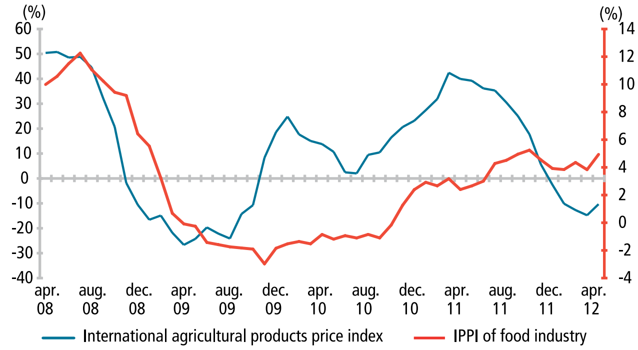
Meanwhile, the survey results underscore the continued moderation in inflation in the next three months1. The percentage of corporate managers expecting stagnation stood at 74 percent in April 2012, as against an average of 68 percent in the first quarter of 2012. The moderation of inflation expectations is further confirmed by the decline from 27 percent in the first quarter 2012 to 21 percent in April in the percentage of managers projecting an increase (Chart 5.12).

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



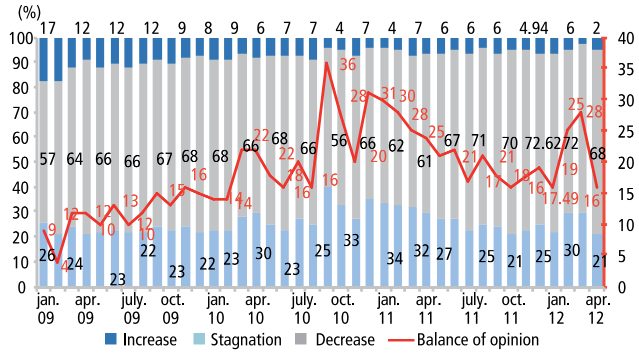
Sources: HCP. and BAM calculations

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



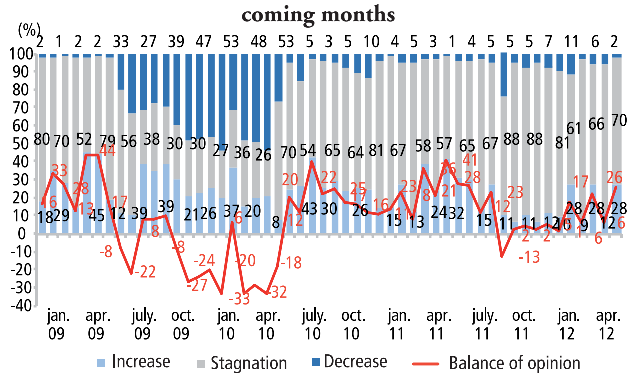
Sources: World Bank. HCP. and BAM calculations

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 coming months



Source: BAM monthly business survey

1 The expectations horizon of BAM business survey for April 2012 includes May, June and July 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 scenario therefore 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 1.9 percent, slightly higher than the average rate projected in the last Monetary Policy Report (1.8 percent). During 2012, inflation should be around 1.4 percent. For the first three quarters of 2013, average inflation rate is expected at 2.1 percent. Assuming that fuel prices at the pump would continue at their current level, established at 8.15 DH per liter according to the government communiqué dated June 1, the balance of risks to this forecast exercise is broadly at equilibrium, due to uncertainties surrounding the change in non-energy commodity prices, growth in partner countries and the second-round effects related to higher fuel prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

After starting the year with increased risks of the emergence of a new recession, advanced economies generally appear to show signs of recovery despite the mixed trend of their growth rate. In emerging and developing countries, economic growth remains strong, although it dropped slightly in recent quarters mainly as a result of the decline of international trade and of the restrictive economic policies aimed at mitigating the signs of overheating.

The economic slowdown in the euro area seems less pronounced than previously expected by international financial institutions. However, growth stabilizes at a relatively low rate in an environment full of uncertainties. Indeed, despite improved repayment capacity of the eurozone main peripheral countries, as well as mitigating concerns foreshadowing a banking crisis after the ECB long-term refinancing operations, tensions persist in some sovereign debt markets resulting in higher interest rates, particularly for Spain and Italy. Moreover, the potential impact of the worsening situation in Greece amplifies growing fears about the sustainability of public finances and the banking sector. In this context, the conditions for granting loans hardened and business confidence declined further.

In contrast, the U.S. economy still seems to show strong momentum, driven mainly by a less indebted banking sector, as well as by increased private consumption expenditure in connection with lower household savings rates. Similarly, the volatility of stock prices dropped significantly and the real-estate market shows signs of improvement, as evidenced by growth of sales and investment in the residential sector.

Thus, in the first quarter of 2012, economic activity in the euro area did not grow, after the 0.7 percent rate registered in the last quarter of 2011. As for the U.S. economy, it grew significantly by 1.9 percent, after a 1.6 percent rate in the fourth quarter of 2011. The economic inertia in the euro area during last quarter primarily reflects slower growth in Germany and France (1.2 percent and 0.3 percent, respectively) and the recession observed in Spain and its intensification in Italy (-0.4 percent and -1.3 percent, respectively).

With regard to growth prospects, the International Monetary Fund, in its April report, projects for 2012 respective growth rates of 2.1 percent and -0.3 percent for the United States and the euro area, which is a slight upward revision compared to growth rates presented in the update of January 2012 (1.8 percent and -0.5 percent, respectively). For the year 2013, growth rates forecasts did not change significantly, thus standing at 2.4 percent for the United States and 0.9 percent for the euro area.

The economic outlook for major advanced economies remains highly uncertain. On the one hand, a stronger response to the crisis in the euro area and an easing of financing conditions could foster economic recovery and employment. However, further spread of the crisis in the euro area, added to the lower demand from emerging markets, the weakening global markets of sovereign bonds and foreign exchange in conjunction with high levels of budget deficits and public debts and, finally, rising oil prices, constitute sources of concern that may limit growth trends.

Given these developments, the weighted growth rates of our major trading partners (Germany, Spain, France, Italy and the UK) assumed in this MPR are about -0.6 percent for the current year and 0.6 percent for 2013. Compared to those presented in the March MPR (-0.7 percent in 2012 and 0.4 percent in 2013), these assumptions were revised slightly upward. 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.

Inflation in the euro area continued in recent months to record over 2 percent, mainly due to higher energy prices and indirect taxation, despite persistently large spare capacity and lower unit labor costs. In this context, the ECB expects, in its May bulletin, an inflation rate of 2.3 percent in 2012 and 1.7 percent in 2013. It should be noted that the projected rate for 2012 was revised upward compared to the forecast presented in the previous MPR (1.9 percent).

Risks to the inflation outlook in the euro area remain balanced. Indeed, higher prices of commodity and of administered goods, as well as the possible increase in indirect taxes are tempered by the outlook for weaker-than-expected economic growth.

Regarding the three-month Euribor, the baseline scenario of this forecast exercise assumes a rate of 0.65 percent for the first quarter of this year. This rate should gradually decline to stand, on average, at 0.57 percent in the second half of 2012. In the first half of 2013, it is projected to reach 0.59 percent and 0.66 percent in the third quarter.

Finally, in line with lower non-energy commodity prices in recent months and the outlook for moderate growth of global economy, forecasts of non-energy import prices, included in the forecast models developed by Bank Al-Maghrib, still report a more pronounced decline in 2012 than in 2013.

6.1.2 National environment

In accordance with the assumptions of the last MPR, the Moroccan economy is expected to continue growing modestly during 2012 compared to the growth rate in 2011. This deceleration is due partly to a contraction in agricultural value added and slowdown in external demand for Morocco. However, nonagricultural activities would continue a relatively favorable momentum due to the uptrend of the components of private domestic demand.

After three good crop years, cereal production for this year should stand, according to the Ministry of Agriculture and Fisheries, at almost 48 million quintals, down 42 percent compared to the performance of the previous year. Bank Al-Maghrib projects a cereal production of 41 million quintals, a virtually stagnant level compared to forecasts of the previous MPR. This decrease is attributed to a deficit of 45 percent in cumulative rainfall recorded in the main producing areas at end-April 2012. Therefore, the agricultural value added in 2012 should register a sharper-than-expected contraction, thus contributing to the slowdown in overall growth. Regarding the 2012-2013 crop year and given the lack of visibility, the central scenario assumes an average cereal production of 68 million quintals.

Nonagricultural activity should maintain a positive growth pattern, albeit under deceleration, mainly driven by domestic demand. This trend would be thus linked to a healthy state in construction and manufacturing activities, coupled with the growth of the telecommunication sector. Overall, the nonagricultural value added should benefit from the uptrend in household final consumption, supported by rising consumer loans, continued remittances from Moroccans living abroad, although slowing, increased salary income and controlled inflation. However, the unfavorable prospects for this crop year would inevitably have a distorting effect on rural household consumption. Along with the consumption trend, private investment effort should continue, as evidenced by higher imports of semi-finished goods and capital goods in early 2012. Concerning public investment, the State maintains its support for growth with the mobilization of 46 billion dirhams, down slightly by 3.9 billion dirhams compared to 2011. However, the increase in subsidization costs and the delay in executing the current Finance Act could affect the momentum in public investment.

This outlook suggests an uptrend in nonagricultural value added in 2012, although under deceleration, as expected in the previous MPR. Under these conditions, a growth rate of nonagricultural GDP ranging between 3 percent and 4 percent is retained.

Given the underperformance of the agricultural value added, BAM kept its forecasts for overall growth below 3 percent.

The latest data on the labor market for the first quarter of 2012 indicate a 0.8 percent worsening in the national unemployment rate, compared to the same period of 2011, standing now at 9.9 percent. This increase was more pronounced in urban areas where the unemployment rate rose from 13.3 percent to 14.4 percent. The rural unemployment rate increased only moderately from 4.3 percent to 4.8 percent over the same period. In this context, 199,000 jobs were lost, mainly in the sectors of agriculture, forestry and fisheries with 157,000 jobs, while the construction sector lost 42,000 job positions. In contrast, activities of services and industry, including handicrafts, provided 47,000 and 39,000 new jobs, respectively.

Moreover, based on BAM's quarterly business survey, employment prospects in the industrial sector generally show stagnation in the number of employed people for the current quarter. Under these conditions and in line with the measures taken as part of the social dialogue, the central scenario maintains a minimum wage of 11.72 dirhams/hour in the first quarter of the forecast horizon and 12.25 dirhams/hour as of the second quarter.

Finally, although a slowdown in global growth is expected, the IMF revised upward its forecast on the price of the barrel, in conjunction with disruptions in energy supply and exacerbation of geopolitical risks. It now projects a price of $ 114.7 a barrel in 2012 and $ 110 in 2013. On the one-year futures market, the barrel's price stood at $ 110.9 in 2012 and $ 102.9 in 2013. These projections indicate that the subsidization system, projected at a 3.7 percent of GDP and whose costs programmed in the current Finance Act are based on a scenario of $ 100 a barrel, should put further pressure on the budget deficit in 2012.

In this context, the government decided to increase, as of June 2, the selling fuel price. This decision concerns the industrial fuel, up 988.04 dirhams per tonne, as well as gasoline and diesel whose prices increased by 2 dirhams and 1 dirham per liter, respectively. Under these conditions, the central scenario assumes the diesel pump price at 8.15 dirhams per liter, up from 7.15 dirhams presented in the previous MPR.

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 1.9 percent, a level slightly higher than the average rate of 1.8 percent projected in the last MPR, in conjunction with the impact of rising fuel prices. In addition, inflation forecast for 2012 reveals an average rate of around 1.4 percent, a rate lower than 1.7 percent expected in the previous forecast exercise. This downward revision is mainly due to the change in prices of the communication heading that showed a year-on-year decline of 14.9 percent during the first quarter of 2012.

Inflation in the second quarter of 2012 is expected to be around 1.5 percent, down from 1.8 percent reported in the previous MPR. In the third quarter, it should stand at 1.5 percent, the same level projected in the previous forecast. In the last quarter of the year, it should stand at 2 percent (as against 2.2 percent). As for inflation forecast in the first half of 2013, it will be around 2.1 percent as against 1.9 percent projected earlier. Finally, the average rate projected for the third quarter of 2013 is about 2.0 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 from the forecasting models, which may impact 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).

The fan chart of this forecast exercise is broadly balanced, involving an equal probability that inflation would deviate from the central forecast. This trend arises from uncertainties surrounding non-energy commodity prices, foreign demand for Morocco and the second-round effects related to higher fuel prices. 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).

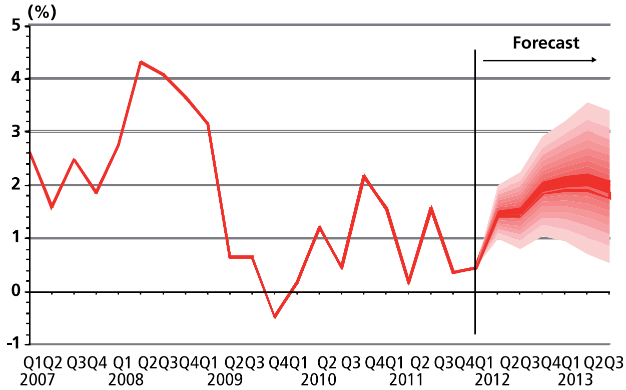
Table 6.1: Inflation outlook for 2012 Q2 – 2013 Q3

	2012			2013			Average	FH*
	Q2	Q3	Q4	Q1	Q2	Q3	2012	
Central forecast (%)	1.5	1.5	2.0	2.1	2.1	2.0	1.4	1.9

(Quarterly data. YoY)

**Forecast horizon*

Chart 6.1: Inflation forecast, 2012 Q2 – 2013 Q3
(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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