بنك المغرب
BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 22 / 2012

Document prepared for
the Bank Board
March 27, 2012

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LIST OF ABBREVIATIONS

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

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 27, 2012

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, March 27, 2012.
2. The Board considered recent economic, monetary and financial trends, as well as inflation forecasts up to the second quarter of 2013.
3. The Board noted that inflation remained moderate, in line with the assessment made at its December meeting. After an average of 0.4 percent in the fourth quarter 2011, year-on-year headline inflation reached 0.9 percent in January and then fell to 0.4 percent in February. At the same time, core inflation, which reflects the underlying trend in prices, stood at 1.4 percent in February, down from 1.6 percent in January and 1.7 percent in December. Meanwhile, industrial producer prices slowed down markedly, from 13.4 percent in December to 7.8 percent in January, in conjunction with a less rapid rise in international commodity prices.
4. Internationally, the outlook for economic growth in 2012 was again lowered for all groups of countries, more sharply for euro area countries with persistent uncertainties about sovereign debt sustainability and increased risks of recession. At the same time, tension on financial markets eased somewhat, as government bond yields fell in U.S. and euro area money and bond markets and interbank rates and spreads moderated. Overall, these developments suggest that external inflationary pressures would continue to fall over the coming quarters and foreign demand to Morocco would decline more steeply.
5. Nationally, overall and nonagricultural GDP growth estimate, based on available data, remains within a range between 4 and 5 percent for the year 2011, while the forecast for 2012 was revised downward. Indeed, the materialization of risks to the agricultural performance and the expected weaker economic activity in partner countries would slow overall GDP growth to below 3 percent and nonagricultural GDP to a range between 3 and 4 percent. Under these conditions, the nonagricultural output gap, more relevant to the assessment of inflationary pressures, should broadly remain at levels that pose no risk to price stability over the coming quarters.
6. Analysis of monetary developments indicates that the annual growth in money supply stabilized at 5.7 percent between the fourth quarter 2011 and January 2012. The money gap therefore remained negative, suggesting the absence of inflationary pressures stemming from the monetary side. Bank credit recorded a one-off increase, particularly in cash advances, rising from 8.1 percent in the last quarter 2011 to 10.6 percent in January 2012, and then hovered around 8 percent in February according to preliminary figures.
7. Based on all these elements, the central inflation forecast seems consistent with the price stability objective. Headline inflation is projected at about 1.9 percent at the end of the forecast horizon (second quarter 2013), and would be around 1.7 percent in 2012. Core inflation should remain subdued, not exceeding 2 percent at the end of the forecast horizon.
8. In this context where economic activity has declined significantly, central inflation forecast is permanently consistent with the price stability objective and the balance of risks is

skewed to the downside, the Board decided to reduce the key rate from 3.25 percent to 3 percent, while continuing to closely monitor all of these elements.

9. The Board also reviewed and approved the Bank accounts, the management report and the allocation of profits for fiscal 2011.

10. Having noted the Audit Committee report, the Board considered and approved the internal audit program for 2012.

OVERVIEW

In line with the analysis and forecasts published in the Monetary Policy Report of December 2011, inflation remained moderate in the fourth quarter at 0.4 percent, year on year, down from 1.6 percent in the third quarter. Between December 2011 and January 2012, it remained stable at 0.9 percent, a rate similar to that registered on average over the whole of 2011. This change covers lower prices of volatile food products and virtually stable core inflation at 1.6 percent in January, reflecting slower growth of tradable goods prices from 3 percent to 2.6 percent. Nontradable goods inflation remained at a rate limited to 0.5 percent in January, up from 0.2 percent a month earlier.

Internationally, short-term growth outlook deteriorated again. The latest updates indicated more marked downward revisions for 2012 in advanced countries as well as emerging and developing ones. The results of national accounts in the fourth quarter of 2011 revealed a marked slowdown in the euro area, particularly in partner countries, in conjunction with the deepening sovereign debt crisis and credit tightening conditions. The available data to the end of February 2012 indicate relatively more favorable trends compared to the end of 2011, with a greater improvement in the United States, especially in terms of employment data. Indeed, the high-frequency indicators relating to the real sector increased overall in early 2012, reflecting some recovery, which remains, however, fragile and surrounded by risks related mainly to fiscal imbalances, sluggish labor and credit market, and higher commodity prices. A relative ease in financial tensions was also recorded. In the money and bond markets of advanced economies, yields on sovereign bonds were down, and the interbank rates and spreads were moderate. In stock markets, indexes rose almost across the board in all advanced and emerging countries, while in the foreign exchange markets, the euro appreciated against most currencies.

Nationally, the estimate of overall GDP growth and nonagricultural one stabilized between 4 and 5 percent for all of 2011, while the forecast over the whole of 2012 was revised downward compared to the last Monetary Policy Report. The materialization of risks to the agricultural sector performance, as well as the anticipated weakening economy of partner countries should bring the overall GDP growth to less than 3 percent and nonagricultural one between 3 percent and 4 percent. Thus, non-agricultural output gap should stand at levels close to zero. Indeed, the cereal crop year forecasts, updated based on data as at March 10, show a harvest of about 40 million quintals.

Regarding foreign trade, foreign trade indicators for the month of February 2012 show an annual increase of 4.6 percent in exports, with a 5.1 percent growth of exports excluding phosphates and derivatives, registering a marked slowdown compared to 17.8 percent in 2011. At the same time, imports increased 16 percent overall and 28.5 percent for energy products, resulting in a further widening trade deficit at 32.8 billion dirhams, compared to 25.7 billion a year earlier. Despite the economic slowdown in major partner countries, travel receipts rose 3.6 percent, as against an increase of 16.3 percent in 2010, while remittances from Moroccans living abroad grew 7.7 percent, down from 9.8 percent a year earlier.

In terms of monetary conditions, data to the end of February 2012 indicate that the M3 annual growth rate stabilized at 5.7 percent, which is the same level registered in the fourth quarter of 2011. Meanwhile, credit growth rose from 8.1percent to 10.6 percent, reflecting a large impact of cash loans, and a base effect related to the decrease observed a year earlier. Consequently, the money gap remained negative. Regarding lending rates, BAM's survey among banks for the fourth quarter of 2011 shows that the weighted average rate of credit rose 34 basis points to 6.65 percent, due to higher rates on all loan categories, particularly on cash advances. The real estate price index grew by 2.9 percent in the fourth quarter of 2011, year on year, up from 1.1 percent a quarter earlier.

Based on all these elements, inflation over the next six quarters should remain broadly consistent with the price stability objective. At the end of the forecast horizon, which is the second quarter of 2013, headline inflation is projected at 1.9 percent, while on average over the same horizon, it is expected to be 1.8 percent. Core inflation should remain moderate, not exceeding 2 percent at the end of the forecast horizon.

Compared to the previous forecast (MPR of December 2011), the projection for 2012 is slightly revised upward from 1.5 to 1.7 percent. The balance of risks surrounding the central forecast is tilted to the downside in a context of slowing global economy, and with the assumption that current fuel price at the pump would remain unchanged.

1. AGGREGATE SUPPLY AND DEMAND

The overall GDP growth would have stood at 4.6 percent in the fourth quarter of 2011, a rate similar to that recorded in the third quarter, reflecting a nonagricultural growth of nearly 4.7 percent and a 3.9 percent increase in agricultural value added, as opposed to 4.1 percent a quarter earlier. In an international context characterized by economic slowdown in Morocco's major partner countries, the fourth quarter would have been marked by a small increase in external demand, which resulted in a deceleration in the most export-oriented activities. However, strong domestic demand will have sustained growth in other sectors, particularly construction, and post and telecommunication. Overall, the most recent developments come in line with the growth forecast presented in the latest Monetary Policy Report. Over the whole of 2011, overall and nonagricultural GDP would have thus grown between 4 percent and 5 percent. For 2012, the growth forecast, presented in the last Monetary Policy Report, was revised downward. The materialization of risks to the agricultural sector performance, as well as the anticipated weakening economy of partner countries should bring the overall GDP growth to less than 3 percent and nonagricultural one between 3 percent and 4 percent. This deceleration, whose magnitude could be larger with changes in the crop year, would have been recorded as of the first quarter of 2012. Growth should stand at 3.9 percent for nonagricultural GDP and around 3 percent for overall GDP.

1.1 Output

In the fourth quarter of 2011, the national economy would have stood at 4.6 percent, a rate similar to that recorded in the third quarter, reflecting a 3.9 percent and 4.7 percent increase in agricultural value added and nonagricultural one, respectively. Nonagricultural value added was driven mainly by momentum in the construction sector and overall positive trend in tertiary branches, except the "hotels and restaurants" sector.

Regarding the most recent indicators, those related to primary sector indicate a materialization of risks to the crop year 2011-2012. Cumulative rainfall indeed was down in nearly all regions at 10 March 2012, almost half down from the previous year. Similarly, according to the Royal Center for Remote Sensing in late February, the state of vegetation cover in spring deteriorates compared to the same date a year earlier. Under these conditions, Bank Al-Maghrib projects a cereal production of about 40 million quintals (box 1.1).

In the secondary sector, the value added would have increased in the fourth quarter at the same pace observed since the beginning of the year, contributing 0.7 percentage point to overall growth. This momentum should be slowing as of the first quarter of 2012, owing to the anticipated negative impact of the deteriorating international situation on the export-oriented branches.

By industry, the drop in the mining industry that began in the third quarter

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

Activity sectors, in%	2009	2010				2011				2012
	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV_E	$Q1_F$
Agriculture	32,3	0,6	-3,4	0,0	-3,6	3,7	4,6	4,1	3,9	-2,3
Nonagricultural VA	**5,5**	**6,0**	**4,4**	**4,3**	**2,3**	**4,8**	**4,2**	**4,7**	**4,7**	**3,9**
Extractive industry	14,0	74,7	51,3	23,3	18,8	13,7	2,3	-1,8	-2,8	-3,2
Processing industry	3,9	1,8	1,7	3,2	4,5	2,7	2,3	1,9	1,6	1,5
Electricity and water	7,6	5,1	8,7	9,3	5,6	2,3	6,2	4,9	6,6	5,6
Construction	7,1	5,9	3,7	1,4	-0,3	2,5	3,0	7,1	7,5	6,1
Trade	4,3	2,8	-0,5	3,6	-7,0	3,8	4,1	4,7	4,0	2,1
Hotels and restaurants	2,9	8,8	8,0	8,7	6,8	7,5	-3,7	-2,6	-2,8	-3,1
Transportation	5,5	11,7	6,7	6,2	4,4	5,5	4,3	3,7	3,3	2,7
Post and telecommunication	1,1	2,1	2,6	3,4	9,6	7,7	10,5	19,0	16,2	12,9
General government and social security	8,8	4,4	3,2	2,3	1,7	6,2	7,4	8,1	7,6	6,6
Other services*	3,8	5,0	4,1	4,2	2,7	4,8	4,8	4,9	4,8	4,8
Taxes on products net of subsidies	5,1	6,8	6,6	6,5	7,0	7,9	3,6	6,6	4,7	4,0
Nonagricultural GDP	5,5	6,1	4,7	4,6	2,9	5,2	4,1	4,9	4,7	3,9
Gross domestic product	**8,9**	**5,4**	**3,6**	**3,9**	**2,0**	**5,0**	**4,2**	**4,8**	**4,6**	**3,0**

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

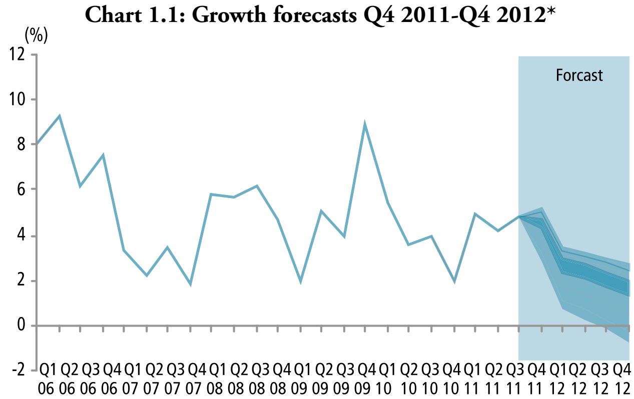
Sources: HCP, and BAM estimates and forecasts of 2011 would have continued in the fourth quarter and the beginning of 2012. Indeed, the market output of the Moroccan Phosphates Office (OCP), the main operator in the branch, decelerated from one year to the next. Its growth rate of 14.3 percent in the fourth quarter of 2010 fell to 4.3 percent in the fourth quarter of 2011.

The added value of the processing industry, representing more than 50 percent of that of the secondary sector, should slow for the fourth consecutive quarter, reflecting weaker external demand. Thus, its growth would be limited to 1.6 percent and 1.5 percent in the fourth quarter 2011 and first quarter 2012, respectively, down from 1.9 percent in the third quarter of 2010. The Bank Al-Maghrib's business survey of January 2012 confirms these trends, indicating a declined industrial production and stagnant level of orders received by corporations. Meanwhile, the level of the inventory of finished goods is deemed higher than normal. The generally favorable short-term outlook, as seen by professionals, is mainly due to the expected improvement at the local level.

The "electricity and water" sector would have maintained a steady growth, estimated at 6.6 percent in the fourth quarter from 4.9 percent a quarter earlier. The net production of the National Electricity Office indeed grew 12.4 percent as against 6 percent a quarter earlier, reducing imports by 3.7 percent. Sales rose 6.9 percent in the fourth quarter of 2011, year on year, reflecting an increase of 5.9 percent and 10.4 percent in sales to the industrial sector and households, respectively. This momentum should continue in the first quarter of 2012, with growth forecast estimated at 5.6 percent.

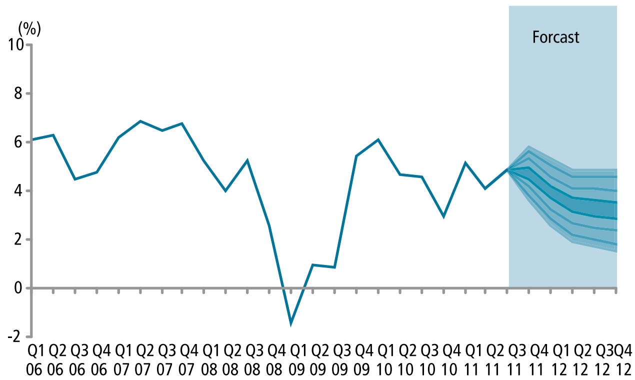
In the construction sector, after a 7.1 percent growth in the third quarter of 2011, the high-frequency indicators suggest a further increase of around 7.5 percent in activity in the fourth quarter. Cement sales, which totaled nearly 4.1 million tonnes, increased strongly by 17 percent in the fourth quarter of 2011, as against 12.1 percent in the third quarter. In addition, real-estate loans grew 10.6 percent in the fourth quarter. The strength of activity in the sector should continue during 2012, with growth forecast at 6.1 percent in the first quarter, in conjunction with the increased demand, accelerated pace of

Chart 1.1: Growth forecasts Q4 2011-Q4 2012*



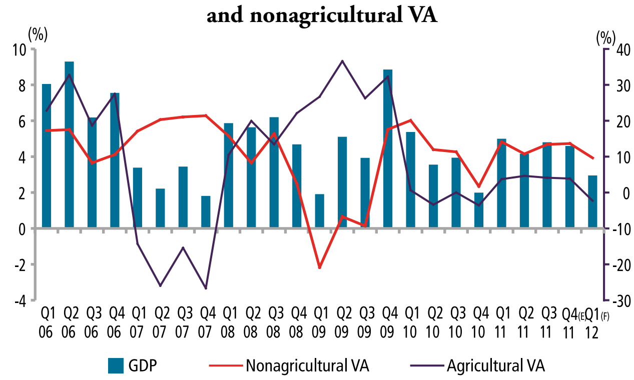
(*) Fan chart based on the standard deviation
Sources: HCP, and BAM forecasts and estimates

Chart 1.2: Nonagricultural growth forecasts Q4 2011-Q4 2012*



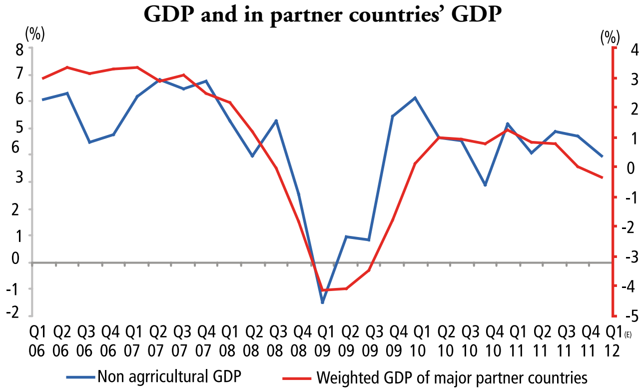
(*) Fan chart based on the standard deviation
Sources: HCP, and BAM estimates and forecasts

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



Sources: HCP, and BAM forecasts

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



Sources: IMF, HCP, and BAM forecasts

the low-income housing construction, as well as the continued implementation of several infrastructure projects of great magnitude.

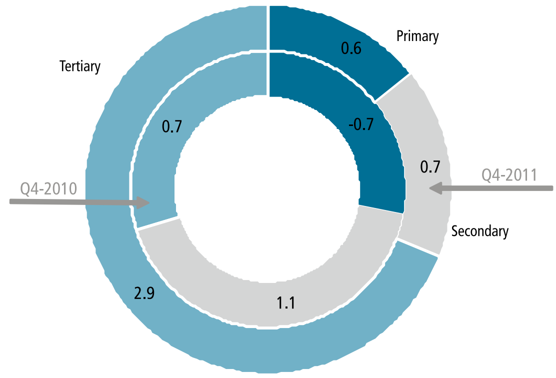
The growth of tertiary activities would have stood at 6 percent in the fourth quarter, down slightly from the previous quarter, despite the expansion of the post and telecommunication sector. In addition to the downturn in the trade and transport sector (Table 1.1), this deceleration is due to the estimated contraction of 2.8 percent in the "hotels and restaurants" sector. This unfavorable trend is confirmed by the change in the latest tourism indicators. Tourist arrivals and travel receipts progressed, at the end of December, only 0.6 percent and 3.7 percent, respectively, as opposed to 11.4 percent and 7.1 percent a year earlier. Similarly, overnight stays in classified hotels fell 6.4 percent, bringing the occupancy rate from 43 percent to 40 percent. The very short-term prospects of this sector remain generally unfavorable. Its value added in the first quarter should decrease again to a rate expected at 3.1 percent.

Based on these elements, the growth estimates for 2011 presented in the Monetary Policy Report of December 2011 remained unchanged, with a growth of both the overall GDP and nonagricultural GDP between 4 percent and 5 percent. For 2012, the growth forecast was revised downward, now standing at less than 3 percent instead of an interval between 4 percent and 5 percent forecast in the Monetary Policy Report of December 2011, covering an increase in nonagricultural value added falling within a range of 3 percent to 4 percent and a decrease in agricultural one. These foreseeable trends remain dependent on the degree of materialization of risks associated with the magnitude of the contraction of agricultural production and degradation of foreign demand for Morocco.

1.2 Consumption

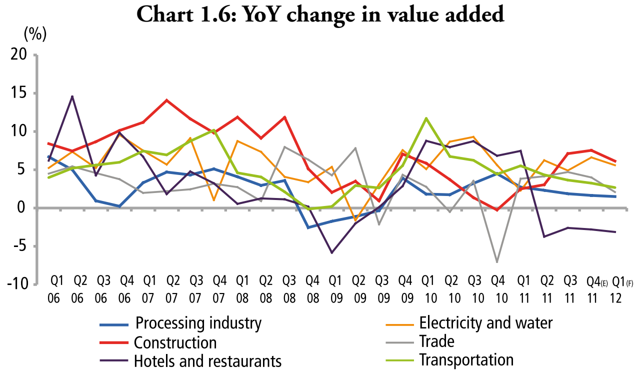
National final consumption grew by 6.8 percent in the third quarter of 2011, as against 5.3 percent on average in the first half, reflecting a faster growth of both household final consumption from 5.9 percent to 7.3 percent, and general government one from 3.3 percent to 5.2 percent.

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



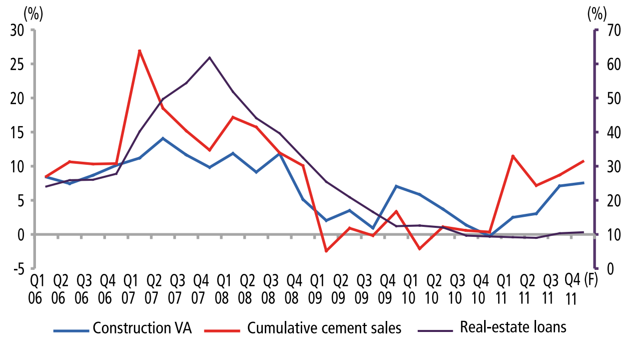
Sources: HCP, and BAM calculations and forecasts

Chart 1.6: YoY change in value added



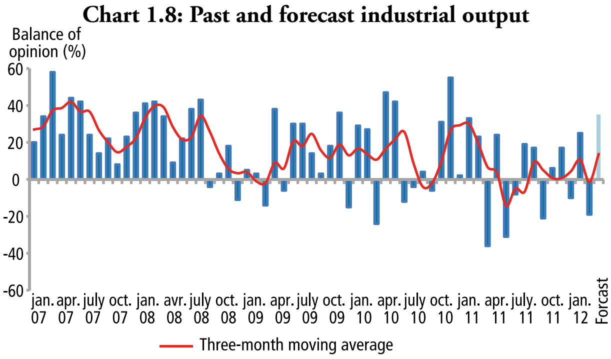
Sources: HCP, and BAM forecasts

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



Sources: APC, BAM and BAM forecasts

Chart 1.8: Past and forecast industrial output



Source: BAM monthly business survey in the industry

Encadré 1.1 : Cereal production forecast on the basis of available data as at March 10, 2012

Heavy rainfall marked the start of the 2011-2012 crop year during the period from late October to late November, which set the stage for the planting of fall cereals. This period was followed by a phase of very low rainfall and lower temperatures that lasted until the second decade of January. The return of rainfall in January was limited in time and magnitude. Thus, the cumulative rainfall at March 10 stood at 163 mm, down 50 percent from the previous year and 54 percent compared to an average crop year. This deficit is almost universal in the whole country.

It should be also noted that rain was almost totally absent in the last three ten days, that constitute an important period for the crop.

According to the Royal Center for Remote Sensing as at end February 2012, these weather conditions resulted in vegetation cover degradation in the regions south of Essaouira, and stagnation in most other areas.

Based on weather data as at March 10, 2012, an estimate of cereal production for the 2011-2012 crop year was developed through Bank Al-Maghrib's forecasting framework, which includes three tools: the econometric model, the similar crop method and the rainfall indicator-based method.

Chart B1.1.1: 10-day rainfall accumulation

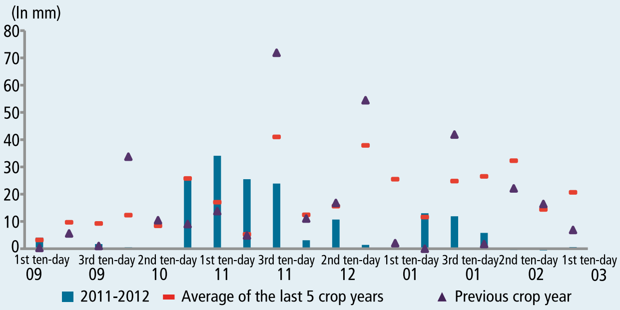
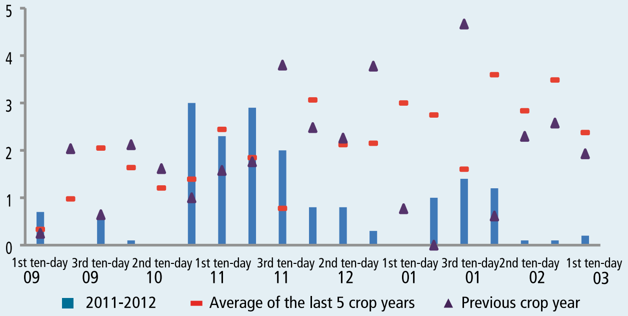


Chart B1.1.2: Number of days with precipitation



The average forecast of the three methods was revised downward to 41 million quintals, after 53, 61 and 63 million quintals, based on weather data as at end-December 2011, January 20, 2012 and February 20, 2012, respectively, down 51 percent compared to the previous year and 39 percent over the previous five years.

This current crop year performance degradation could be more pronounced if weather conditions do not improve in the coming weeks. Ten-day data integration at the end of March may lead, in this case, to a new significant downward revision.

By method, the econometric model projects a grain production of 33 million quintals, including 20 million quintals of soft wheat, 6.3 million quintals of durum wheat and 6.5 million of barley, down 52 percent, 66 percent and 72 percent respectively, in comparison with the previous year.

The similar crop method, based on comparison of historical climate conditions for each station, predicts a cereal harvest of 52 million quintals, of which 23 million quintals of soft wheat, 11 million quintals of durum wheat and 17 million quintals of barley.

According to the rainfall indicator-based method, national cereal production would be around 38 million quintals.

Chart B1.1.3: Rainfall deficit of the 2011-2012 crop year by weather station

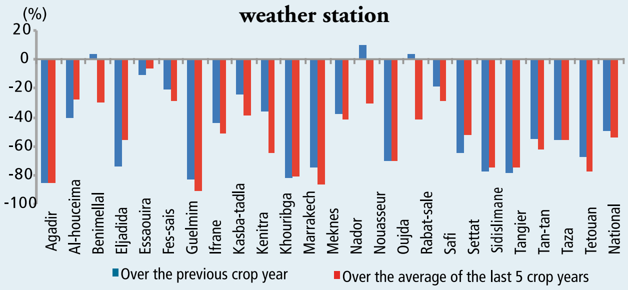
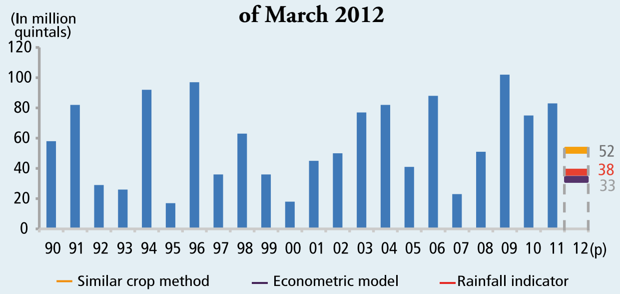


Chart B1.1.4: Trend and forecast of cereal production to the 10 of March 2012



Sources : Ministry of Agriculture,Rural Development and Marine Fisheries, National Weather Forecasts Directorate, Royal Center for Remote Sensing and BAM calculations and forecast.

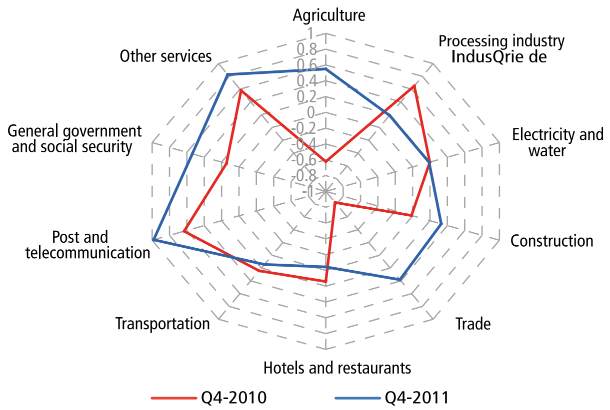
In the fourth quarter, household consumption would have continued to be sustained by positive trends, mainly moderate inflation at 0.4 percent and a 3.6 percent increase in the index of actual average salary, which is an accelerated rate compared to that of 1.7 percent on average seen during the first three quarters. In addition, the Consumer Confidence Index, published by the High Commission for Planning, although down 2 percentage points over the third quarter of 2011, rose 9.7 points from one year to the next.

The high-frequency indicators confirm this trend. Imports of finished consumer goods, and those of food, beverages and tobacco increased by 9.2 percent and 14.5 percent, respectively in the fourth quarter 2011, year on year. Similarly, remittances from Moroccans living abroad rose by 8.2 percent in the fourth quarter and consumer loans by 11.2 percent. However, travel receipts fell 0.9 percent in the fourth quarter of 2011 as against an 8.1 percent increase over the same period a year earlier.
Regarding employment, 189,000 gainful jobs were created nationally in the fourth quarter of 2011 compared to the same period of the previous year. However, uncertainties about the labor market remain significant, with particularly high unemployment rate among the youth and graduates, and a concentration of created jobs in the tertiary sector, which are generally temporary or non-permanent jobs.

The general government consumption should also grow rapidly, as evidenced by a 7.9 percent increase in operating expenses of the Treasury at end-December 2011, covering a 12.4 percent growth of personnel costs and stagnation in expenses of miscellaneous goods and services of nearly 38 billion, or 4.7 percent of GDP.

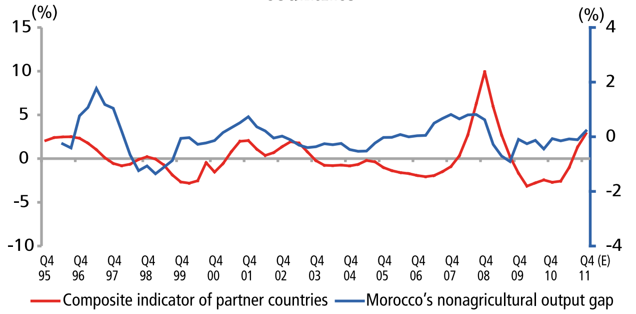
Given these developments, national final consumption should maintain its growth momentum observed since the beginning of the year. Estimates by Bank Al-Maghrib for the year 2011 were maintained at around 6 percent. For 2012, certain pressure factors could increase, especially the decline in rural incomes and the indirect impact of economic slowdown in the major partners. However, consumption is

Chart 1.9: Sectoral contribution to overall growth



Sources: HCP, and BAM forecasts and calculations

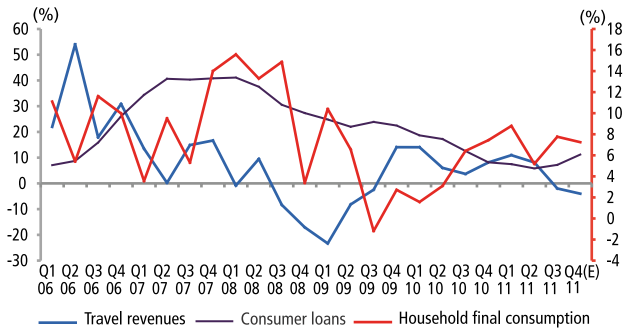
Chart 1.10: Weighted composite leading indicator of partner countries*



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

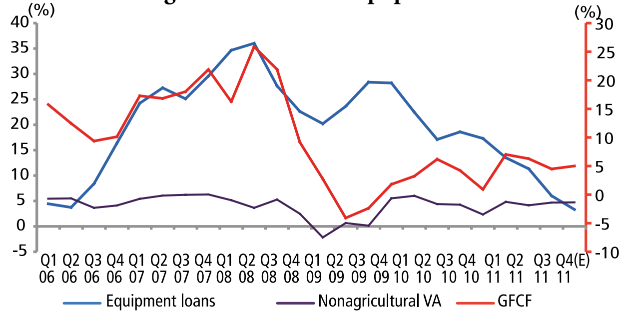
Sources: OECD, and BAM calculations

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



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

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



Sources: High Commission for Planning, Foreign Exchange Office and BAM forecast expected to show some resilience. Its pace of growth should be around 4 percent, according to preliminary forecasts by the Bank.

1.3 Investment

In the third quarter 2011, investment growth continued at the same rate seen since the beginning of the year, standing at 4.6 percent, up from 4 percent on average during the first half. In light of available monthly indicators, investment should grow by 7.4 percent for the year 2011, after declining 1.5 percent in 2010. Indeed, imports of finished equipment goods and equipment loans rose by 17.1 percent and 3.3 percent, respectively, in the fourth quarter, year on year. At the same time, the construction sector, a driving force behind investment development in recent years, would have grown 7.5 percent in the fourth quarter and should continue to sustain investment in 2012.
At the general government level, the Treasury position shows that investment expenditure, at the end of December 2011, grew by 6.1 percent to 50 billion dirhams, which is 6.2 percent of GDP.

The deteriorating international economic situation and its prospects should weigh on investment in 2012. Thus, it should register a decline of nearly 2 percent, but with a likely upward adjustment in case of increased public investment effort.

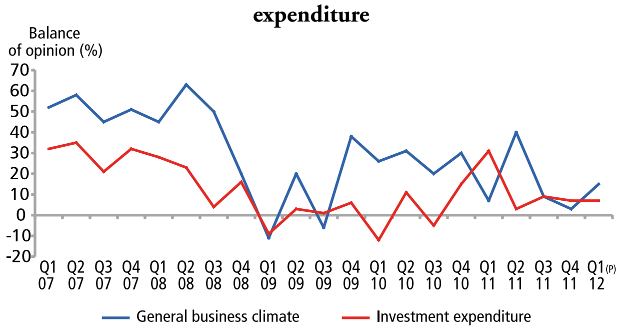
In the same vein, the results of the monthly business survey for the fourth quarter of 2011 show a quarter-on-quarter increase in investment expenditure. In the very short term, industrials project an improved business climate and increased investment expenditure.

1.4 Foreign trade

The data available to the end of February 2012 indicate a small increase in exports. Thus, trade deficit widened year on year, in conjunction with significantly rising imports.

Indeed, trade balance to the end of February posted a deficit of 32.8 billion dirhams, down 27.6 percent from the same period of last year, as against a worsening of nearly 34 percent a year earlier. This trend is due to a 16 percent or 8.3 billion increase in imports, higher than a 4.6 percent or 1.2 billion growth of exports. Thus, the coverage ratio stood at 45.6 percent.

Chart 1.13: Change in general business climate and investment expenditure



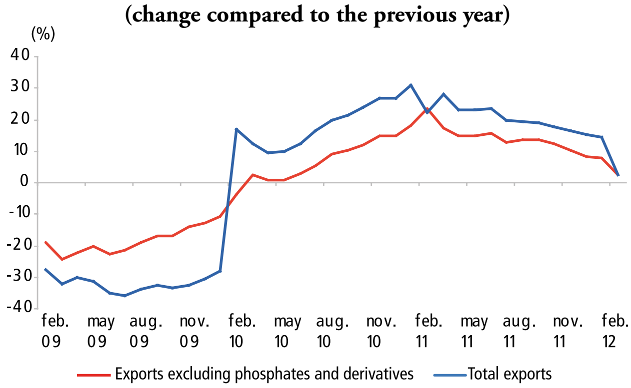
Source: BAM monthly business survey in the industry

Table 1.2: YoY change in the trade balance, to the end of february 2012

(In millions of dirhams)	feb. 2011	feb. 2012*	Change Amount	Change %
Total exports	**26 242,8**	**27 456,0**	**+1 213,2**	**+4,6**
Phosphate and derivatives' exports	6 451,2	6 653,1	+201,9	+3,1
Exports excluding phosphates and derivatives	19 791,6	20 802,9	+1 011,3	+5,1
Electricity wires and cables	2 560,3	2 597,8	+37,5	+1,5
Electronic components	904,6	738,1	-166,5	-18,4
Hosiery items	1 157,1	1 191,4	+34,3	+3,0
Ready-made garments	3 150,9	3 136,0	-14,9	-0,5
Canned fish	660,1	798,2	+138,1	+20,9
Total imports	**51 936,0**	**60 230,0**	**+8 294,0**	**+16,0**
Energy imports	12 051,3	15 484,4	+3 433,1	+28,5
Non-energy imports	39 884,7	44 745,6	+4 860,9	+12,2
Semi-finished goods	11 059,5	12 716,7	+1 657,2	+15,0
Food products	6 578,7	6 325,4	-253,3	-3,9
Consumer goods	8 695,9	10 540,3	+1 844,4	+21,2
Capital goods	10 297,9	11 441,0	+1 143,1	+11,1
Trade balance	**-25 693,2**	**-32 774,0**	**+7 080,8**	**+27,6**

** Provisional data*
Source: Foreign Exchange Office

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



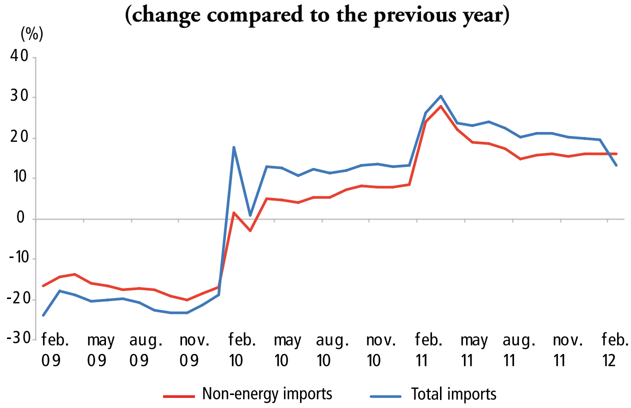
Source: Foreign Exchange Office

The improvement in exports is mainly due to the 29 percent rise in sales of phosphates, reaching 2.1 billion dirhams. In contrast, shipments of phosphate derivatives stood at 4.5 billion dirhams, down 5.9 percent. Non-phosphate and derivatives exports rose 5.1 percent, amounting to 20.8 billion dirhams, as opposed to an increase of 17.8 percent a year earlier. Thus, exports of crustaceans and molluscs, petroleum oils and lubricants, canned fish and hosiery items rose by 71.8 percent, 52.5 percent, 20.9 percent and 3 percent, respectively, to 1.2 billion, 711.4 million, 798.2 million and 1.2 billion dirhams. In contrast, shipments of citrus fruit, electronic components, and group product of iron, steel and other minerals recorded respective regressions of 29.3 percent, 18.4 percent and 10.2 percent to 588.8 million, 738.1 million and 676.3 million dirhams. Exports of ready-made garments stabilized at more than 3 billion dirhams over the same period of last year.

On the imports side, the growth reflects higher purchases in most categories of goods. Thus, the energy bill, totaling 15.5 billion dirhams, grew by 28.5 percent, mainly in connection with the 17.8 percent increase in the average tonne price of imported crude oil, which amounted to 6,774 dirhams. Meanwhile, the volume imported of crude oil fell by 7.2 percent, to 764.9 thousand tonnes. Similarly, purchases of diesel and fuel oil as well as of petroleum gas and other types of fuel increased 35.6 percent and 57.8 percent, respectively, to 5.1 billion and 3.3 billion dirhams.

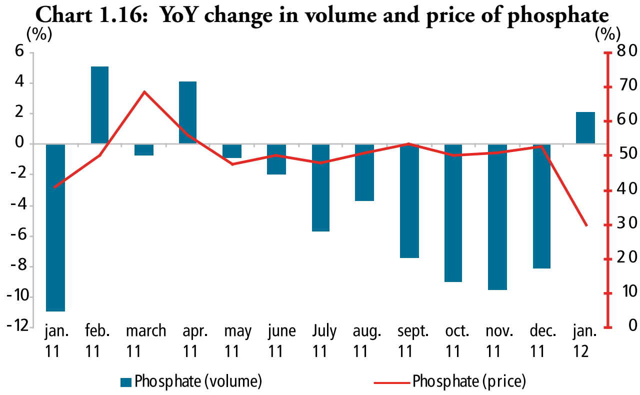
Non-energy imports grew 12.2 percent to 44.8 billion dirhams. Indeed, imports of semi-finished products totaled 12.7 billion, up 15 percent, mainly due to the increase of 27.6 percent of purchases of plastics. Consumer goods imports rose 21.2 percent to 10.5 billion, due in particular to the 24.3 percent increase in purchases of passenger cars. Similarly, capital goods imports increased 11.1 percent to 11.4 billion dirhams. In contrast, food purchases, down 3.9 percent, stood at 6.3 billion dirhams, reflecting a decline of 27.3 percent in wheat supply, reaching 1.5 billion dirhams, and a decline of 22.5 percent in maize imports, totaling 793.5 million dirhams. Sugar purchases amounted to 1.1 billion dirhams, up 25.2 percent.

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



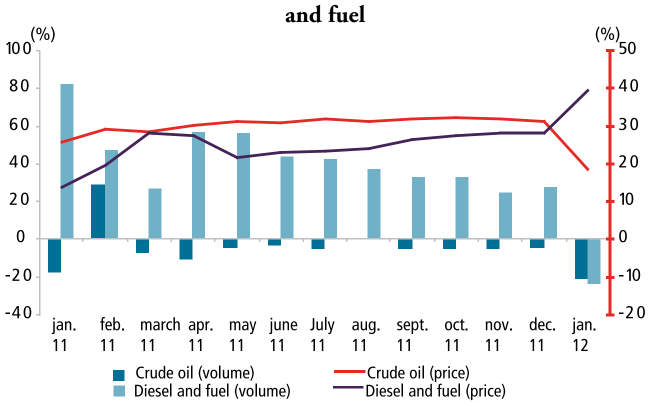
Source: Foreign Exchange Office

Chart 1.16: YoY change in volume and price of phosphate



Source: Foreign Exchange Office

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



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

Despite the deteriorated international economic situation, particularly in our major partner countries, Bank Al-Maghrib's estimates show that nonagricultural output gap would have been generally close to zero in the fourth quarter of 2011 and first quarter of 2012. Similarly, the BAM monthly business survey of January 2012 indicates that although slightly lower from one month to the next, the capacity utilization rate stood at 72 percent overall and 71 percent excluding refining, levels close to their historical average. In the labor market, the fourth quarter of 2011 was characterized by a lower unemployment rate year on year at the national level, reflecting a decline of 0.7 percentage points in urban areas and 0.8 in rural ones. In the same quarter, the data show the rise in nominal and real terms of private sector average wage, because of the continued diffusion effect of the increase in the minimum wage occurred on July 1, 2011. Overall, although pressures on production costs were identified, analysis of all indicators does not suggest significant pressure on prices in the coming quarters.

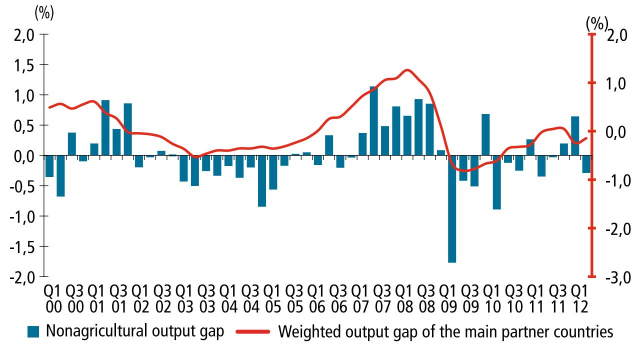
2.1 Pressures on output capacity[1]

The latest estimates made by Bank Al Maghrib indicate that nonagricultural output gap would have continued to fluctuate slightly around zero in the fourth quarter of 2011 and first quarter of 2012. If domestic demand seems to maintain its strength, global pressures should remain moderate due to the deteriorating growth outlook internationally, including a likely recession in the euro area in 2012 (Chart 2.1).

Based on the BAM monthly business survey in the industry, the capacity utilization rate (CUR) fell from 73 percent to 72 percent between December 2011 and January 2012. This trend is mainly due to the decrease from 75 percent to 72 percent in chemicals and related industries. The CUR in other sectors increased slightly (Chart 2.3).

Meanwhile, the same survey shows an increase in costs in the fourth quarter, with an opinion balance of 45 percent, up 18 percentage points from one quarter to the next. Industrials attribute this trend to higher prices for non-energy commodities and financial costs, with respective opinion balances of 48 percent and 44 percent. Financial costs were the main source of increased cost in chemicals and related industries, as well as in textile and leather industry, while the costs of non-energy commodity were identified as the main factor in the food industry

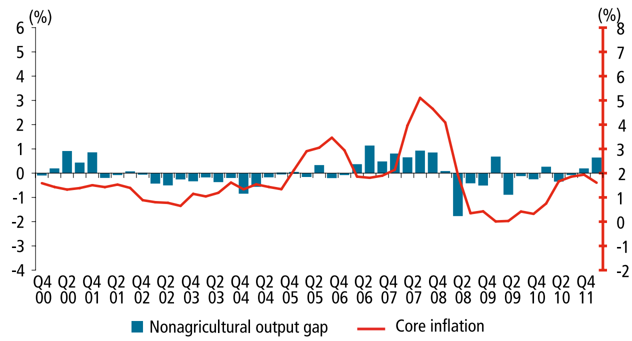
Chart 2.1: Nonagricultural output gap



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

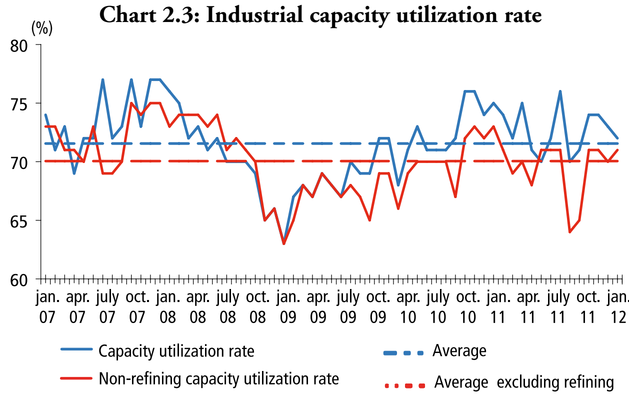
Sources: HCP, and BAM estimates

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.

and mechanical and metallurgical industries. In electrical and electronics industry, the energy cost is the main explanatory factor.

Apparent labor productivity in the nonagricultural sector grew 1.8 percent year on year in the fourth quarter of 2011, to 126.2 points, reflecting increased employment rate at a lower pace than that of nonagricultural GDP, as estimated by BAM (Chart 2.5).

2.2 Pressures on the labor market

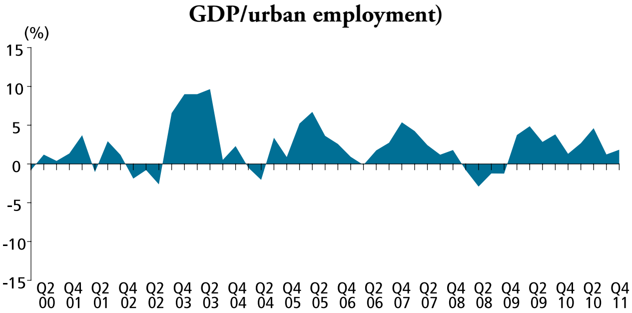
In the fourth quarter of 2011, unemployment rate fell by 0.7 percentage points year on year to 8.5 percent, in conjunction with lower urban unemployment from 13.7 percent to 13 percent and rural one from 4.2 percent to 3.4 percent (Table 2.1). By age group, the unemployment rate among the youth aged 15-24 years stood at 18.3 percent, recording a decrease limited to 0.5 percentage points, which is the lowest pace compared to other groups.

Indeed, the labor force aged 15 and over grew by 2 percent to 11.63 million people, covering a 2 percent increase in both urban and rural areas. This change resulted in a slight increase in the participation rate by 0.1 percentage points to 49.2 percent (Table 2.1).

The employed labor force increased by 2.8 percent to 10.64 million people in the fourth quarter of 2011. Therefore, employment rate improved by 0.5 percentage points to 45.1 percent, covering a virtual stagnation in urban areas and a 1 percentage point increase in rural areas (Table 2.1).

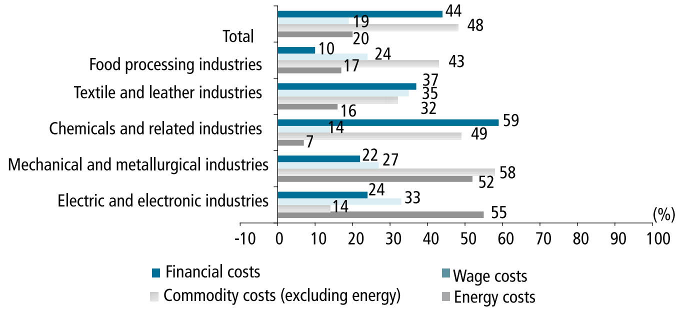
The job market recorded a net creation of 189,000 gainful jobs and 100,000 unpaid jobs, totaling 289,000 jobs, including 51 percent in urban areas. Services and construction remain the major job-providing sectors, with 97,000 and 62,000 new jobs, respectively, in the fourth quarter of 2011. However, industry suffered again

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



Sources : HCP, and BAM estimates

Chart 2.5: Change in components of unit production cost per sector (Balances of opinion in %, in Q4 of 2011)



Source: BAM monthly business survey

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

In million / in %	Q1 - 2010			Q4 - 2011		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force [(2)]	6,016	5,39	11,4	6,14	5,5	11,63
Labor force participation rate (%) [(3)]	43,4	57,6	49,1	43,3	58,2	49,2
Employed labor force	5,19	5,16	10,35	5,34	5,3	10,64
Employment rate (%) [(4)]	37,4	55,2	44,6	37,6	56,2	45,1
Unemployment						
Unemployed labor force	827	225	1 052	800	189	989
Unemployment rate (in %) [(5)]	13,7	4,2	9,2	13	3,4	8,5
By age						
.15 - 24 years	33,2	8,9	18,8	33	8,5	18,3
.25 - 34 years	18,8	4,5	12,7	18,3	3,6	12,1
.35 - 44 years	7,9	2,1	5,5	6,5	1,3	4,4
By degree						
. Non-graduates	7,9	2,6	4,6	5,8	1,9	3,4
. Graduates	18,2	11,2	16,7	18,6	10,1	16,7

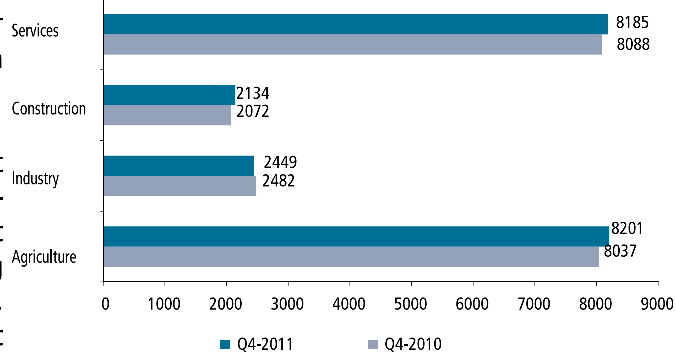
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and above (in millions of persons)
(3) Labor force/total population.
(4) Employed labor force/total population aged 15 years and above.
(5) Unemployed labor force/labor force aged 15 years and above
Source: HCP

a job loss of 33,000 positions after one-off increase of 21,000 jobs in the third quarter of 2011, bringing job losses for 2011 as a whole to 31,000 positions (Chart 2.6).

Regarding wage costs, data on the last quarter of 2011 indicate a slight year-on-year increase of 0.3 percent in the unit labor cost (ULC) in the manufacturing sector. Compared with other countries, the growth in national ULC exceeded that of Poland, Hungary and Germany, with a gap of 3.1 percent, 1.4 percent and 1.2 percent, respectively. However, ULC grew more slowly than in Italy, the United Kingdom and Canada (Chart 2.7).

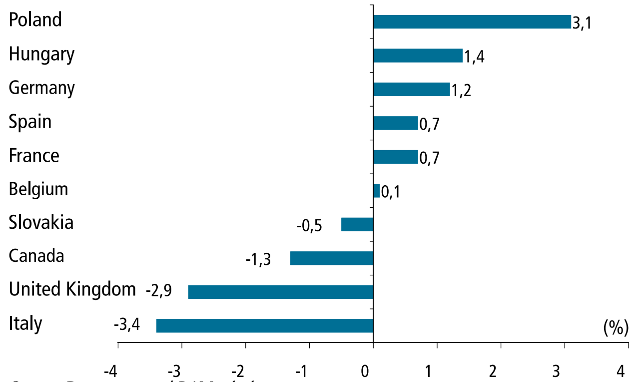
The quarterly average wage index, calculated by the HCP on the basis of the CNSS data, rose in the fourth quarter of 2011 at a year-on-year rate of 4 percent and 3.6 percent in nominal and real terms, respectively. This trend results from a continued diffusion effect of the 10 percent growth of the minimum wage occurred in July (Chart 2.8). This change confirms the results of the BAM business survey in the industrial sector, which indicate higher wages, with an opinion balance at 19 percent. The minimum wage was stagnant from one quarter to the next both in real and nominal terms. (Chart 2.9)

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



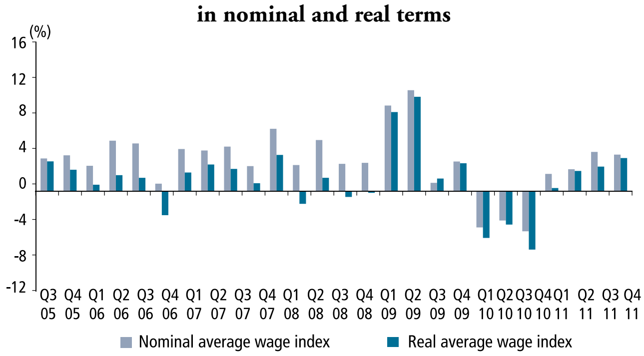
Source: HCP

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



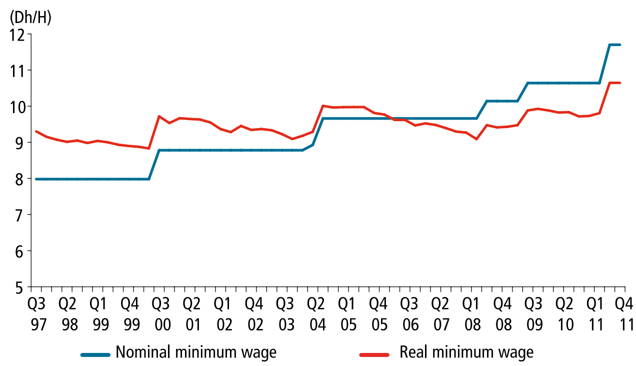
Sources: Datastream, and BAM calculations

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

Although they do not help foresee a significant improvement in economic conditions and prospects, the available data to the end of February 2012, in particular those relating to key financial variables, show some positive trends. A relative easing of tensions was observed in bond, money and stock markets, particularly in advanced countries. Concerning the bond market in particular, support measures provided by the ECB and the effective implementation of the aid package for Greece contributed to lower sovereign bonds rates in European countries. This change was accompanied by a downward trend in rates and spreads in money markets, as well as a further rise in stock indexes in advanced and emerging economies. In the foreign exchange market, the euro appreciated vis-à-vis most currencies of advanced countries. Concerning economic activity, the results of national accounts remain the same as in the fourth quarter of 2011, showing a continued overall growth slowdown, especially in advanced countries. More recently, high-frequency indicators of February 2012 were generally tilted to the upside, indicating some dynamic activity compared to the fourth quarter of 2011. These signs of recovery, however, remain fragile and surrounded by risks associated with the persistence of areas of vulnerability observed for several quarters, including those relating to fiscal imbalances, labor market, bank credit and commodity prices. The latter, after some decline over the last two months of 2011, rose sharply, impacted by geopolitical tensions and the resulting uncertainties about supply. Concerning the global short-term outlook, last updated projections of the European Commission in February 2012 and the IMF in January 2012 show more significant downward revisions of growth in 2012 for advanced countries, and emerging and developing ones. Overall, the analytical elements of the international economic situation suggest only a slight reduction in risks of weakening external demand for the national economy, while indicating that, in case of continued rise in prices internationally, external inflationary pressures may be less moderate in the coming quarters.

3.1 Global financial conditions and economic activity

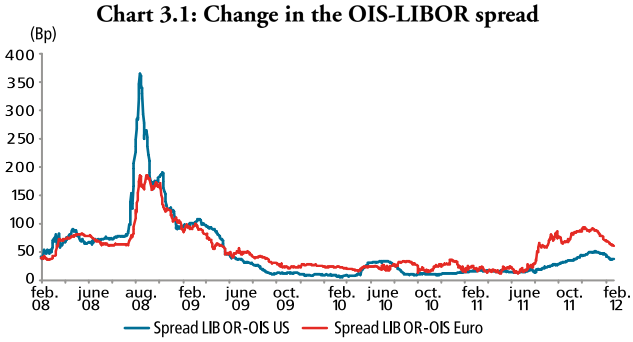
During the first two months of 2012, financial conditions were marked by eased tensions, especially in advanced countries. This lull is due to multilateral support measures provided for Greece, the ECB interventions, and the relative improvement of the latest economic indicators in advanced countries.

3.1.1 Financial conditions

In February, new support measures provided by the ECB entered into force, and an aid package of 237 billion euros for Greece was introduced jointly by the euro area countries and the IMF. This plan, the second after that of May 2010, brings the total financial aid to that country to 350 billion euros.

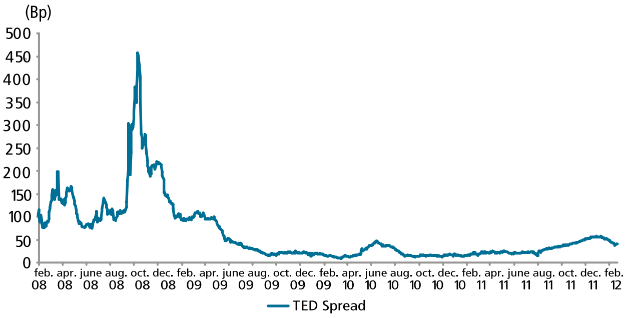
Under these conditions, yields on 10-year sovereign bonds fell between January and February 2012 from 13.8 percent to 12.9 percent in Portugal, from 6.6 percent to

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

Chart 3.2: Change in the TED spread[1]



Source: Datastream

1 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.

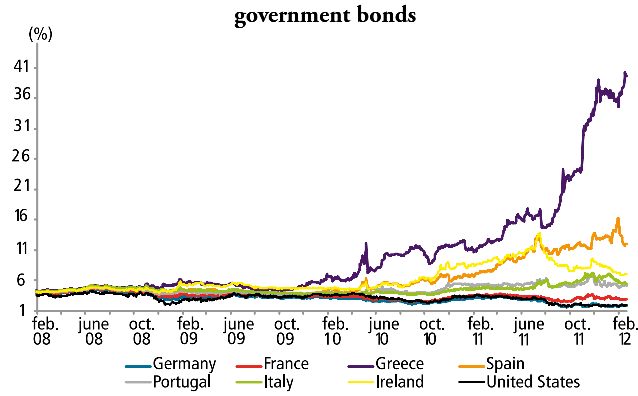
5.6 percent in Italy and from 5.4 percent to 5.1 percent in Spain. The bonds of France also fell compared to the previous month, to 3 percent from 3.2 percent for 10-year bonds. However, the Greek 10-year bonds decelerated to 38.1 percent in February 2012, as against 36.3 percent in January and 37 percent in December 2011, with a slight decrease on the day after the announcement of the aid package. Similarly, although remaining at an unusually low rate, yields on 10-year sovereign bonds of Germany edged up 1.8 percent to 1.9 percent, while those of the United States stagnated at 1.9 percent, from one month to the next. The easing of pressures on the bond market is also reflected in credit derivatives markets, including in peripheral countries, which experienced declines, with the exception of Greece (Chart 3.4).

In the money markets, the 3-month Euribor stood at 1.07 percent in February 2012, down from 1.22 percent, bringing the euro Libor-OIS spread from 80.2 to 65.5 basis points. Similarly, the 3-month Libor fell, from January to February 2012, from 0.6 percent to 0.51 percent and the dollar Libor-OIS spread from 48.3 basis points to 39.3 points. Despite these trends, spreads remain well above their pre-crisis level, which is 7 basis points in the United States and 3 basis points in the euro area.

Credit to the private sector recorded divergent trends in the euro area and the United States. It dropped 0.7 percent in the euro area, between November and December 2011, while it increased in the United States by 0.6 percent from December 2011 to January 2012. The pace of credit growth in 2011 averaged 1.1 percent and 2.4 percent, respectively, in the United States and the euro area. It thus remains below pre-crisis rate.

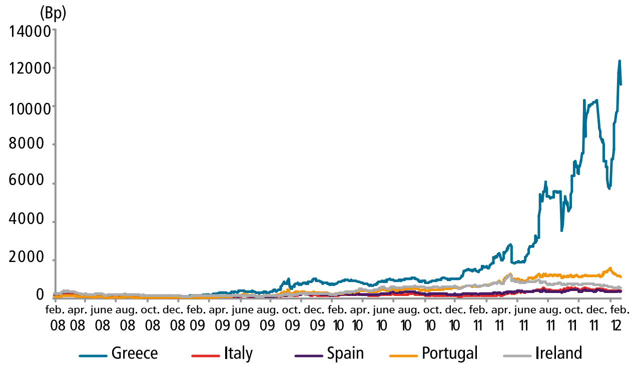
Major stock markets indexes in advanced economies continued their upward trend, while volatility indexes declined further. Thus, the NIKKEI225, the Dow Jones Industrials and EUROSTOXX50

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



Source: Datastream

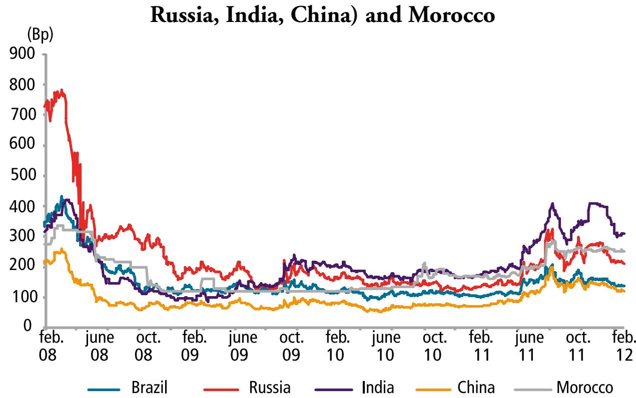
Chart 3.4: Change in CDS* in euro area peripheral countries



Source: Datastream

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

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



Source: Datastream

rose 5.4 percent, 2.6 percent and 5.1 percent, respectively, reflecting respective increases of 7.6 percent for the DAX30 and 4.7 percent for the CAC40, month on month.

Regarding the volatility index, the VIX dropped to 18.6 basis points in February 2012 as against 20.4 points a month earlier. The VSTOXX, which provides information on stock market volatility in the euro area, stood at 25.4 basis points, down from 27.8 points.

Similarly, the indexes of emerging economies were up. The MSCI-EM rose by 8.4 percent in February 2012, compared to the previous month.

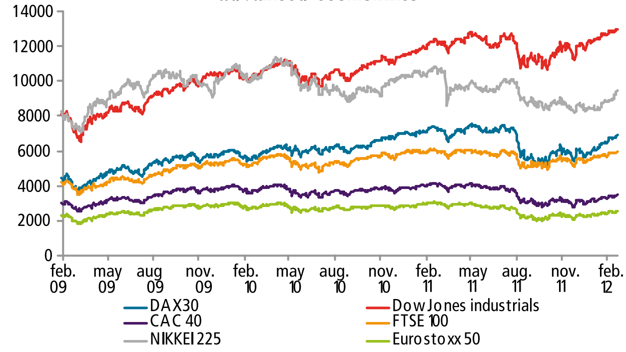
In international foreign exchange markets, the euro reversed its depreciation trend against most other currencies, driven mainly by the second aid package for Greece and Germany's now less unfavorable economic outlook for the current year. Thus, the euro reached $ 1.32 in February 2012, which is an appreciation of 2.4 percent compared to January. It also appreciated by 3 percent vis-à-vis the Japanese yen, but depreciated by 0.2 percent against the pound sterling.

Concerning monetary policy decisions, at their meetings of February 2012, the ECB and the Bank of England kept their policy rates unchanged at 1 percent and 0.5 percent, respectively. As part of its program of asset purchases launched in March 2009, the Bank of England announced an extension of 50 billion pounds over a period of three months, which is a total of 325 billion pounds. The Fed maintained, in January 2012, interest rates unchanged between 0 percent and 0.25 percent.

3.1.2 Global economic activity

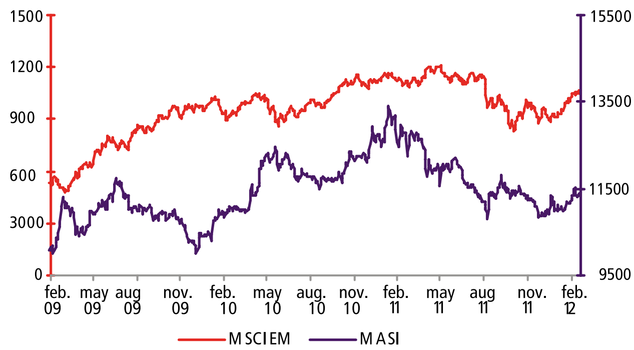
The data on Q4-2011 national accounts in the United States show a growth of GDP to 1.6 percent year on year, from 1.5

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



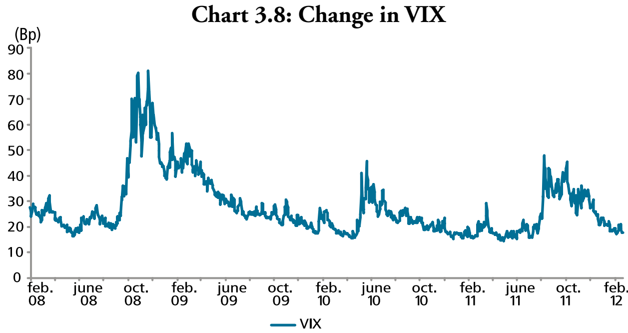
Source: Datastream

Chart 3.7: Change in the MSCI EM and MASI



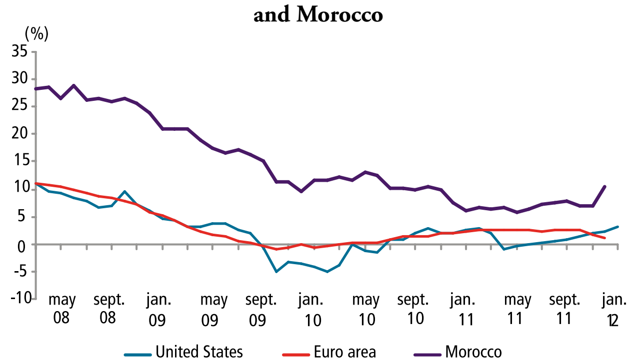
Source: Datastream

Chart 3.8: Change in VIX



Source: Datastream

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



Source: Datastream

percent in the previous quarter. This slight improvement in GDP was due mainly to increased household consumption spending, and accelerated pace of stock building by companies.

In the euro area, growth in the fourth quarter showed, however, a marked deceleration of 0.7 percent year on year after 1.3 percent in the previous quarter, mainly reflecting the decline in household consumption. The slowdown was more marked in Germany where GDP increased 2 percent year on year as opposed to 2.7 percent in the third quarter. Growth stood at 1.4 percent and 0.3 percent in France and Spain, respectively, as against 1.5 percent and 0.8 percent in the previous quarter. In addition, Italy's GDP shrank by 0.5 percent, after rising 0.3 percent in the third quarter.

Japan's GDP posted in the fourth quarter a contraction of 1 percent year on year, after that of 0.6 percent in the previous quarter, primarily reflecting the slowdown in domestic demand.

In emerging Asia, although under deceleration since the beginning of the year, growth remains relatively strong, especially in China where it stood at 8.9 percent in the fourth quarter, down from 9.1 percent in the previous quarter.

Regarding high-frequency indicators, data of February 2012 show overall signs of improved activity from one month to the next. Thus, the U.S. Consumer Confidence Index rebounded in February to 70.8 points, after 61.1 points in January, up 15.1 percent month on month, but remains down 1.7 percent year on year. As for the manufacturing ISM index in the United States, the latest data of January show that it slightly rose by 0.4 percent, or 54.1 basis points.

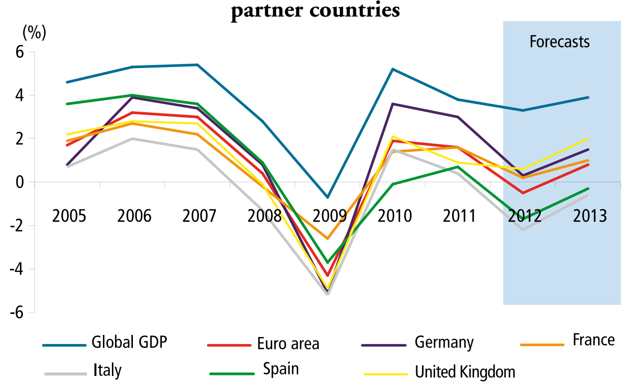
The eurozone manufacturing PMI increased slightly by 0.4 percent in February month on month, but remains down by 17 percent year on year. However,

Table 3.1: YoY change in quarterly growth

	2010			2011			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	3,3	3,5	3,1	2,2	1,6	1,5	1,6
Euro area	2,1	2,1	2	2,4	1,6	1,3	0,7
France	1,5	1,6	1,4	2,2	1,6	1,5	1,4
Germany	4,1	4	3,8	4,6	2,9	2,7	2,0
Italy	1,4	1,4	1,5	1	0,8	0,2	-0,5
Spain	0	0,4	0,7	0,9	0,8	0,8	0,3
China	10,3	9,6	9,8	9,7	9,5	9,1	8,9

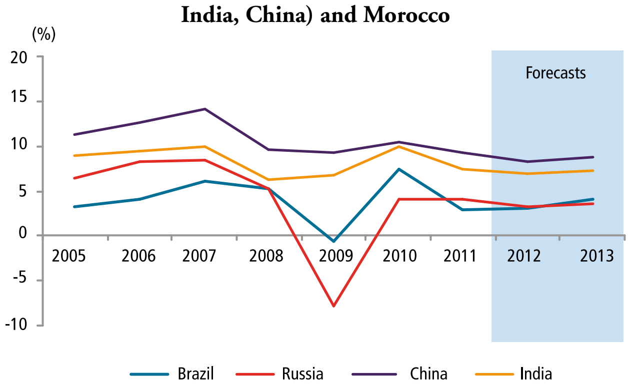
Source: Eurostat

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

the composite PMI fell1.4 percent month on month to stand at 49.4 points, down from 50.4 points in the previous month, dropping back to below 50. On annual basis, this index also shows a year-on-year decrease of 14.6 percent. Regarding the business climate, the IFO index in Germany rose to 109.8 points in February 2012 from 108.3 points in January, up 1.4 percent from one month to the next. Similarly, the Zew Indicator (economic sentiment) showed a positive trend of 5.4 points in February, as against -21.6 in the previous month.

Regarding the global economic outlook, the IMF in its update of January 2012 again revised downwards its projections for growth in advanced countries. Thus, U.S. growth would be 1.8 percent and 2.2 percent respectively in 2012 and 2013, while in the euro area, GDP would fall by 0.5 percent in 2012 before increasing by 0.8 percent in 2013. In Morocco's partner countries, the new IMF projections point to a GDP trend of 0.3 percent and 1.5 percent in Germany, 0.2 percent and 1 percent in France, -2.2 percent and -0.6 percent in Italy, -1.7 percent and -0.3 percent in Spain, and 0.6 percent and 2 percent in the UK, in 2012 and 2013, respectively.

The new projections of the European Commission, dated February 2012, remain broadly in line with those of other organizations, showing new downward revisions for most advanced countries in 2012 compared to last fall outlook (November 2011). The Commission now expects growth to be limited to 1.6 percent and 1.5 percent respectively in 2012 and 2013 in the United States, while in the euro area, GDP is projected to decline 0.3 percent in 2012 and grow by 1.3 percent in 2013.

Regarding central banks, the ECB forecasts, dated February 2012, indicate a GDP contraction of 0.1 percent in 2012 and an increase of 1.1 percent in 2013 for the euro area. In partner countries, the Bank of France projects a 1 percent growth

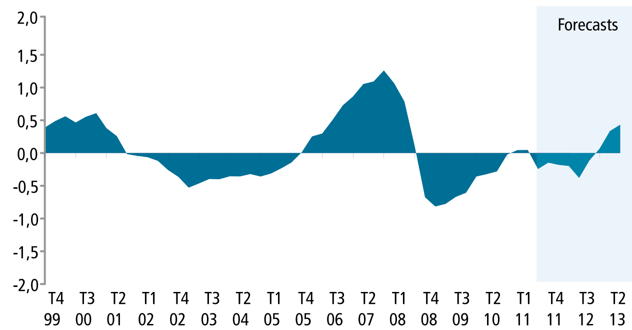
Table 3.2: Global growth outlook

	Forecasts (%)							
	Word Bank		European commission*		IMF*		Centrales bank	
	2012	2013	2012	2013	2012	2013	2012	2013
Global GDP	2,5	3,1	-	-	3,3	3,9	-	-
United States	2,2	2,4	1,5	1,3	1,8	2,2	(2,5-2,9)	(3,0-3,3)
Euro area	-0,3	1,1	1,5	0,5	-0,5	0,8	-0,1	1,1
Germany	-	-	2,9	0,8	0,3	1,5	0,6	1,8
France	-	-	1,6	0,6	1,6	0,2	0,4	1,0
Italy	-	-	0,5	0,1	-2,2	-0,6	(-1,2-1,5)	0,8
Spain	-	-	0,7	0,7	-1,7	-0,3	-1,5	0,2
United Kingdom	-	-	0,7	0,6	0,6	2	1	-
China	8,4	8,3	9,2	8,6	8,2	8,8	-	-
India	6,5	7,7	-	-	7	7,3	-	-
Brazil	3,4	4,4	-	-	3	4	-	-
Russia	3,5	3,9	3,9	3,8	3,3	3,5	-	-

**OECD and Word bank jannuary 2012, European Commission: 2012; IMF: jannuary 2012, Centrales bank jannuary 2012*

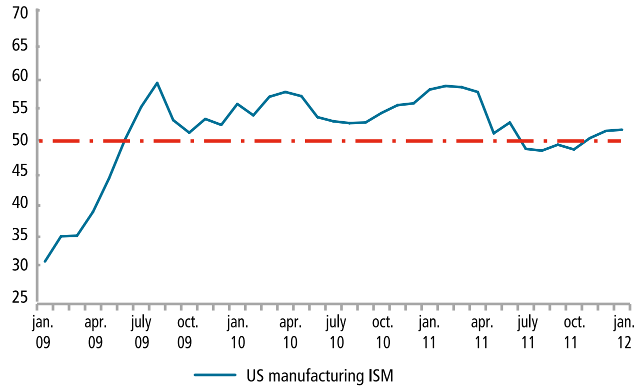
Sources: Word bank, IMF, European Commission, OECD

Chart 3.12: Output gap of main partner countries



Sources: European Commission, and BAM calculations

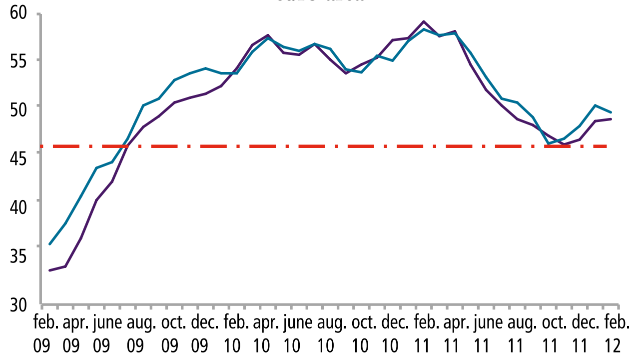
Chart 3.13: ISM growth in the United States



Sources: Dtatstream

in France in 2012 and 2013 respectively, while the Bundesbank forecasts a German growth of 0.6 percent and 1.8 percent, respectively. The Bank of Italy expects a change in GDP within a range of -1.2 percent to -1.5 percent over the same period. The Bank of Spain projects a contraction of -1.5 percent in 2012.

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



Sources: Dtatstream

3.1.3 Job market

Over the whole of 2011, with the significant exception of Germany where unemployment rate slowed from 7.1 percent in 2010 to 5.9 percent in 2011, unemployment rates in other countries remain relatively high. In some European countries, particularly in Spain, unemployment rate posted new record highs both month on month and year on year. Various implemented reforms seem probably to be insufficient in a context of economic slowdown and deepening budgetary difficulties. For January 2012, available data are about the United States where unemployment rate stood at 8.3 percent, down from 8.5 percent last month.

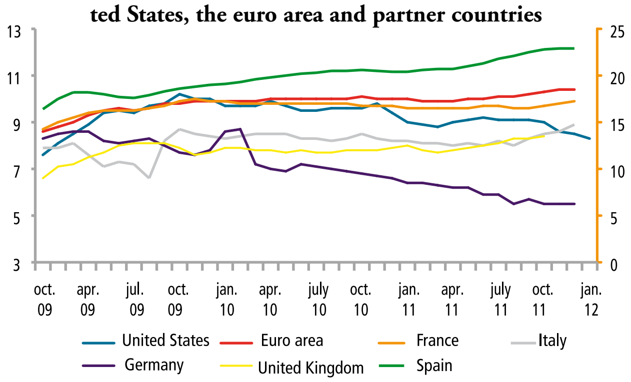
Table 3.3: Change in unemployment rate in the United States, the euro aera and partner countries

	2010	2011	oct. 2011	nov. 2011	dec. 2011
United States	9,6	9	9,1	9,1	9,1
Euro area	10,1	10,1	10,3	10,4	10,4
France	9,8	9,7	9,7	9,8	9,9
Italy	8,4	8,4	8,5	8,8	8,9
Germany	7,1	5,9	5,7	5,6	5,5
Spain	20,1	21,6	22,7	22,9	22,9
United Kingdom	7,8	-	8,4	8,4	n.a

Sources: Eurostat

According to forecasts of several organizations, uncertainties about short-term growth outlook in advanced countries should also keep unemployment rates relatively high in 2012 with varying degrees across countries. According to the latest IMF forecasts, unemployment would reach 9 percent and 9.9 percent in 2012 in the United States and the euro area, respectively. In partner countries, it would stand at 6.2 percent in Germany, 9.2 percent in France, 8.5 percent in Italy and a record high of 19.7 percent in Spain.

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



Source: Eurostat

3.2 Commodity prices and inflation

The continued strong demand from emerging economies, coupled with the effects of geopolitical risks, led to an increase of commodity prices in February, while inflation did not change significantly in January compared to December 2011.

3.2.1 Energy commodity prices

Instability in the Middle East and uncertainties about Iranian exports, coupled with increased demand from emerging markets, brought the price of Brent at its highest level in seven months, $121.4 a barrel on February 21. Thus, the average monthly price of oil reached $118.4 a barrel, a monthly change of 6.3 percent and 14.1 percent year on year.

Regarding forecasts of oil prices, the World Bank revised upward its estimates for 2012 from $94.7 to $98.2 a barrel, while the IMF revised slightly downward the price to $99.09 as against $100. For 2013, both organizations predict a price of $97.1 and $95.5 per barrel, respectively. In the Brent futures market, contract prices were $117.9 a barrel for 2012 and 105.3 for 2013.

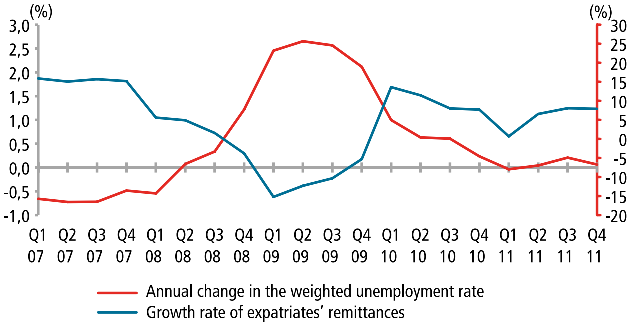
The increase in oil prices, along with the deteriorating economic outlook in the euro area and the United States, led OPEC to adjust its demand forecast downward to 0.2 mb/d. Similarly, the IEA revised downward its forecast to 0.3 mb/d.

Moreover, natural gas prices declined slightly in January from 0.7 percent month on month, mainly because of surplus stocks, while remaining 17 percent higher than the level recorded in January 2011. Coal price rose by 5 percent in conjunction with rapidly increasing demand and tight supply.

3.2.2 Non energy commodity prices

While remaining down 2.8 percent from its level of 2011, the Dow Jones-UBS was up 3 percent from one month to the next. Impacted by lower production and stocks, as well as higher oil prices, the prices of industrial metals rose in February, as evidenced by the 3.8 percent increase in the relevant Dow Jones-UBS, month on month. Year on year, this index remains down 16 percent in conjunction with the base effect related to high levels seen in early 2011. By commodity, prices for zinc, nickel and copper rose month on month

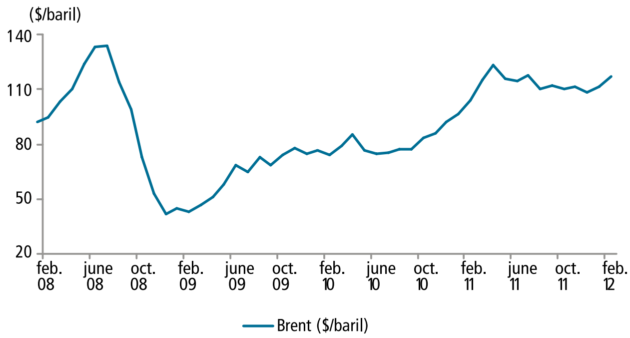
Chart 3.16: YoY change in main partner countries' weighted unemployment rate and expatriates' remittances* growth rate



** 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

Chart 3.17: World price of brent oil in dollar



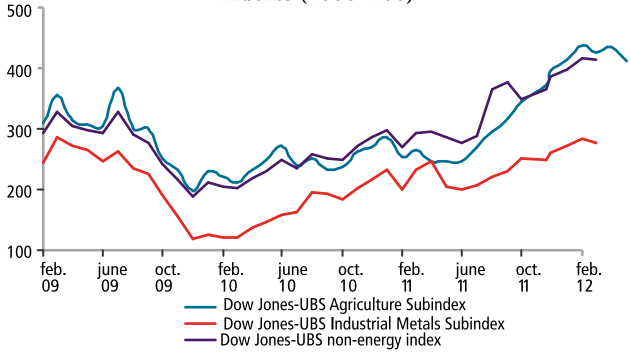
Source: Datastream

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

	Q1:12	Q2:12	Q3:12	Q4:12	2012	2013	2014
Oil	117,15	120,02	118,25	116,46	117,97	112,02	105,39

Source: Bloomberg

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



Source: Datastream

at respective rates of 9.8 percent, 8.9 percent and 8.3 percent.

However, the apparent increase in production and stocks of certain commodities led to a slowdown in price of agricultural goods. The monthly increase in the Dow Jones-UBS slowed to 1.5 percent from 3.6 percent in the previous month, while the annual change stood at -16.4 percent. Thus, cotton and wheat prices fell 2.2 percent and 1.5 percent month on month and 50.8 percent and 5.4 percent year on year, respectively. Corn price recorded a monthly increase of 5 percent and an annual increase of 10 percent.

In the phosphate and derivatives market, the price for crude phosphate remained unchanged in January, at $202.2 a tonne for the third consecutive month, while recording an annual increase of 31 percent. Similarly, the prices of TSP stabilized month on month after falling 7 percent in December, recording a price increase of 12 percent year on year. Moreover, prices of DAP and potassium chloride dropped 24 percent and 22 percent month on month, which are annual variations of -27 percent and 0.2 percent, respectively.

3.2.3 Inflation in the world

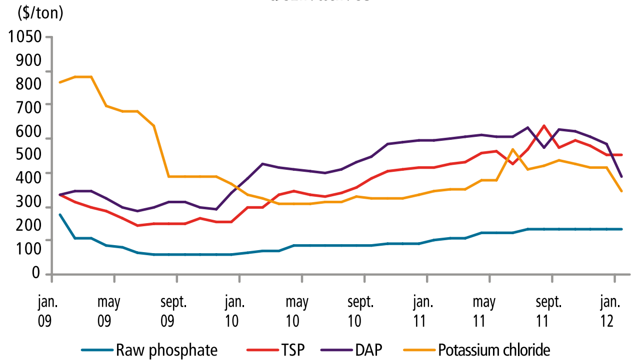
The data show that inflation did not change significantly between December 2011 and January 2012, with a slight increase globally from 4.3 percent to 4.4 percent and a slight decrease from 2.5 percent to 2.4 percent in advanced countries. Inflation stabilized at 2.9 percent in the United States, as against 3.4 percent in the previous month, while the estimate of the Statistical Office of the European Union indicates stabilization at 2.7 percent. In Morocco's major partners, inflation slowed in Spain, Italy and France, from 2.4 percent to 2 percent, from 2.7 percent to 2.4 percent and from 2.7 percent to 2.6 percent,

Table 3.5: Futures prices of wheat, corn and sugar

	Q1:12	Q2:12	Q3:12	Q4:12	2012	2013	2014
Wheat (cents/bu)	637,36	636,75	690,00	691,84	667,30	713,93	741,07
Corn (cents/bu)	638,31	646,82	599,58	569,97	613,40	557,15	562,35
Sugar (11cents/bl)	24,40	23,96	23,95	24,50	24,20	24,11	23,82

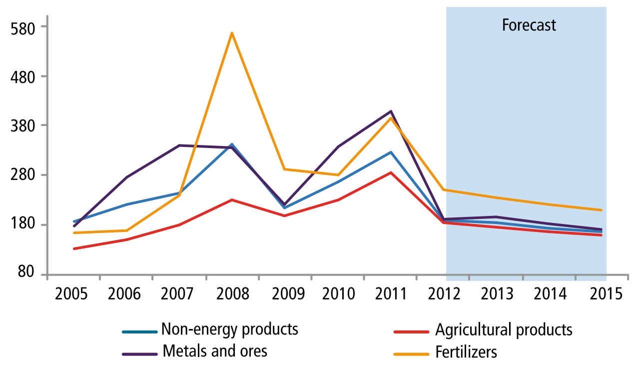
Source : Bloomberg

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



Source: World Bank

Chart 3.20: Outlook for commodity price indexes



Source: World Bank

Table 3.6: Recent trend in world inflation, YoY

	jan. 2010	nov. 2011	dec. 2011	jan. 2012	Forcasts 2011	Forcasts 2012
United States	1,5	3,4	3,4	2,9	3,0	1,2
Euro area*	2,3	3,0	2,7	2,7	2,5	1,5
Germany	2,0	2,8	2,3	2,3	2,2	1,3
France	1,9	2,7	2,7	2,6	2,1	1,4
Spain	3,0	2,9	2,4	2,0	2,9	1,5
Italy	2,1	3,7	3,7	3,4	2,6	1,6
Japan	-0,6	-0,5	-0,2	n.a	-0,4	-0,5
China	4,4	5,1	4,6	4,9	4,7	3,3

Sources : IMF, Eurostat

respectively, while it remained unchanged at 2.3 percent in Germany.

In emerging markets, inflation in China increased to 4.9 percent in January, as against 4.6 percent in December, while in Brazil it fell from 6.5 percent to 6.2 percent.

Moreover, in its updated global outlook of January, the IMF predicts overall slower rise in consumer prices in 2012 and 2013, compared to 2011, due to slower demand and the anticipated downturn in commodity prices. Thus, inflation in advanced countries would have stood at 2.7 percent in 2011 and should fall to 1.6 percent in 2012 and 1.3 percent in 2013. In emerging and developing countries, it would reach 7.2 percent in 2011, 6.2 percent in 2012 and 5.5 percent in 2013.

3.3 Morocco's import unit price index

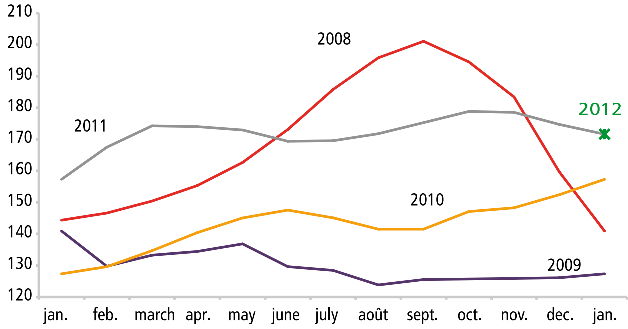
The latest available data show that the non-energy import price index (IPI) fell at a monthly rate of 1.8 percent in January 2012, from 2.2 percent in December. Thus, the food IPM fell 1.2 percent, month on month, from 7.1 percent a month earlier, in particular due to respective 2.4 percent and 1.4 percent decreases in the average unit import price of wheat and maize.

Similarly, the IPI of semi-finished goods declined 0.3 percent from 0.5 percent in the previous month, mainly in connection with a 1.1 percent decline in the average unit import price of plastics.

However, the mining IPI increased by 2.4 percent from 0.7 percent in December. This trend is mainly due to the 4.6 percent increase in the average unit import price of crude sulfur.

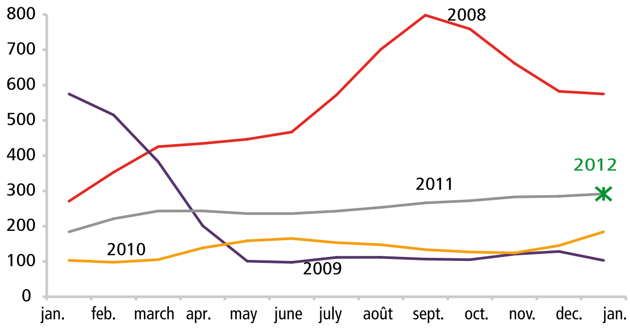
Year on year, the non-energy IPI was up 9.1 percent, as against 23.5 percent a year earlier. The mining IPI increased 58.4 percent, mainly owing to the increase

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



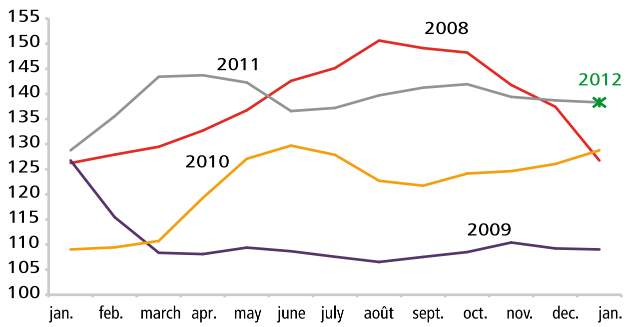
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.22: Mining products' import price index (1996=100)



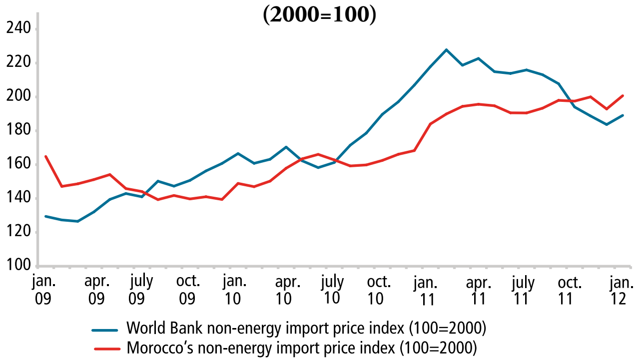
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.23: Semi-finished products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.24: Change in world commodity price index and domestic non-energy import price index (2000=100)



Sources: Foreign Exchange Office, World Bank, and BAM calculations of 84.4 percent of the average unit import price of sulfur. The food IPI was up 3.1 percent, mainly due to a 9.63 percent increase in the average unit import price of maize. Meanwhile, IPI of semi-finished products increased by 7.4 percent, mainly in connection with growth of 11.6 percent in the average unit import price of paper and cardboard.

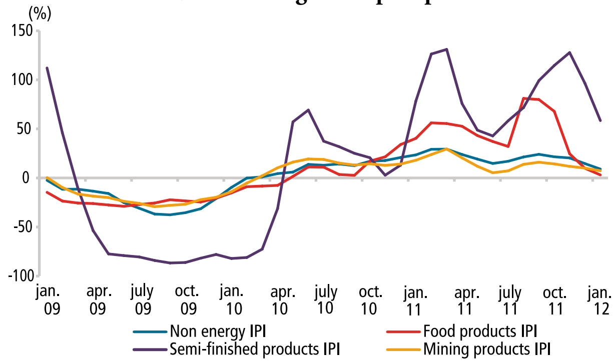
All of these elements confirm the moderation of inflationary pressures from commodity import prices. The outlook for commodity prices is still trending down.

Table 3. 7 : Change in import price index

	Monthly change in %			Annual change in %		
	nov. 11	dec. 11	jan. 12	nov. 11	dec. 11	jan 12
Non energy IPI	-0,2	-2,2	-1,8	20,4	14,6	9,1
Food IPI	-23,8	-7,1	-1,2	24,6	9,8	3,1
Semi-finished products IPI	-1,8	-0,5	-0,3	11,8	10,0	7,4
Mining IPI	3,9	0,7	2,4	127,8	96,3	58,4

Indexes calculated on the basis of unit prices in Dirhams.

Chart 3.25: YoY change in import price index



Sources: Foreign exchange office, and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

The latest available data point to a stable annual growth rate of M3, which stood at 5.7 percent between the fourth quarter of 2011 and January 2012. Under these circumstances, the money gap remained negative. Meanwhile, the annual growth of bank lending accelerated 8.1 percent last quarter 2011 and 10.6 percent in January 2012, from 7 percent in the third quarter. This was primarily due to a base effect linked to the strong monthly decline a year earlier, as well as one-off lending operations in December 2011. As to lending rates, Bank Al-Maghrib's survey among banks for the fourth quarter of 201 1indicates an increase of 34 basis points in loan's weighted average rate. This reflects higher rates on different bank loan categories, particularly rates on cash advances. The dirham's effective exchange rate appreciated by 0.38 percent from one quarter to another in nominal terms, while in real terms, it depreciated by 0.55 percent, as the inflation rate in Morocco was generally lower than in the major partners and competitors. The real estate price index declined 0.4 percent between the third and fourth quarters of 2011, as against a 1.2 percent growth a quarter earlier. Year on year, it recorded a faster rate of 2.9 percent from 1.1 percent in the previous quarter.

Overall, recent developments in monetary conditions and asset prices, particularly real estate assets, reveal the absence of monetary inflationary pressures in the medium term.

4.1 Monetary conditions

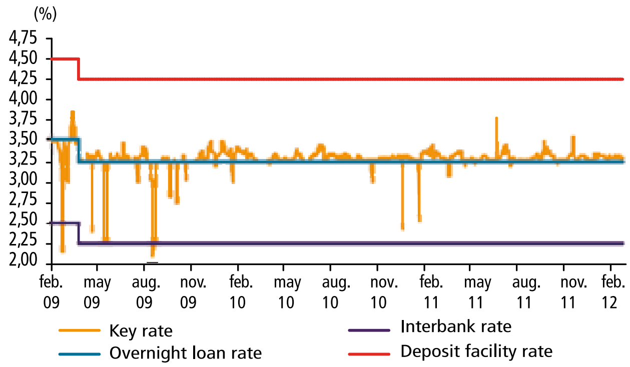
4.1.1 Interest rates

In a context where permanent inflation central forecast is consistent with the price stability objective and the balance of risks is tilted to the downside, in conjunction with the international developments, the Board of Bank Al-Maghrib decided, at its last meeting on December 20, 2011, to keep the key rate unchanged at 3.25 percent. Under these conditions, the interbank overnight rate on money market averaged 3.30 percent in January and February 2012, an increase of one basis point from the previous quarter.

In this context, rates on short and medium-term primary market Treasury bonds increased throughout the fourth quarter of 2011 and January 2012. Long-term Treasury bond yields continued their upward trend that began in the third quarter of 2011, but with virtual stagnation in 15-year bond rates in January 2012. In the secondary market, various maturity rates, recorded in the fourth quarter, continued to rise during the first two months of 2012.

The weighted average rate of 6 and 12-month deposit rates increased by 12

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



**Observation of February corresponds to the arithmetic average of data from 1 to to febrary 29, 2012*

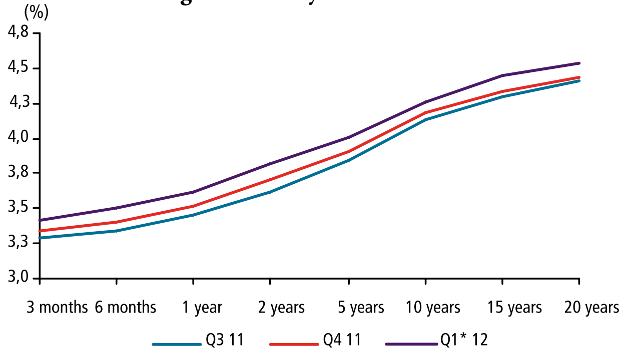
Table 4.1: Change in Treasury bond yields on the primary market

	2010		2011				
	Q3	Q4	Q1	Q2	Q3	Q4	jan.12
13 weeks	-	-	-	-	3,28	-	-
26 weeks	-	3,29	3,31	3,30	3,30	3,34	3,39
52 weeks	3,41	3,33	-		3,33	3,33	-
2 years	3,49	3,48	3,46	3,45	3,46	3,49	-
5 years	3,68	3,62	3,63	3,61	3,61	3,71	3,80
10 years	3,90	3,85	3,85	3,84	3,85	3,91	3,99
15 years	4,17	4,15	4,13	4,12	4,13	4,20	-
15 ans	-	4,34	4,32	4,33	4,34	4,45	4,44

basis points between the fourth quarter and the first two months of 2012. This rise, which affected both 6-month and one-year deposit rates, reflects the objective of banks to attract more resources in a context marked by a structural need for liquidity.

As to lending rates, the findings of BAM survey among banks, for the fourth quarter of 2011, indicate an increase of 34 basis points in the weighted average rate of bank loans to stand at 6.65 percent. This trend reflects higher rates on different categories of bank credit, especially rates on cash loans and equipment.

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 October 1 to january to february 29, 2012*

Source :

Table 4.2: Rates on time deposits

	2010		2011				*2012
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
6 months	3,32	3,33	3,28	3,34	3,33	3,35	3,51
12 months	3,71	3,77	3,79	3,72	3,78	3,74	3,90
Weighted average	3,59	3,60	3,60	3,55	3,63	3,59	3,72

**Data for first quarter 2012 correspond to the average of January and February*
Source : BAM

Box 4.1: Liquidity and monetary policy implementation

In the last quarter of 2011, banks' liquidity deficit widened 6.6 billion dirhams compared to the previous quarter (from 29 billion to 35.6 billion dirhams) due to a restrictive effect related to the combination of the decline in foreign assets and the increase in currency in circulation.

Indeed, foreign exchange transactions led to a liquidity drain of 7.2 billion dirhams due to the faster pace of foreign currency purchases by commercial banks (14.6 billion dirhams), partially offset by the reflux of foreign banknotes (7.5 billion dirhams). Similarly, net withdrawals of currency in circulation reached 2.9 billion dirhams, mainly due to withdrawals before Eid Al-Adha.

However, Treasury operations (excluding interventions in the money market) caused a liquidity injection of 3 billion dirhams: repayment of domestic debt maturities to the banking system (17.8 billion dirhams), settlement of civil service salaries (15.6 billion dirhams), retirement pension (3.6 billion dirhams) subsidization expenses (12.9 billion dirhams), partly offset by banks' subscriptions to Treasury bills' auctions (34.5 billion dirhams) and the collection of tax revenues.

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

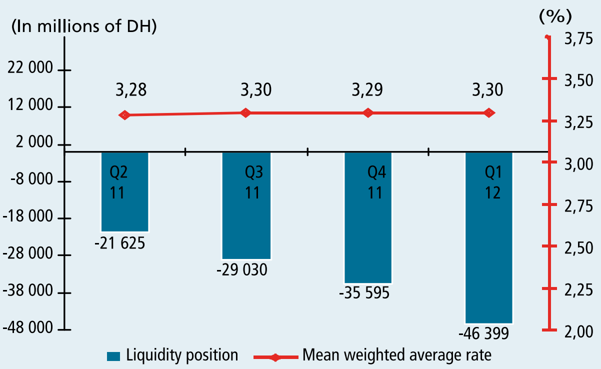
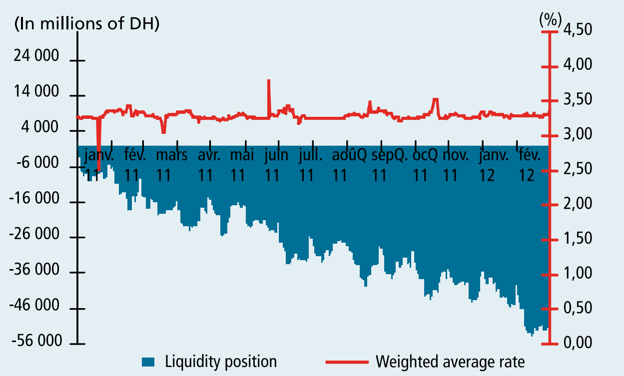


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



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

During the first quarter of 2012[2], the lack of bank liquidity grew stronger by 10.8 billion dirhams, due to the continued restrictive trend of all autonomous factors (-12.8 billion dirhams).

Chart B 4.1.3: Change in reserve requirements

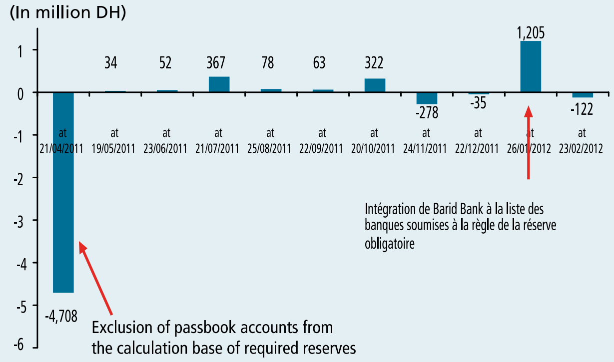
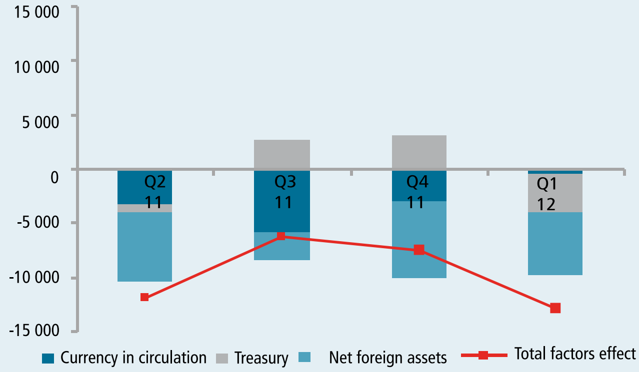


Chart B 4.1.4: Change in liquidity factors' effect



Indeed, foreign assets transactions caused a liquidity withdrawal of 6 billion dirhams from the difference between purchases of foreign currencies by commercial banks totaling 10.2 billion dirhams and foreign currency sales that reached 4.3 billion dirhams. Similarly, Treasury operations (excluding interventions in money market) had negative impact of 3.5 billion dirhams on banks' liquidity, due to the difference between on the one hand, bank purchases of Treasury bonds (18,6 billion dirhams) and collection of tax revenues, and on the hand, the repayment of domestic debt maturities to the banking system (10.6 billion dirhams), payment of subsidization expenses (7.5 billion dirhams) and payment of salaries of civil servants (10.2 billion dirhams).

During this period, the Treasury interventions on the money market involved an average daily outstanding amount of 1.7 billion dirhams as against 2.1 billion dirhams in the previous quarter.

To fill the shortage in bank liquidity, which averaged 45.5 billion during this quarter (up from 37 billion in the last quarter of 2012), Bank Al-Maghrib intervened primarily through the 7-day advances with an average daily amount of 28.9 billion dirhams, up from 26.6 billion in the previous quarter. The central bank also renewed the two three-month refinancing operations, initiated during the fourth quarter of 2011 and due on January 5 and February 23, 2012, maintaining its outstanding long-term interventions at 15 billion dirhams.

During the first quarter of 2012, money market weighted average rate stood at 3.30 percent on average, up one basis point from the level recorded during the previous quarter. In addition, the volatility of the weighted average rate fell 4 basis points from the level recorded during the fourth quarter of 2011 to 2 basis points.

Chart B 4.1.5: BAM interventions on the money market

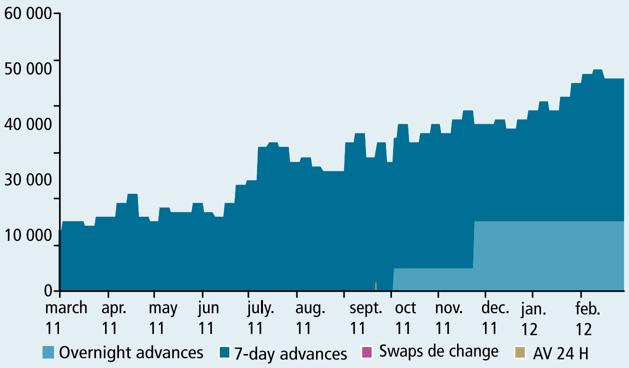
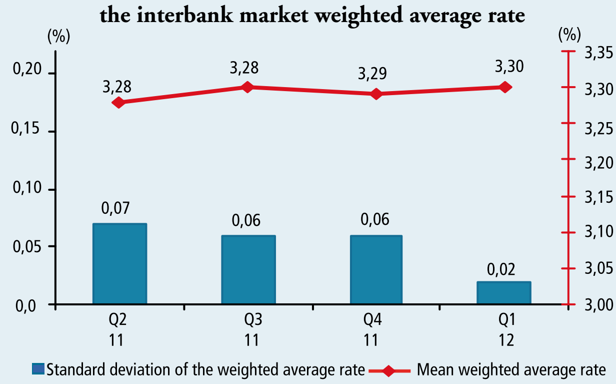


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



[2] The first quarter of 2012 only includes the period from January 1 to February 29.

4.1.2 Money, credit and liquid investments

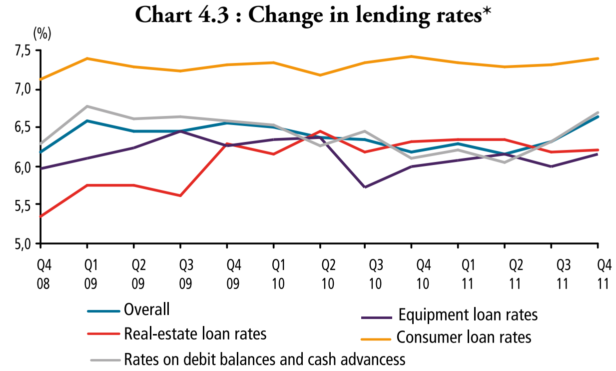
M3 growth

Data for the month of January 2012 show a stable growth rate of money supply. Consequently, the money gap remains negative, indicating the absence of monetary inflationary pressures in the medium term.

Despite a 1.1 percent monthly decline in January 2012, M3 grew 5.7 percent, an annual rate identical to that observed in the fourth quarter 2011. This trend, which is partly explained by a base effect related to the decrease recorded a year ago, was accompanied by a stronger contribution of bank credit and net claims on central government to money supply growth. Net foreign assets, meanwhile, continue to negatively impact money creation.

The stability of money supply growth rate in January covers differing trends of its main components. Indeed, currency in circulation registered a monthly occasional decline, bringing its annual growth to 8.8 percent as opposed to 9.3 percent in the fourth quarter of 2011. Although in contraction of 2.3 percent, following the downward adjustment in demand deposits of all economic units, bank money recorded an annual increase of 5.2 percent, slightly higher than that of 5 percent in the last quarter of 2011. Time deposits were down 2.1 percent year on year, which seems to reflect the importance of transfers to alternative investments, particularly securities of money market UCITS. After successive contractions for several quarters, these securities rebounded in January 2012. Demand deposits did not change significantly between the last quarter of 2011 and January 2012.

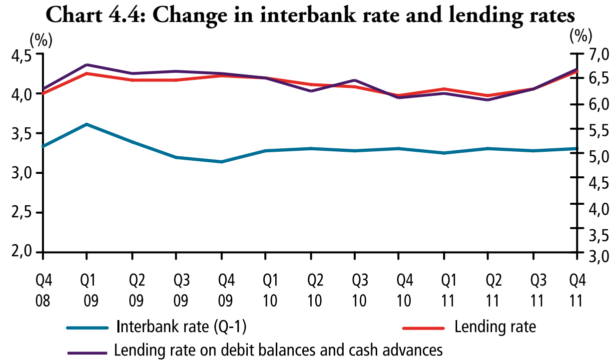
Chart 4.3 : Change in lending rates*



** 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)*

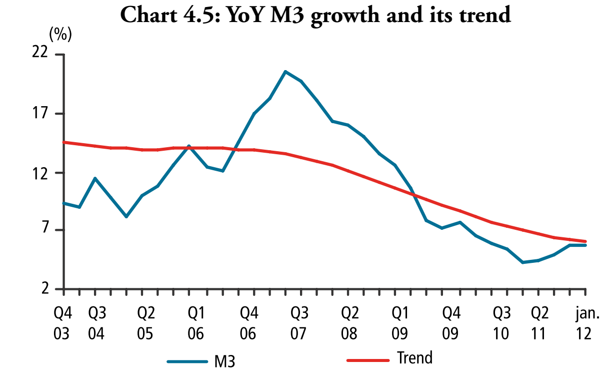
Source: BAM quarterly survey among banks

Chart 4.4: Change in interbank rate and lending rates



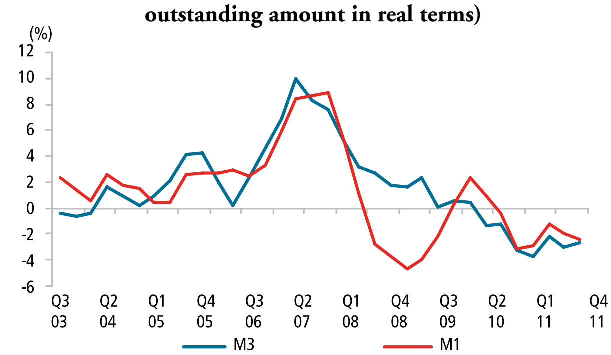
Source: BAM

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

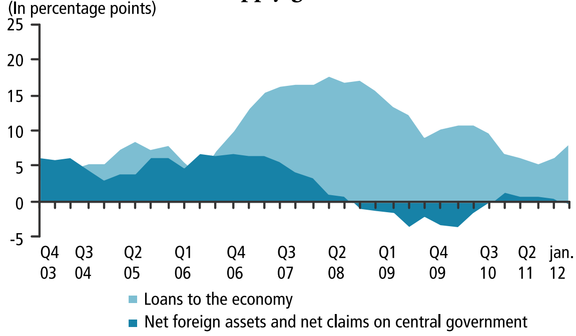
By economic unit, the moderate growth of deposits included in M3 is due to the small contribution of all depositors, with the exception of non-financial private corporations. The deposits of the latter, despite a monthly decline in January, grew by 11.7 percent year on year, up from 3.6 percent in the previous quarter. In contrast, the annual growth rate of household assets slowed again to 6.1 percent from 7 percent in the fourth quarter. Public sector deposits and financial corporations ones continued their downward trend observed in recent months.

Credit

The latest available data for the month of January 2012 indicate an accelerated annual growth of bank lending, mainly due to a base effect linked to the sharp drop in the previous year, and certain one-off lending operations in December 2011. Indeed, the bank credit annual growth rate stood at 10.6 percent, up from 8.1 percent in the fourth quarter of 2011 and 7.1 percent on average in the previous year. However, month on month, bank credit contracted by 0.8 percent in January 2012, as against a 2.9 percent increase a month earlier.

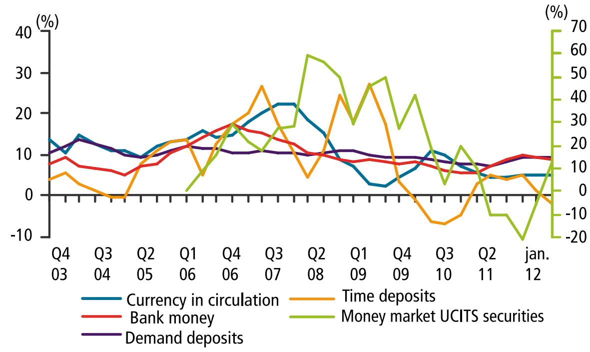
By economic purpose, bank credit growth results mainly from the accelerating pace of annual growth of cash advances, and to a lesser extent, that of equipment loans. Indeed, cash loans recorded an annual increase of 20.4 percent in January 2012, from 15.4 percent in the fourth quarter of 2011, reflecting a base effect linked to the marked decline over the same period of the previous year. Meanwhile, the growth rate of equipment loans rose to 3.8 percent as against 2.9 percent on average in the last three months of 2011. The annual growth rate of consumer loans remained almost stable

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



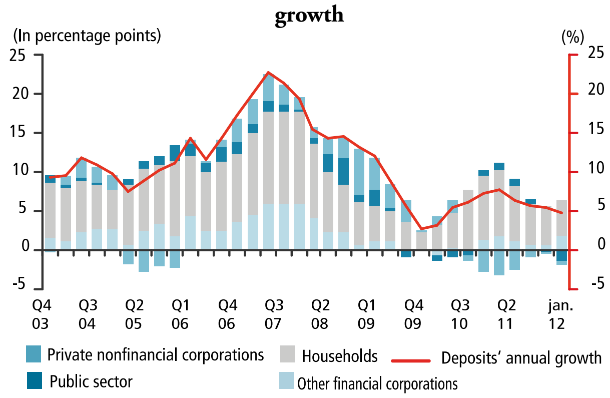
Source : BAM

Chart 4.8: YoY change in the major M3 components



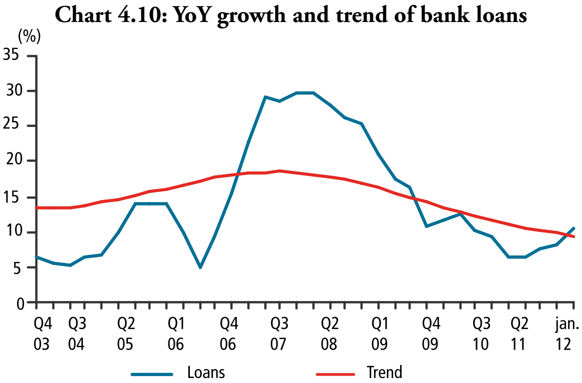
Source : BAM

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



Source : BAM

Chart 4.10: YoY growth and trend of bank loans



Source : BAM

at 11.5 percent. In contrast, home loans recorded an annual increase of 9.1 percent, as opposed to 10.6 percent in the fourth quarter of 2011, mainly reflecting slower growth rate of loans to property developers.

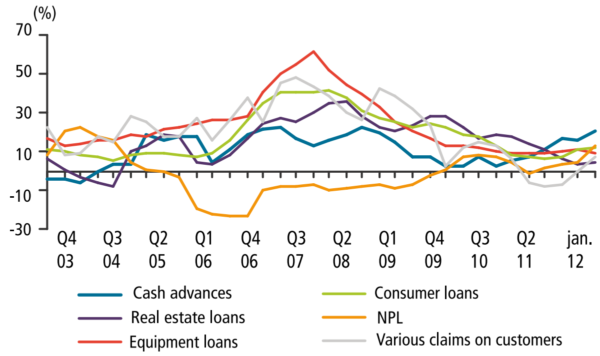
The acceleration of the growth rate of various claims on customers and non-performing loans remains attributable to base effects related to declines recorded a year earlier. They thus increased by 7.5 percent and 13.2 percent, respectively.

The analysis by economic unit indicates that the credit upward trend concerned mainly loans to the public sector, whose annual growth rate stood at 54.9 percent in January, up from 21.8 percent in the fourth quarter of 2011. Also, their contribution to overall credit growth stood at 2.2 percentage points, instead of 1 percentage point last quarter. Meanwhile, loans to other financial corporations rose by 12.4 percent in January, still reflecting the base effect related to the decline registered in the previous year. However, the growth rate of loans to households fell from 6.6 percent the previous quarter to 2.7 percent in January, bringing their contribution to overall credit growth to 0.9 percentage points. Loans to private nonfinancial corporations rose 12.7 percent from 10.4 percent in the fourth quarter of 2011, continuing to make the largest contribution to credit growth since the beginning of the year 2008.

Other sources of money creation

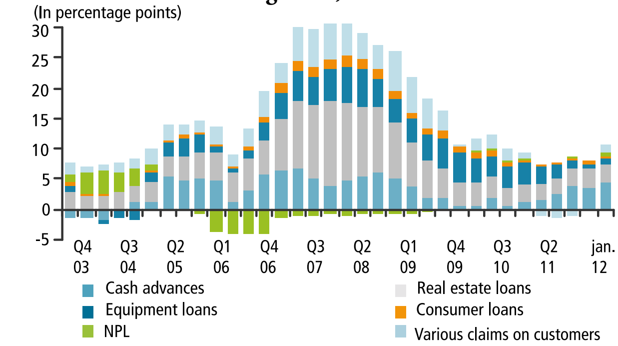
In the fourth quarter 2011, net foreign assets fell 2.5 percent from the previous quarter and 9.9 percent from the level seen a year earlier, mainly due to the widening trade deficit. As part of their continued downward trend observed since August 2011, foreign currency reserves declined 16.1 percent year on

Chart 4.11: YoY growth of major bank loan categories



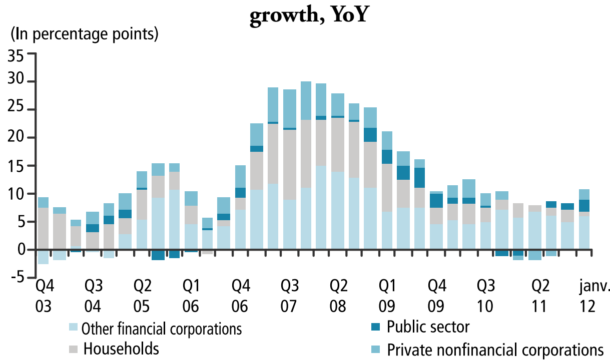
Source : BAM

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



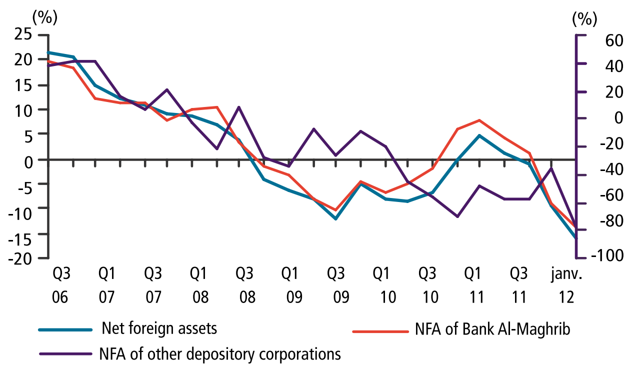
Source : BAM

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



Source : BAM

Chart 4.14: Annual growth of net foreign assets



Source : BAM

year at end-January 2012, reflecting the decline in net foreign assets of both Bank Al-Maghrib and other depository corporations.

Net claims on central government registered an annual increase of 28.6 percent, up from 25.5 percent last quarter, continuing their upward trend since the end of 2010. This is mainly explained by the increasing borrowings of the central government from other depository corporations.

Liquid investments

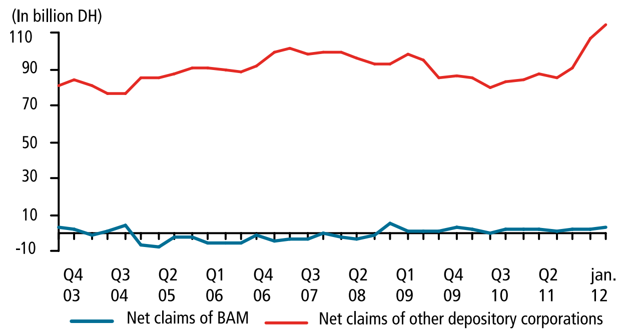
In January 2012, liquid investment aggregates were up 5.8 percent year on year as against 8 percent in the previous quarter, reflecting a reduction in the contribution of all their components.

The securities included in the LI1 aggregate registered an annual increase limited to 8.5 percent in January 2012, as opposed to 10.5 percent in the fourth quarter of 2011, primarily due to the deceleration of the growth rate of investments in marketable Treasury bonds. Similarly, and following the continued slowdown trend that began in the first quarter 2011, bond UCITS securities, included in the LI2 aggregate, rose 7.4 percent in January as against 7.8 percent last quarter, in conjunction with the negative impact of rising Treasury bond interest rates in the secondary market. Securities of equity and diversified UCITS, which make up the LI3 aggregate, decreased 14.6 percent in January, as opposed to 8.6 percent in the fourth quarter, mainly because of the continued decline on the Casablanca stock exchange.

Exchange rate

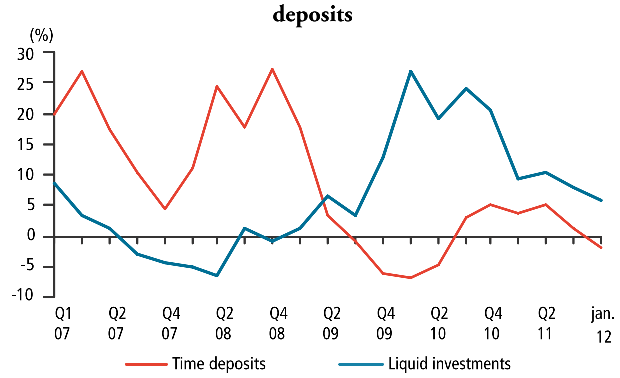
During the fourth quarter of 2011 and compared with the previous quarter, the national currency appreciated 0.83 percent against the euro. However, it depreciated 3.80 percent and 1.53 percent vis-à-vis the U.S. dollar and the pound sterling,

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



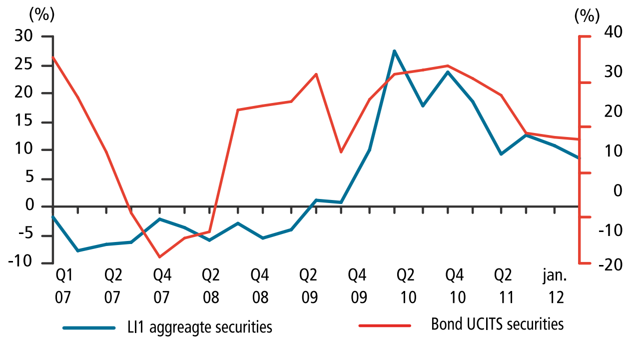
Source : BAM

Chart 4.16: YoY change in liquid investments and time deposits



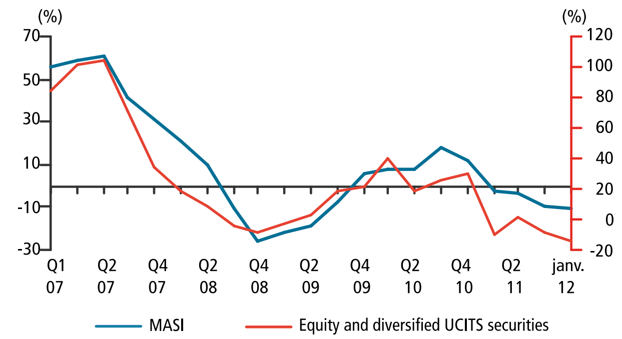
Source : BAM

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 respectively. This trend continued during the months of January and February 2012. The dirham increased 0.57 percent against the euro and decreased 2.54 percent and 2.11 percent against the dollar and the pound sterling, respectively.

The nominal effective exchange rate of the dirham, calculated on the basis of bilateral exchange rates with Morocco's major partners and competitors, appreciated 0.38 percent compared to the previous quarter. In real terms, the national currency depreciated 0.55 percent, as inflation rate in Morocco was generally lower than that of the major partners and competitors.

4.2. Asset prices

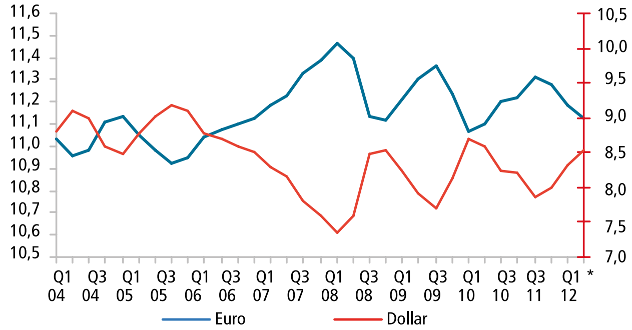
4.2.1 Real estate assets

At the end of the fourth quarter of 2011, the real estate price index11 (REPI) fell 0.4 percent, as against a 1.2 percent growth a quarter earlier, covering a decline in prices of residential property and an increase in those of land and commercial property. However, it increased 2.9 percent year on year, a rate faster than 1.1 percent observed in the previous quarter.

The number of property sales registered at the ANCFCC, captured 35 days after the end of the fourth quarter, continued its upward trend, reaching 25,952, up 5.4 percent from one quarter to the next and 24.9 percent year on year. This reflects higher sales of all categories at a more marked pace for apartments.

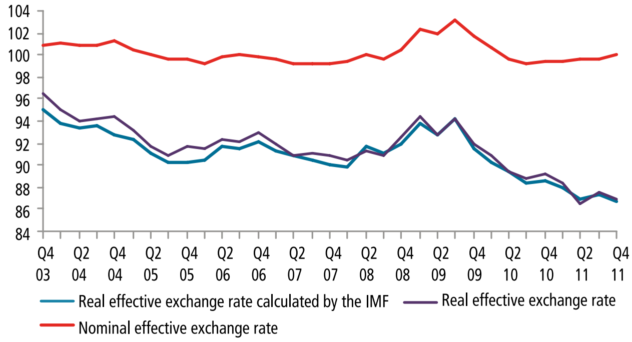
At the same time, housing loans, totaling 136.1 billion dirhams, grew 11.1 percent in the fourth quarter of 2011, an annual rate similar to that observed in the previous quarter. The real estate stock market index again shrank from the previous year,

Chart 4.19: Exchange rate of the dirham



Observation of the first quarter of 2012 corresponds to the arithmetic average of data from January 1 to February 24, 2012

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



Sources: IMF and BAM calculations

Chart 4.21: Real estate price index (REPI)

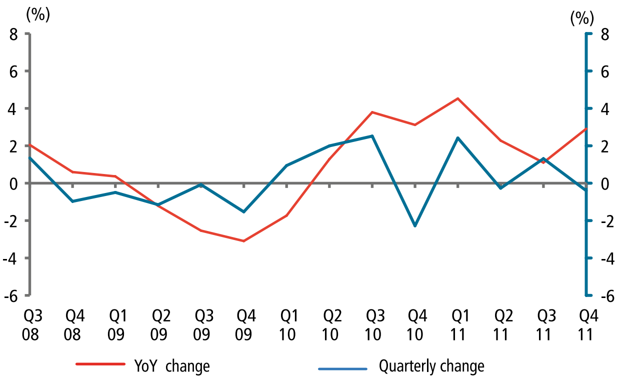
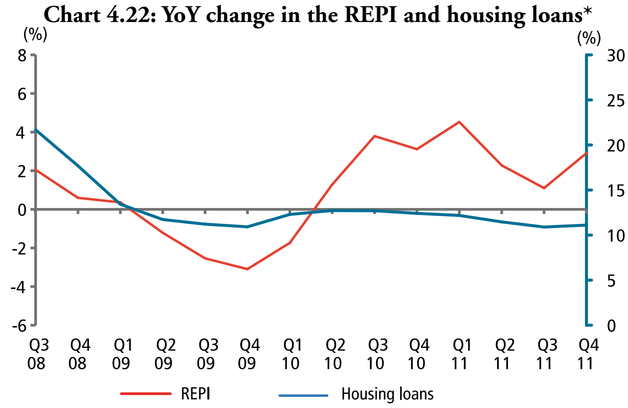


Chart 4.22: YoY change in the REPI and housing loans*



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

1 [1] *The REPI was jointly developed by Bank Al Maghrib and the Agence Nationale de la Conservation Foncière, du Cadastre et de la Cartographie – ANCFCC (National Land Registry and Cartography Agency) and has been published on a quarterly basis since March 15, 2010 on the websites of both institutions: www.bkam.ma and www.ancfcc.gov.ma.*

declining 32.7 percent after 23.7 percent a quarter earlier.

4.2.2 Stock prices

The downward prices trend recorded since the beginning of 2011 continued in the fourth quarter. The MASI index fell 3.8 percent from the previous quarter and nearly 13 percent from one year to the next. However, stock market indicators trended upward in the beginning of 2012. Indeed, at the end of February, the MASI index appreciated 1.7 percent, month on month, bringing its performance since the beginning of the year to 3.4 percent. Similarly, the real estate sector index, down 10.1 percent in the fourth quarter of 2011, rose 1.6 percent month on month.

Sectoral indexes recorded divergent trends in late February 2012. The indexes of construction and related materials as well as those of insurance made the largest monthly performances, or 8.8 percent and 5.4 percent respectively. The indexes of real estate and banking sectors rose 1.6 percent and 1.4 percent, while those of oil and gas, and electrical and electronic equipment did not change significantly month on month. Value losses ranged from 0.3 percent for the telecommunication sector to 9 percent for the forestry and paper sectors.

Mainly reflecting price trends, market capitalization increased 1.3 percent between January and February, to 530 billion dirhams from 516.2 billion last quarter 2011.

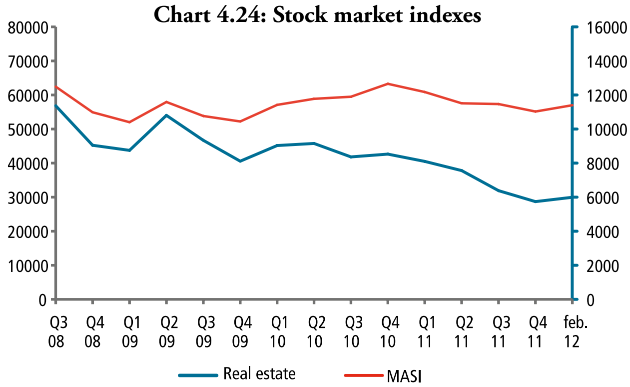
In this context, the PER[1] of the Casablanca stock market stood at 15.3 at end-February 2012, down from 16.3 and 16.9 in the third and fourth quarters 2011, respectively. It thus remains relatively

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

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

Sources: BAM and ANCFCC

Chart 4.24: Stock market indexes



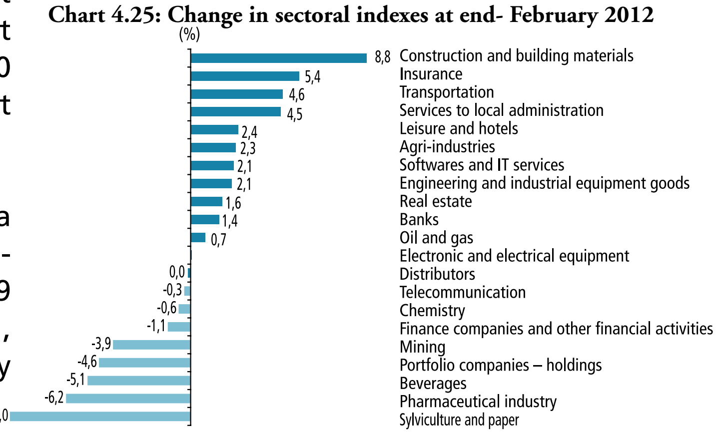
Sources: BAM, ANCFCC and Casablanca stock exchange

Table 4.3: Equity market's PER

PER	Q3 : 10	Q4 :10	Q1 :11	Q2 :11	Q3:11	Q4:11	feb.12
Argentina	11	12,6	13,5	10,9	9,7	8,9	9,4
Brazil	14,4	14,3	13,1	11,8	11	11,2	12,1
Mexico	14,3	15,9	14,7	13,3	12,8	13,8	17,6
Turkey	11,8	12,7	11	11,9	10,2	10,4	10,9
Morocco	**17,7**	**19,1**	**16,6**	**16,1**	**16,9**	**16,3**	**15,3**

Sources : Datastream, CFG

Chart 4.25: Change in sectoral indexes at end- February 2012

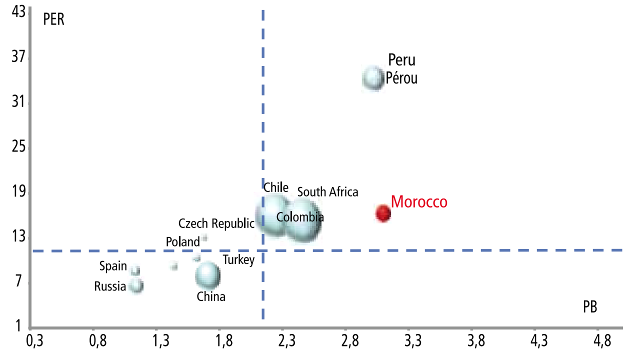


Source: Casablanca stock exchange

high compared to other markets of comparable size.

With regard to activity in the stock market, the overall volume of transactions, which focused primarily on equities, almost doubled in the last quarter 2011 to 26.5 billion dirhams, mainly in connection with higher volume of portfolio revaluation transactions at the end of the year. This trend was followed by a downward adjustment in January and February 2012. The volume of transactions was 8.3 billion dirhams.

Chart 4.26: Stock market valuation in Morocco and in some emerging countries (*) to the end of December 2011



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

Sources: Datastream, CFG, and BAM calculations

5. RECENT INFLATION TRENDS

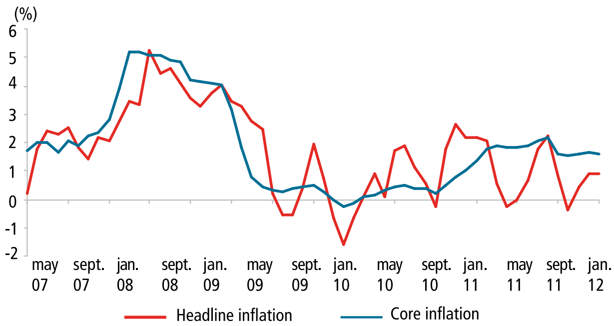
Data for the fourth quarter 2011 and January 2012 are in line with the forecasts published in the last Monetary Policy Report (MPR) which suggested a slowdown in headline inflation and core inflation. Headline inflation, measured by the increase in the consumer price index (CPI), remained unchanged at 0.9 percent between December and January, averaging 0.4 percent in the fourth quarter instead of 1.6 percent a quarter earlier and 0.9 percent for the whole of 2011. Excluding volatile food and regulated products, core inflation did not change significantly, reaching 1.6 percent in January from 1.7 percent in December, averaging 1.6 percent in the fourth quarter, down from 2 percent the previous quarter, and 1.8 percent for the full year 2011. Its absolute deviation from headline inflation has narrowed markedly in January to 0.7, down from 1.9 point in October and 1.2 point in November. The change in core inflation covers a decrease in inflation of tradables (CPIXT) in conjunction with the decline in inflationary pressures internationally, as well as a slight increase in inflation of nontradables (CPIXNT). Indeed, the price index of tradables included in the CPIX (CPIXT) grew 2.6 percent in January from 3 percent in December, while inflation for nontradables (CPIXNT) rose from 0.2 percent to 0.5 percent. The change in inflation is also confirmed by that of industrial producer prices that remain more sensitive to price fluctuations in oil and imported non-energy commodities, declining from 13.4 percent in December to 7.8 percent in January 2012.

5.1 Inflation trends

The rise in domestic prices has remained moderate in recent months in the absence of significant demand-led pressures, both internally and externally, coupled with the impact of the subsidization system.

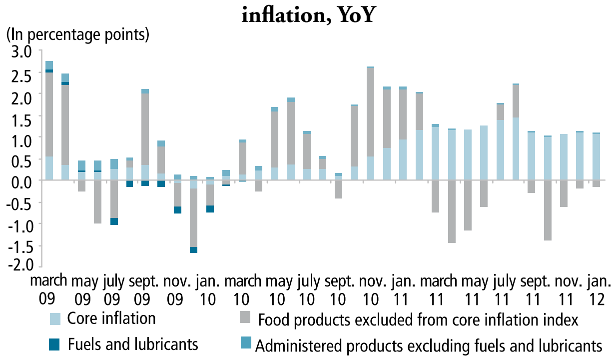
Indeed, after declining in October, headline inflation as measured by the annual change in the CPI rose from 0.5 percent in November to 0.9 percent in December 2011 and January 2012. The recent change in headline inflation covers a less and less marked decline in "volatile food" prices and slight variations in core inflation at an average of 1.6 percent between November 2011 and January 2012, while the prices of regulated products rose only slightly. Indeed, the pace of decline in volatile food prices moved from -4.3 percent in November to -1.3 percent in January, mainly reflecting the fall in prices for fresh vegetables by 22.7 percent in November, 10.3 percent in December and 9.3 percent in January 2012. The contribution of this category of products to overall inflation stood at -0.8 percentage point on average during

Chart 5.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations

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



Sources: HCP, and BAM calculations

this same period. Prices for regulated products were up 0.1 percent on average between November 2011 and January 2012, mostly because of the 0.8 percent increase in prices of outpatient services. Prices for fuels and lubricants remained stable amid continued freezing of the indexation mechanism (Tables 5.1 and 5.2).

The absolute gap between headline inflation and core inflation stabilized at 0.7 percentage point between December and January, down from about 1.2 percentage point in November. Analysis by major components of the general index basket shows that the virtual stagnation of core inflation over the last three months masks, on the one hand, accelerated rise in prices of "clothing and footwear", "restaurants and hotels" and "transportation excluding regulated products" and, on the other hand, slower rise in the prices of "foodstuffs included in the CPIX" and goods belonging to the heading of "furniture, household appliances and common house maintenance".

5.2 Tradable and nontradable goods

Analysis of prices by category of tradables (CPIXT) and nontradables (CPIXNT) shows two divergent trends. First, inflation of tradables has slowed, in conjunction with price developments internationally, particularly the slowdown in inflation in partner countries. Second, inflation of nontradable remained subdued, reflecting the continued absence of significant internal inflationary pressures (Table 5.4).

Indeed, after the continued rise that began in November 2010, the annual change in the prices of tradables (CPIXT) slowed down somewhat in January 2012 to 2.6 percent

Table 5.1: Inflation and its components

	Monthly change (%)			YoY (%)		
	nov. 11	déc. 11	janv. 12	nov. 11	déc. 11	janv. 12
Headline inflation	**0,1**	**-0,5**	**0,2**	**0,5**	**0,9**	**0,9**
Including:						
- Volatile food products excluded from core inflation	-0,3	-4,6	0,9	-4,3	-1,4	-1,3
- Fuels and lubricants	0,0	0,0	0,0	0,0	0,0	0,0
- Administered goods excluding fuels and lubricants	0,1	0,1	0,1	0,0	0,2	0,2
Core inflation	**0,3**	**0,2**	**0,1**	**1,6**	**1,7**	**1,6**
Including:						
- Food products	0,3	0,3	0,1	3,4	3,4	3,2
- Clothing and footwear	0,2	0,4	0,5	2,3	2,5	2,6
- Housing, water, gas, electricity and other fuels*	0,3	0,0	0,1	0,9	0,9	1,0
- Furniture, household appliances and common house maintenance	0,1	0,0	0,0	1,0	1,0	0,8
- Health*	1,2	0,2	0,8	1,3	1,6	2,4
- Transportation*	0,1	0,1	0,1	0,3	0,8	0,8
- Communication	0,0	0,0	-0,1	-12,4	-12,4	-12,6
- Entertainment and culture	0,0	-0,1	0,0	-0,1	-0,1	0,0
- Education	0,0	0,0	0,0	3,0	3,0	3,0
- Restaurants and hotels	0,0	0,2	0,2	2,0	2,2	2,4
- Miscellaneous goods and services	0,1	0,0	0,0	2,1	1,8	1,8

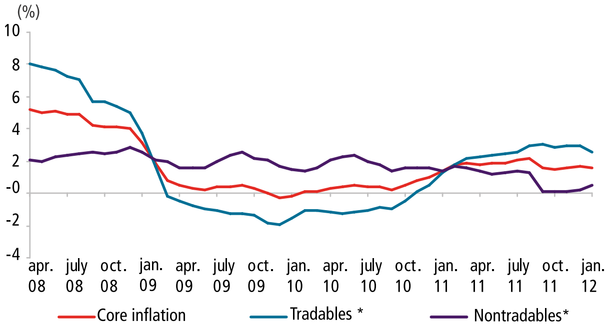
** Hors produits réglementés*
Sources : HCP et calculs BAM

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	jan. 2009	april 2010	oct. 2010	jan. 2010	april 2011	oct. 2011	feb. 2012
Premium gasoline	10,25	10,25	10,25	10,25	10,25	10,25	10,25
Diesel 350/50 *	7,15	7,15	7,15	7,15	7,15	7,15	7,15
Industrial fuel (Dh/Ton)	3074	3074	3074	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

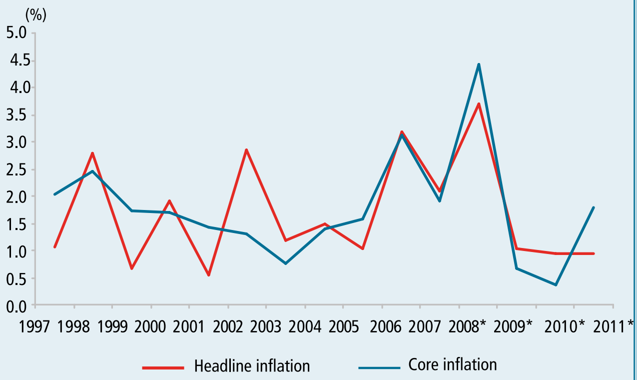
Box 5.1: Inflation in 2011

In 2011, inflation, measured by the annual increase in the consumer price index (CPI), remained unchanged from 2010 at 0.9 percent. This development covers higher core inflation (CPIX), lower volatile food prices and somewhat slower rise in the prices of regulated products.

Core inflation gradually converged to its long-term trend[1] during the year, reaching 1.8 percent after 0.4 percent in 2010. This increase reflects the divergent effects of a rise in inflation of tradable goods (CPIXT) included therein and a sharp slowdown in inflation of nontradables (CPIXNT), itself caused by the one-off decline in the prices of "telephone and fax services" in September 2011. The absolute gap between headline inflation and core inflation is mainly explained by lower volatile food prices.

At the same time, the prices of regulated products again contributed to containing inflationary pressures, particularly those from fluctuations in world commodity prices, as their rate of increase, excluding fuels and lubricants, did not exceed 0.1 percent, after 0.4 percent a year earlier. Prices of fuels and lubricants remained unchanged, in conjunction with the continued freezing of the indexation mechanism that insulates the domestic market from fluctuations in world prices.

Chart B.5.1.1: Evolution of inflation and core inflation, in %



** Based on the Consumers' price index (CPI)*

Sources: HCP and BAM calculations

[1] [2] Average between 1997 and 2010 at 1.8 percent.

over 3 percent a month earlier. This largely reflects the change in the prices of basic foodstuffs, particularly "oils" and "oil and fats", which contributed 0.8 percentage point to tradables inflation, and to a lesser extent the prices of cereal-based products with a contribution of 0.4 percentage point (Table 5.3).

Prices of nontradables (CPIXNT) continue to record historic low growth rates[1], albeit with a slight adjustment to 0.5 percent in January, instead of 0.2 percent in December (Table 5.3).

5.3 Goods and services

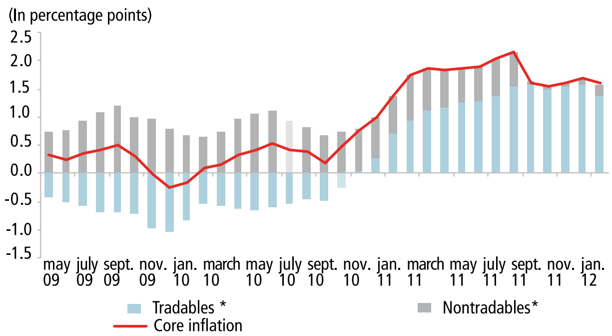
The breakdown of the CPI basket into goods and services shows that headline

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

	Monthly change (%)			YoY change (%)		
	nov. 11	dec. 11	jan. 12	nov. 11	dec. 11	jan. 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

[1] This low rate is largely due to the base effect related to the sharp one-off decline in the prices of "phone and fax services" in September.

inflation is still largely influenced by the change in prices of processed goods. Indeed, the prices of this goods class rose 2.1 percent in January 2012, contributing 0.9 percentage point to inflation up from 1 point a month earlier (Table 5.5).

After the successive declines seen over the last four months of the previous year, the prices of unprocessed goods, whose change mostly depends on the development of volatile food prices, recorded an annual increase of 0.1 percent in January, with no significant contribution to the change in headline inflation (Table 5.5).

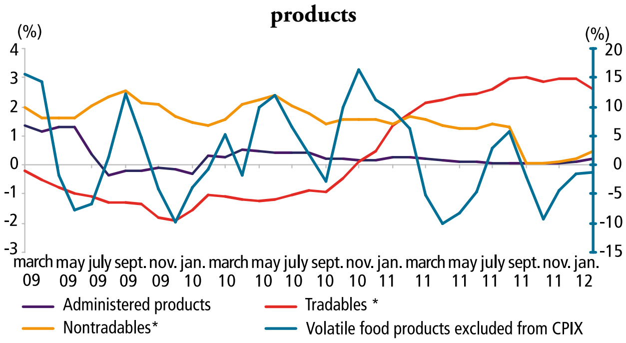
Prices for services increased at a rate almost identical to the previous month, by 0.1 percent. Meanwhile, the price of fuels and lubricants has stagnated since June 2010 over its level one year earlier (Table 5.5).

5.4 Industrial producer price index

On a monthly basis, the manufacturing price index rose 0.4 percent in January from -0.1 percent and 1.2 percent in December and November, respectively. This trend is largely attributable to the change in coking and oil refining prices, up 1.5 percent after -0.7 percent in December and 3.2 percent in November, because of the recent increase in world oil prices.

Excluding the coking and refining industry, manufacturing prices fell 0.1 percent between December and January. This trend mainly covers a 0.2 percent and 1.9 percent decline in the prices of the "food industry" and "the manufacture of other nonmetallic mineral products", respectively, and a 2.7 percent increase in "metalworking" prices.

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

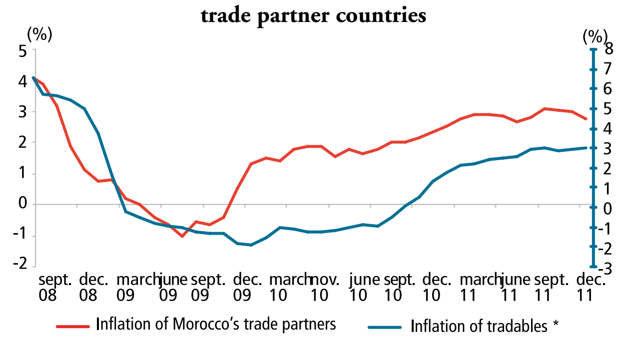
Table 5.4: Contribution of tradables* and nontradables* prices to headline inflation

	Monthly contribution to inflation		YoY contribution to inflation	
	dec. 11	jan.12	dec. 11	jan.12
Products excluded from core inflation index Including:	-0,6	0,1	-0,2	-0,1
Administered products	0,0	0,0	0,0	0,0
Volatile food products	-0,6	0,1	-0,2	-0,2
Tradables*	0,1	0,1	1,0	0,9
Nontradables*	0,0	0,0	0,1	0,1

** Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

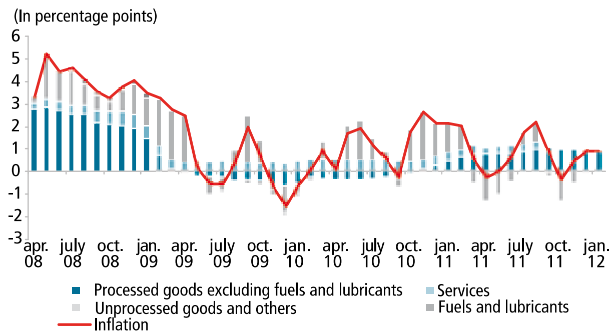
Chart 5.6: YoY change in inflation of tradables* and inflation in trade partner countries



** Excluding volatile food and administered products*

Sources: HCP, IFS, and BAM calculations

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



Sources: HCP, and BAM calculations

Year on year, producer prices continued to slow, falling from 15.9 percent to 13.4 percent in December and 7.8 percent in January 2012, after peaking in November 2011. This is due in large part to the sharp deceleration in the annual growth rate of producer prices of the "chemical industry", to 5.6 percent from 39.5 percent a month earlier, mainly in connection with the dissipation of the base effect seen during 2011. Prices in the "coking and refining" industry rose 19 percent in January 2012 from 24.3 percent in December.

However, excluding the "coking and oil refining" and "chemical" industries, producer prices slightly decelerated to 2.1 percent in January from 2.4 percent in December.

5.5 Inflation expectations

The results of Bank Al-Maghrib business survey for January 2012 show that prices of industrial products should not experience significant changes over the next three months[1]. Indeed, the percentage of corporate managers anticipating stagnant industrial prices increased from 61 percent in December 2011 to 88 percent in January 2012, while it averaged 73 percent during the year 2011. This moderation is also confirmed by the decrease from 28 percent to 9 percent in the proportion of corporate managers expecting a rise in industrial prices (Chart 5.11).

Meanwhile, the survey results underscore the continued moderation in inflation

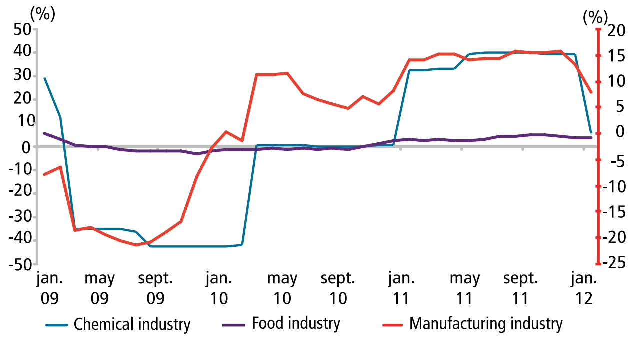
Table 5.5: Price indexes for goods and services

	Monthly change (%)			YoY change (%)		
	nov. 11	dec. 11	jan. 12	nov. 11	dec. 11	jan. 12
Processed goods*	0,3	0,1	0,2	2,4	2,3	2,1
Unprocessed goods and others	-0,2	-2,5	0,5	-2,2	-0,2	0,1
Services	0,1	0,1	0,1	0,0	0,0	0,1
Fuels and lubricants	0,0	0,0	0,0	0,0	0,0	0,0

** Excluding fuels and lubricants*

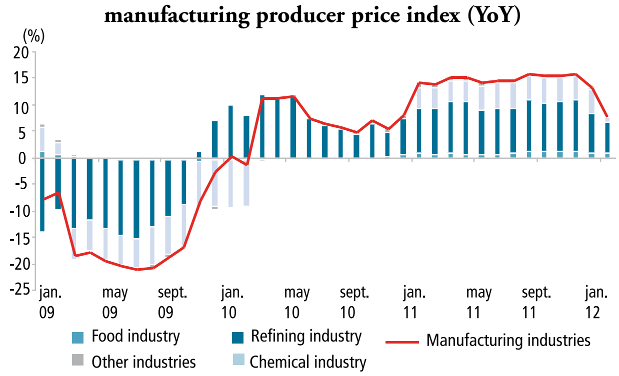
Sources: HCP, and BAM calculations

Chart 5.8: YoY change in industrial producer price indexes



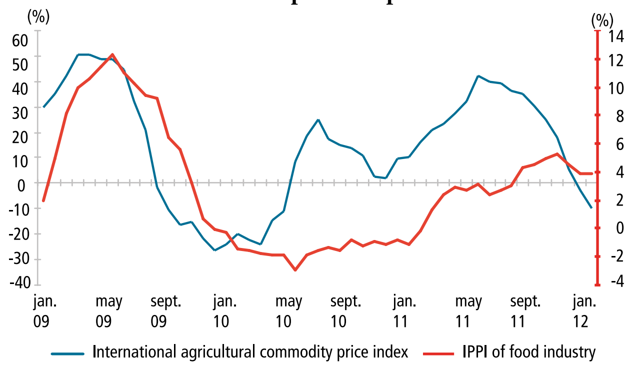
Sources: HCP, and BAM calculations

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



Sources: HCP, and BAM calculations

Chart 5.10: YoY change in domestic and international food industrial producer prices

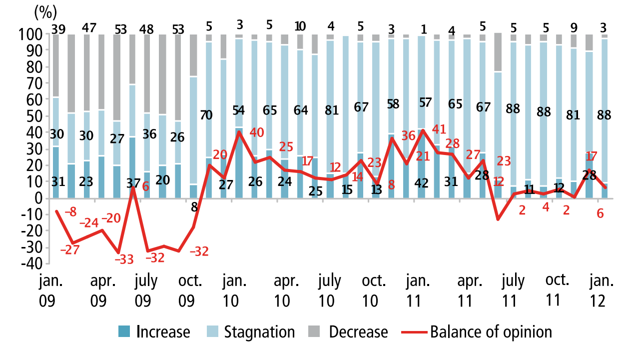


Sources: World Bank, HCP, and BAM calculations

[1] *The horizon of expectations of BAM business survey for January 2012 is February, March and April 2012.*

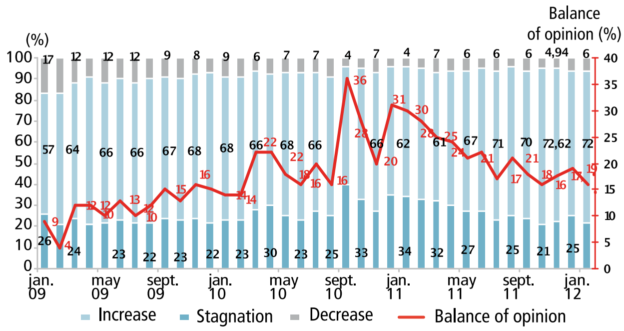
in the next three months[1]. In fact, the percentage of corporate managers anticipating stagnant inflation stood at 72 percent in January 2012, as against an average of 68 percent during 2011. The percentage of operators anticipating increased inflation marked a slight decline from 25 percent to 22 percent in January (Chart 5.12).

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 horizon of expectations of BAM business survey for January 2012 is February, March and April 2012.

6. INFLATION OUTLOOK

This section presents the inflation trend deemed most probable (central forecast) over the next six quarters, and examines the major associated risks (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 about 1.8 percent. During 2012, inflation should be around 1.7 percent, slightly higher than the average rate projected in the last Monetary Policy Report (1.5 percent). For the first half of 2013, inflation rate is expected at 1.9 percent. Assuming that fuel prices at the pump would continue at their current level, the balance of risks to this forecast exercise is tilted to the downside, due to a more pronounced possible decline of non-energy commodity prices and a steeper-than-expected contraction of foreign demand for Morocco.

6.1 Baseline scenario assumptions

6.1.1 International environment

After a virtual stagnation in advanced countries in the third quarter of 2011, an economic deceleration was observed in the fourth quarter, thus increasing the risk of a new recession. The growth in emerging markets slowed down in conjunction, especially, with the tightening of macroeconomic policies aimed at mitigating the risks of overheating and the decline in activity in developed countries. However, its momentum remains strong.

The economic deceleration in the euro area countries is mainly due to the buildup of vulnerabilities from which they have suffered since the outbreak of the Greek crisis, as evidenced by the persistent tensions in the sovereign debt markets and their impact on credit conditions. Similarly, the ongoing process of balance sheet adjustment, particularly in the financial sector, continues to constrain economic activity.

The U.S. economy seems to show some resilience thanks to the positive increase in consumer spending and investment expenditure of the private sector, and the recovery in households' real disposable incomes. In this context, unemployment rate was 8.5 percent in December, while it stood at 8.7 percent a month earlier.

Thus, the euro area and U.S. economies recorded in the fourth quarter of 2011 respective growth rates of around 0.7 percent and 1.6 percent, reflecting a significant deceleration in the euro area and slight increase in the United States compared to the third quarter (1.3 percent and 1.5 percent, respectively). It should be noted that the growth rate of the euro area conceals significant disparities. Indeed, if Germany, France and Spain show positive growth rates (2 percent, 1.4 percent and 0.3 percent respectively), Italy and eurozone peripheral countries, including Greece and Portugal, contribute significantly to the deceleration with respective rates of -0.5 percent, -7 percent and -2.7 percent.

With regard to growth prospects, the International Monetary Fund, in its report of January 2012, projects for 2012 respective growth rates of around 1.8 percent and -0.5 percent for the United States and the euro area, which is a significant downward revision for the euro area compared to a growth rate of 1.1 percent in the September 2011 projections. For the year 2013, anticipated growth rates are 2.2 percent for the U.S. and 0.8 percent for the euro area.

The risks to economic activity in advanced countries remain tilted to the downside. In this regard, public finance sustainability in the euro area remains a major risk. Indeed, rebalancing policies, though necessary, are likely to restrict growth in the short term, because of their negative impact on demand. On the other hand, slow fiscal rebalancing in the United States and Japan could be a potential risk in the medium term, given that public debt of these countries reaches alarming levels. Moreover, the current appeal for their sovereign bonds is mainly due to the severe crisis in the euro area.

Similarly, geopolitical risks in some oil-producing countries could lead to more expensive oil prices despite the gloomy outlook for global economic activity, thus reinforcing the downside risks to activity.

Given these developments, the weighted growth rates of our major trading partners (Germany, Spain, France, Italy and the UK) assumed in this MPR are -0.7 percent for the current year and 0.4 percent for 2013. Compared to those presented in the December MPR (1.2 percent in 2012 and 1.7 percent in 2013), these assumptions were revised significantly downward in light of much less favorable global economic outlook. It should be noted that this growth rate is calculated on the basis of a weighted average by these countries' respective shares in the Moroccan foreign trade.

Meanwhile, inflation in the euro area continues to remain at levels above 2 percent, because of higher energy prices and other commodity prices in recent months. However, in connection with the unfavorable economic prospects in this area, the ECB now expects a downward trend in inflation, anticipating in its February bulletin an inflation rate of about 1.9 percent and 1.7 percent for 2012 and 2013, respectively. It should be noted that these figures were not significantly revised compared to those projected in the previous MPR.

Risks to the inflation outlook in the euro area remain balanced. Indeed, higher energy and administered prices as well as the possible increase in indirect taxes are tempered by the outlook for sluggish economic growth.

Regarding the three-month Euribor, the baseline scenario of this forecast exercise assumes a rate of 0.85 percent for the first half of this year. This rate should gradually decline to 0.77 percent, on average, in the second half of 2012. In the first half of 2013, it is projected at 0.82 percent.

Finally, with respect to changes in commodity prices, forecasts of non-energy import prices, included in the forecast models developed by Bank Al-Maghrib, reported a more pronounced decline in 2012 than in 2013.

6.1.2 National environment

In accordance with the assumptions of the last MPR, the national economy is expected to show less momentum during the year 2012 compared to 2011. This trend is due to an anticipated decline in agricultural value added and a slowdown in nonagricultural activity in connection with the deteriorating economic conditions of our major trading partners which would slow foreign demand to Morocco.

Cereal production anticipated for the 2011-2012 crop year was revised downward from the previous MPR. Indeed, despite the good starting conditions that characterized this season, rainfall data available up to the end of January 2012 show a 44 percent decrease in rainfall volume and a less positive space-time distribution compared to last year.

Under these conditions, we now expect a cereal production of 40 million quintals, lower than that of an average crop year (68 million quintals). Therefore, the primary sector's contribution to overall growth in the current year would be less favorable compared to last year.

Regarding the 2012-2013 agricultural season and given the lack of visibility, the central scenario assumes an average cereal production of about 68 million quintals.

Nonagricultural activity in 2012 should continue to benefit from strong domestic demand which remains the main growth engine in Morocco. In fact, under the impact of wage rises and positive trend in workers' remittances, household consumption would maintain momentum. However, it remains dependent on the potential repercussions of the current agricultural season on rural household income. Finally, aggregate investment is expected to remain strong though with a slight decline.

This outlook suggests a slowdown in nonagricultural activity during the year 2012, with a growth rate ranging between 3 and 4 percent. Accordingly, BAM has lowered its forecast for overall economic growth below 3 percent.

Available data on the labor market for the fourth quarter 2011 show a fall in the national unemployment rate to 8.5 percent, down 0.7 percent from last quarter of 2010. This slight decrease is observed in both urban and rural areas, with a lower unemployment rate of 0.7 percent and 0.8 percent in urban and rural areas, respectively.

All the productive sectors contributed to job creation with the exception of industry: Agriculture, forestry and fisheries, services, and construction recorded a net creation of 164,000, 97,000 and 62,000 new jobs, respectively. In contrast, the industrial sector, including handicrafts, lost 33,000 job positions.

Employment prospects in the industrial sector show a decline for the current quarter. Based on BAM's quarterly business survey, manufacturers expect a continued decline in the labor force employed in mechanical and metallurgical as well as electrical and electronic industries. These conditions, however, should not weigh on future trend in wages. Therefore, in accordance with the decisions taken as part of the social dialogue process, the central scenario assumes a minimum wage of around 11.70 dirhams/hour in the first two quarters of the forecast horizon and 12.24 dirhams/hour from the third quarter, as shown in the previous forecast exercise.

Moreover, in an international context marked by economic downturn and especially the anticipated recession in the euro area, the latest IMF forecast projects oil price at $99.09 a barrel in 2012 and $95.55 in 2013. Meanwhile, the World Bank, in its January forecasts, expects $98.2 a barrel in 2012 and $97.1 in 2013.

In this perspective, the central scenario of this forecasting exercise assumes the diesel pump price to remain unchanged at 7.15 dirhams over the forecast horizon. However, subsidization costs would continue to exert pressures on the fiscal deficit in 2012.

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 points to an inflation rate of 1.8 percent, higher than the average rate of 1.4 percent projected in the last MPR. For the full year 2012, inflation would average 1.7 percent, up from the 1.5 percent expected in the previous forecasting exercise.

Inflation in the first quarter of 2012 would hover around 1.3 percent, up from the 1.2 percent announced in the previous MPR. In the second quarter, it is projected at 1.8 percent (1.5 percent previously). In the second half of the year, estimates now expect an average rate of 1.9 percent, a slight upward revision from the previous MPR (1.7 percent). Inflation in the first quarter of 2013 would be around 1.9 percent, a level almost similar to the previous forecast (2.1 percent). Finally, the average forecast for the second quarter of 2013 is about 1.9 percent (see Table 6.1). These projections are based on assumptions deemed most probable. However, there are several sources of uncertainty stemming from 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 forecasting exercise suggests downward asymmetry, involving a slightly higher probability of deviation in inflation to a level lower than the central forecast. This asymmetry arises from potential deflationary risks, associated with an easing of pressure on import prices. Indeed, a more pronounced decline in commodity prices in connection with the downturn in global demand will influence the future trend in import prices.

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

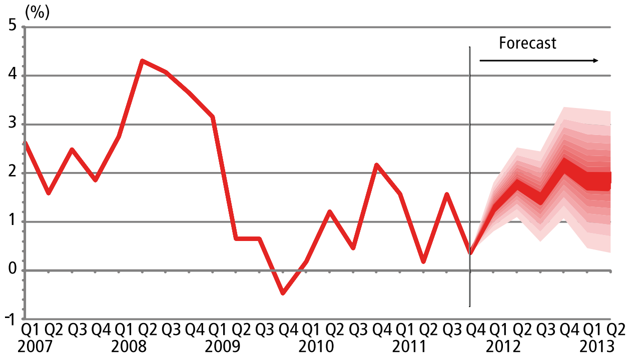
Table 6.1: Inflation outlook for 2012 Q1 – 2013 Q2

	2012				2013		Average	FH*
	Q1	Q2	Q3	Q4	Q1	Q2	2012	
Central forecast (%)	1,3	1,8	1,5	2,2	1,9	1,9	1,7	1,8

(Quarterly data, YoY)

*Forecast horizon**

Chart 6.1: Inflation forecast, Q4 2011- Q1 2013 (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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