BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 20 / 2011

Document prepared for
the Bank Board
September 20, 2011

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بنك المغرب

LIST OF ABBREVIATIONS

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

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 20, 2011

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, September 20, 2011.
2. The Board considered recent economic, monetary and financial trends, as well as the inflation forecasts prepared by the Bank staff up to the fourth quarter of 2012.
3. The Board noted that inflation remained broadly moderate, in line with the assessment made at the Board's June meeting. After reaching 0.7 percent in June and 1.8 percent in July, year-on-year headline inflation stood at 2.2 percent in August, mainly in connection with occasional fluctuations in food prices. Meanwhile, core inflation, which reflects the underlying trend of prices, was at 2.2 percent in August, up from 2 percent in July and 1.9 percent in June. Industrial producer prices in July increased at a year-on-year rate of 14.5 percent and a monthly rate of 0.3 percent.
4. Internationally, the Board analyzed the recent rise of uncertainties and risks related to the worsening growth prospects in advanced countries, particularly in the euro area, as well as the persistently high unemployment rates and the intensifying financial turmoil.
5. Nationally, despite the slowdown in the global economic activity, domestic demand continued to hold up well. Under these conditions, overall growth and nonagricultural GDP would be between 4.5 and 5.5 percent in 2011. However, this trend, which is expected to continue in 2012, is conditional on the gradual improvement of the international environment. In this context, nonagricultural output gap would be close to zero in the coming quarters, indicating the absence of demand-led inflationary pressures.
6. Analysis of monetary developments to the end of July 2011 shows a slightly accelerated growth in money supply and credit, which expanded at a year-on-year rate of 4.7 percent and 7.1 percent, respectively. At the same time, negative money gap narrowed, suggesting the absence of monetary inflationary pressures. For the full year, bank credit is expected to grow at a rate somewhat higher than 8 percent, a level close to its long-term trend.
7. Based on all these elements, the central inflation forecast seems consistent with the price stability objective. Headline inflation is projected at about 2 percent both at the end of the forecast horizon (fourth quarter of 2012) and on average over that horizon. The average forecast for 2011 remained virtually unchanged at 1.3 percent, down from the 1.4 percent expected in the previous Monetary Policy Report. Core inflation should remain subdued, not exceeding 2 percent.
8. In this context where the central inflation forecast is permanently consistent with the price stability objective and the balance of risks is tilted to the downside, the Board decided to keep the key rate unchanged at 3.25 percent.

9. In view of the sustained liquidity shortage on the money market and considering the outlook for liquidity factors, Bank Al-Maghrib will carry out longer term repo transactions, as part of its operations to regulate the money market.

OVERVIEW

In line with the analysis and forecasts published in the *Monetary Policy Report* of June 2011, the change in consumer prices remained moderate. Indeed, after 0 percent in May and 0.7 percent in June, headline inflation reached a year-on-year rate of 1.8 percent in July, mainly in connection with occasional fluctuations in food prices. In turn, core inflation, reflecting the underlying trend of prices, was 2 percent in July, up from 1.9 percent in June and 1.8 percent in May, mainly reflecting the continued upward trend in prices of tradables. The annual growth rate of the industrial producer price index remained elevated at 14.5 percent in June and July, after 14.6 percent on average during the second quarter, reflecting the continued transmission of the prior higher commodity prices.

Internationally, financial conditions came under new pressures, mainly due to difficulties associated with the sovereign debt crisis in the United States and some European countries and to the sharp downturn of economic indicators in the second quarter. Economic activity continues to be marked by a multi-speed growth, as evidenced by the results of the national accounts in the second quarter of 2011, as well as the latest high-frequency indicators. In most advanced countries, economic growth recorded a deceleration. In emerging and developing countries, it continues at a healthy pace but with signs of slowdown owing to the less favorable international environment. These developments, combined with the persistently high unemployment rates in advanced economies, increase uncertainties about medium-term outlook for global economic growth.

Nationally, data show that exports remain strong, as evidenced by a year-on-year 18.8 percent increase to the end of August, with a 14.1 percent increase in exports excluding phosphates and derivatives. However, trade deficit widened again because of a 20.7 percent increase in imports, caused by a 40.6 percent growth in energy purchases. Despite economic slowdown in the major tourist-generating countries, travel receipts and remittances from Moroccan expatriates rose by 6.4 percent and 7.7 percent, respectively.

In this context, nonagricultural growth would stand at 4.6 percent in the third quarter and within a range of 4.5 to 5.5 percent throughout 2011. Under these conditions, nonagricultural output gap would be close to zero for the full year. Agricultural activity would continue to strengthen, bringing the overall GDP growth rate to about 4.8 percent in the third quarter and within a range of 4.5 to 5.5 percent for the entire year.

Recent data on monetary conditions show slight acceleration in the growth of monetary and credit aggregates, while the money gap is narrowing. After a year-on-year rise of 4.2 percent during the first two quarters of the year, M3 grew 4.7 percent in July 2011. Credit grew 7.1 percent, up from 6.5 percent on average in the previous quarter, mostly driven by cash advances whose growth since last June mainly reflects the greater need of some sectors, particularly industry, transport and telecommunications. Regarding lending rates, BAM's survey among banks for the second quarter of 2011 indicates a slight increase of 7 basis points in the weighted average rate of credit, driven mainly by rates on real-estate loans and cash advances. Moreover, the real estate price index grew by 1.9 percent in the second quarter of 2011, year on year, down from 4.8 percent in the previous quarter, due to a 3.8 percent increase in residential prices.

Based on all these elements, inflation over the next six quarters should remain broadly in line with the objective of price stability. Headline inflation is projected at 2 percent, both at the end of the forecast horizon (fourth quarter of 2012) and on average over the same horizon. Compared to the previous forecast (MPR of June 2011), the projection for 2011 remained almost unchanged, standing at 1.3 percent instead of 1.4 percent. The balance of risks surrounding the central forecast remains tilted to the downside, because of a slowing global economy and with the assumption that current fuel prices at the pump would remain unchanged.

1. AGGREGATE SUPPLY AND DEMAND

In the first quarter of 2011, the national economy grew 4.9 percent, reflecting a better domestic demand, with a rise of 6.3 percent in household consumption and 3.8 percent in gross fixed capital formation as well as a rise of exports at constant prices, faster than imports. Regarding the structure of GDP, nonagricultural growth was 4.7 percent after an occasional slowdown in the fourth quarter of 2010, while agricultural value added went up 3.7 percent. In the second and third quarters, estimates and projections indicate that the national economic growth stabilizes at 4.8 percent, covering an increase by 3.9 percent in agricultural value added and 4.7 percent in the nonagricultural one. Beyond this horizon, uncertainties about sustainability and extent of economic recovery in the euro area increase risks to the trend in foreign demand and in some determinants of domestic demand, particularly transfers of Moroccan expatriates and foreign direct investment. However, the positive trend recorded to the end of August in the different sections of the balance of payments and general business climate, as well as the expected impact of wage increase and the continued moderate inflation rates, do not suggest a short-term deterioration in demand growth outlook. Forecasts remain unchanged for the full year 2011 in a range between 4.5 and 5.5 percent, both for nonagricultural growth and the overall GDP. Altogether, supply and demand analysis suggests that price pressures remain subdued.

1.1 Output

The national economy expanded by 4.9 percent in the first quarter of 2011 and should stabilize at around 4.8 percent during the second and third quarters of this year.

Cereal production in the 2010-2011 crop year reached 84 million quintals, up 12.6 percent over the previous year, in line with the estimates of Bank Al-Maghrib based on data as at the of May 2011 (see Box 1.1).

Growth in nonagricultural activities was 4.7 percent in the first quarter of 2011 after a one-off slowdown in the fourth quarter of 2010. Available indicators to the end of August suggest a consolidation in the second and third quarters of 2011, with an average growth of about 4.7 percent.

In the secondary sector, the mining industry continued the upward trend that began in the fourth quarter of 2009, but less markedly. However, in conjunction with higher demand for fertilizers and continued high prices, exports of phosphates and derivatives totaled 30.2 billion dirhams to the end of August, up 33.8 percent.

After slowing down somewhat in the first quarter of 2011, the different indicators

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

Activity sectors, in%	2009		2010				2011		
	QIII	QIV	QI	QII	QIII	QIV	QI	QII$_F$	QIII$_F$
Agriculture	26.3	32.3	0.6	-3.4	0.0	-3.6	3.7	3.9	3.9
Nonagricultural VA	**0.1**	**5.5**	**6.0**	**4.4**	**4.3**	**2.3**	**4.7**	**4.7**	**4.6**
Extractive industry	-21.9	14.0	74.7	51.3	23.3	18.8	13.7	8.9	5.0
Processing industry	-0.3	3.9	1.8	1.7	3.2	4.5	2.7	3.1	3.4
Electricity and water	3.1	7.6	5.1	8.7	9.3	5.6	2.3	4.2	2.5
Construction	0.9	7.1	5.9	3.7	1.4	-0.3	2.5	3.2	3.7
Trade	-2.1	4.3	2.8	-0.5	3.6	-7.0	3.8	4.2	4.5
Hotels and restaurants	0.1	2.9	8.8	8.0	8.7	6.8	7.5	4.2	3.4
Transportation	2.6	5.5	11.7	6.7	6.2	4.4	5.5	5.2	5.4
Post and telecommunication	3.9	1.1	2.1	2.6	3.4	9.6	7.7	7.8	7.8
General government and social security	9.7	8.8	4.4	3.2	2.3	1.7	4.6	4.5	4.2
Other services*	2.7	3.8	5.0	4.1	4.2	2.7	5.0	4.6	4.6
Taxes on products net of subsidies	6.5	5.1	6.8	6.6	6.5	7.0	7.9	6.8	6.9
Nonagricultural GDP	0.9	5.5	6.1	4.7	4.6	2.9	5.1	5.0	4.9
Gross domestic product	**3.7**	**8.6**	**5.4**	**3.5**	**3.9**	**2.0**	**4.9**	**4.8**	**4.8**

(*) 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 show that the processing industries were improving gradually. Bank Al-Maghrib's business survey of July shows an increase in production for the second consecutive month and an upward trend in sales, mainly on the back of local sales. Moreover, the level of orders is considered higher than normal despite a decline in July in new orders. Overall, the outlook for activity remains positive, as manufacturers expect stagnant production and higher sales.

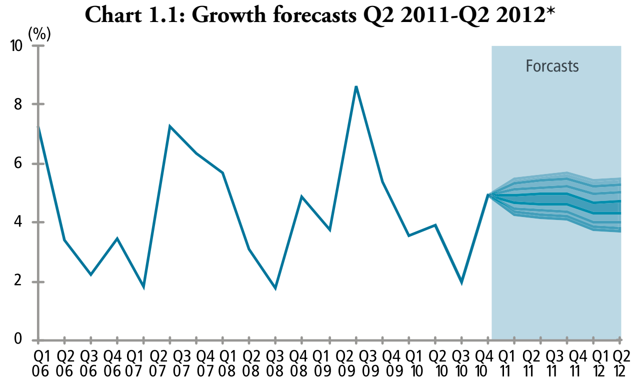
In the same vein, outlook for energy industries is broadly good. Oil refining production was up 9 percent and net production of the National Electricity Office (ONE) grew 4.4 percent to the end of July, covering a 41.4 percent drop in hydroelectric production and a 41.2 percent increase in thermal generation. The ONE total sales were up 8.2 percent, reflecting an increase of 9.2 percent and 7.9 percent in sales to households and to the industrial sector, respectively.

In the construction sector, the rise of 6 percent in cement sales to the end of August and 8.8 percent in real-estate loans to the end of July indicates an improvement in activity. However, the net loss of 65,000 jobs in the sector in the second quarter is an important source of uncertainty. Overall, construction activities would continue the gradual recovery that began in the first quarter, after the dip registered in the fourth quarter of 2010, to grow 3.7 percent in the third quarter of 2011.

As to tertiary activities, trade value added rebounded in the first quarter of 2011, after having declined in the fourth quarter of 2010, and would have risen 4.2 percent in the second quarter of 2011. The post and telecommunication sector would have grown 7.8 percent in the second quarter of 2011, a level consistent with the performance of the first quarter of 2011.

However, the tourism value added would have declined in the second and third quarters of 2011, as evidenced by the

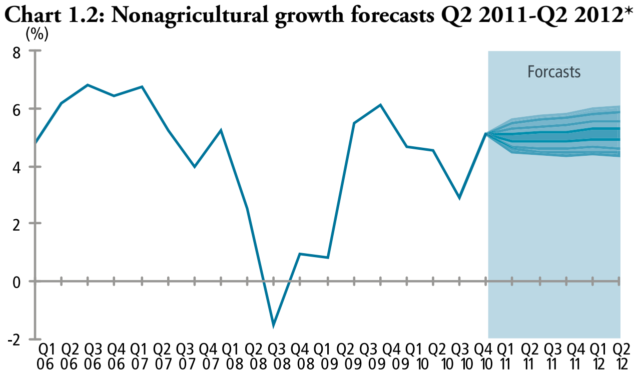
Chart 1.1: Growth forecasts Q2 2011-Q2 2012*



(*) Fan chart based on the standard deviation

Sources: HCP, and BAM forecasts and estimates

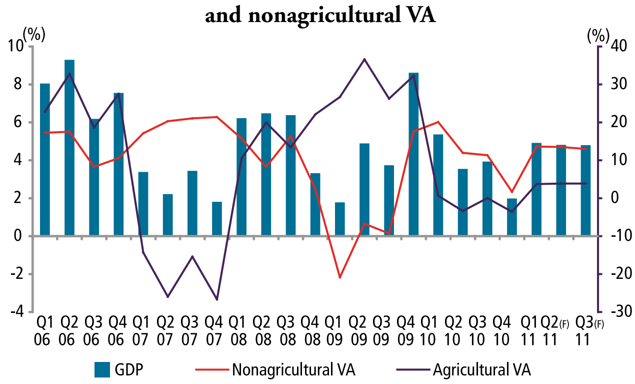
Chart 1.2: Nonagricultural growth forecasts Q2 2011-Q2 2012*



(*) Fan chart based on the standard deviation

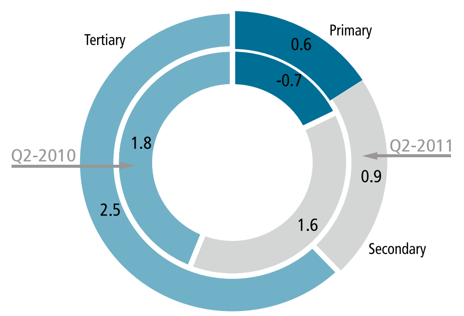
Sources: HCP, and BAM forecasts

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



Sources: HCP, and BAM forecasts

Chart 1.4: Contribution of the primary, secondary and tertiary sectors to overall growth, in percentage points



Sources: HCP, and BAM calculations and forecasts latest available indicators. Indeed, the tourist flow increased by 3.4 percent and overnight stays in classified hotels fell by 2.4 percent to the end of July 2011.

Under these conditions and for the full year 2011, estimates for overall and nonagricultural growth were kept between 4.5 and 5.5 percent, but with increased risks to this forecast mainly because of uncertainties about the sustainability and scope of economic recovery in the euro area, Morocco's major trading partner.

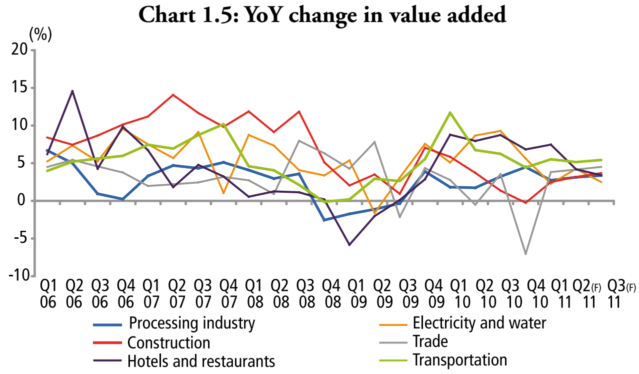
1.2 Consumption

National final consumption grew by 5.4 percent in the first quarter of 2011, reflecting a 6.3 and 2.1 percent increase in household and general government consumption, respectively. In the coming quarters, household consumption would remain strong, despite the emergence of some sources of uncertainty.

Indeed, household consumption would benefit from stronger household purchasing power, on the back of the recent rise in salaries, higher remittances from Moroccan expatriates, up 7.7 percent to the end August, and continued low inflation. Imports of finished consumer goods rose by 8.1 percent and travel receipts by 6.4 percent to the end August, reflecting higher consumption of nonresident households. In contrast, labor market indicators in the second quarter point to some risks related to the year-on-year rise in unemployment and the annual net loss of 83,000 jobs.

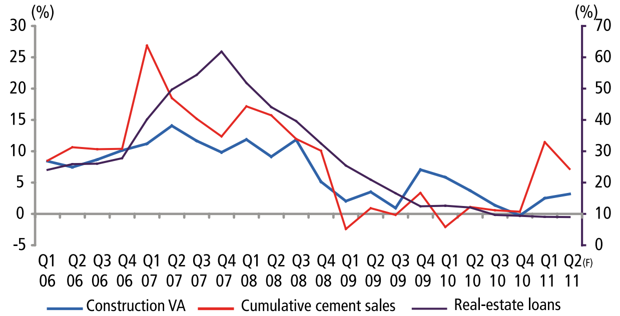
Public consumption fell by 1.3 percent in the first seven months of the year, covering a 9.8 percent increase in personnel expenses and a 20.6 percent decrease in other goods and services expenses.

Chart 1.5: YoY change in value added



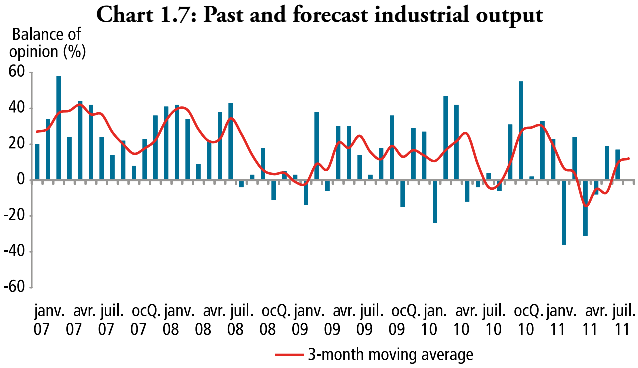
Sources: HCP, and BAM forecasts

Chart 1.6: YoY change in the construction sector's value added, cement cumulative sales and real-estate loans



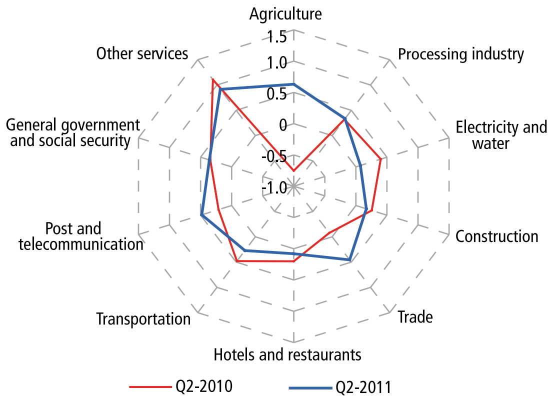
Sources: APC, and BAM forecasts

Chart 1.7: Past and forecast industrial output



Source: BAM monthly business survey in the industry

Chart 1.8: Sectoral contribution to overall growth



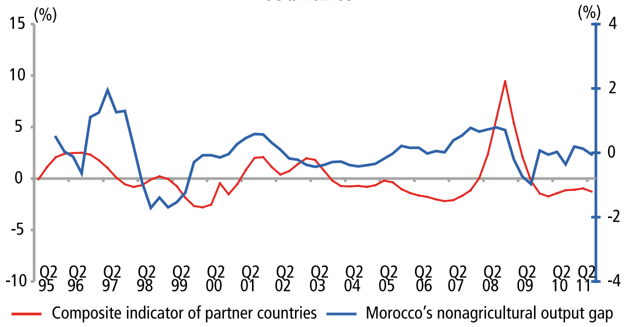
Sources: HCP, and BAM forecasts and calculations

1.3 Investment

In the first quarter of 2011, gross fixed capital formation was up 3.8 percent, after declining 8.6 percent in the fourth quarter of 2010. Over the next quarters, investment environment would remain more positive than in 2010.

Bank Al-Maghrib's monthly business survey in the industry for July shows an increase in production from the previous month, as manufacturers anticipate activity to stabilize in the three coming months. Moreover, social climate is described as "calm" by 92 percent of businesses surveyed in the second quarter of 2011, as opposed to 8 percent who see it as "tense", especially in textile and leather, and mechanical and metallurgical industries. Concerning expenditure, industrials expect, in the very short term, continued increase in investments with a balance of opinion

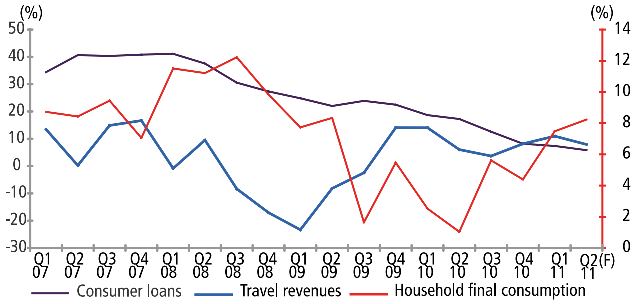
Chart 1.9: Weighted composite leading indicator of partner countries*



**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 1.10: YoY quarterly change in household final consumption, consumer loans and travel revenues



Sources: HCP, and BAM forecasts and calculations

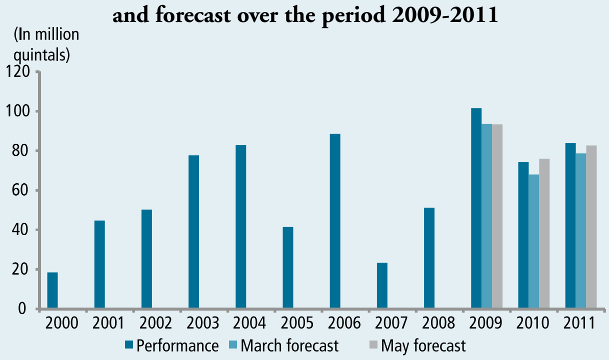
Box 1.1: Assessing the cereal production forecast system

Several factors contributed to stabilizing national growth, including lower volatility of the agricultural sector. However, the impact of this sector remains significant, as correlation between the change in national growth and agricultural value added is estimated at 83 percent over the last decade. (Box 1.1 of March 2008 MPR).

With a view to having a better understanding of future trends in agricultural value added, Bank Al-Maghrib put in place in 2009 a forecast system for cereal production which is highly sensitive to climatic conditions. This system provides forecasts by homogeneous geographical unit and by autumn cereal crop: soft wheat, durum wheat and barley (Box 1.1 of March 2009 MPR).

After an initial version based on total monthly rainfall at 20 weather stations, this system was improved significantly. Eight new weather measurements were incorporated, a 10-day frequency of observations was adopted and the number of the stations covered increased to 29, following an agreement with the National Meteorology Directorate, signed in 2009, to supply the Bank with climate data.

Chart B1.1.1: Comparison of cereal production performance and forecast over the period 2009-2011



Sources: Ministry of Agriculture, Rural Development and Fisheries, National Directorate of Meteorology, Royal Center for Remote Sensing, and BAM calculations and projections.

The results obtained in the last three crop years are satisfactory, as estimates are very close to the final performance announced by the Ministry of Agriculture, thus allowing better assessment of short-term prospects for the agricultural sector.

at 10 percent, better than the second quarter.

Equipment loans and imports of "machines and miscellaneous goods" were up 7.4 percent and 21 percent, respectively, to the end of July 2011. At the same time, patchy available information suggests that investment in construction improved somewhat, in response in particular to the boom in low-income housing projects.

The Treasury position shows that public investment declined by 10 percent to the end of July, which is a completion rate of 52.7 percent relative to the 2011 Finance Act.

Overall, Bank Al-Maghrib projects investment to grow 3 percent in 2011, compared to a 0.4 percent drop a year earlier.

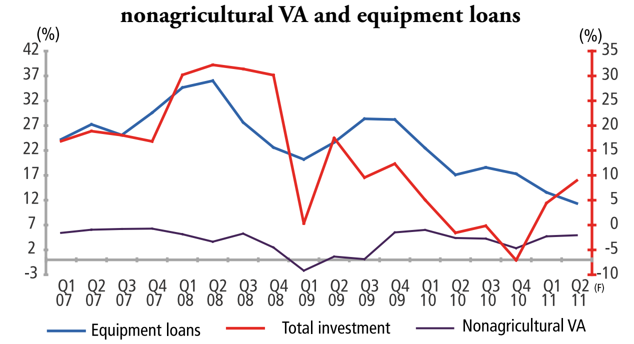
1.4 Foreign trade

Foreign trade data to the end of August 2011 indicate the continued improvement in external demand for Morocco, as evidenced by the still high growth rate of exports. Trade deficit, however, worsened year on year, in conjunction with the significant rise in imports.

Indeed, trade balance in the first eight months of the year posted a deficit of 122.2 billion dirhams, up 22.6 percent over the same period of last year. This trend reflects a 20.7 percent or 40.4 billion increase in imports, higher than the 18.8 percent or 17.8 billion growth of exports. The coverage ratio was at 48 percent.

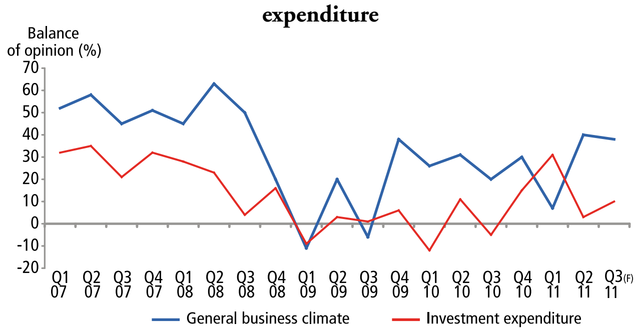
The improvement in exports is due to both the increase of 33.8 percent in sales of phosphates and derivatives, and that of 14.1 percent in non-phosphate exports. Shipments of phosphate and its derivatives moved up 41.5 percent and 31.3 percent to 7.8 billion and 22.4 billion dirhams, respectively, compared to the same period of 2010. Shipments of wires and cables, electronic components,

Chart 1.11: YoY quarterly change in total investment, nonagricultural VA and equipment loans



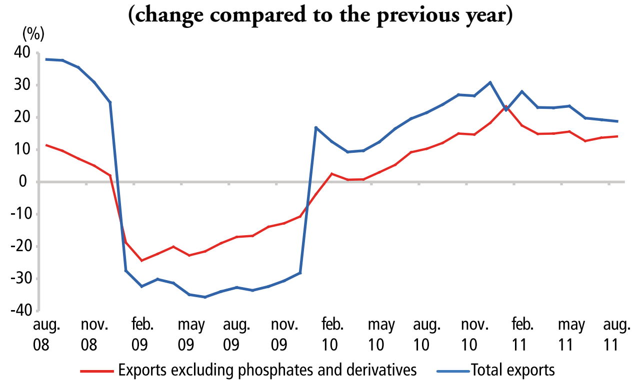
Sources: HCP, and BAM forecasts and calculations

Chart 1.12: Change in general business climate and investment expenditure



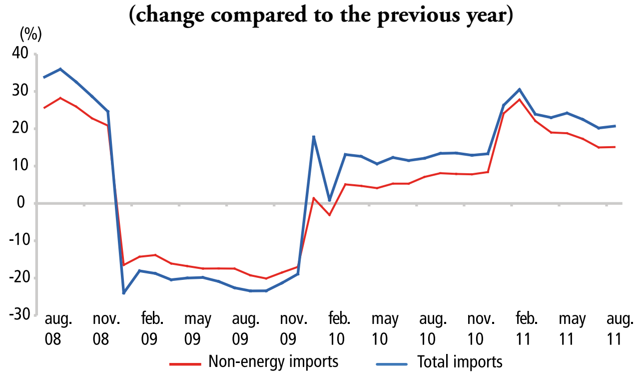
Source: HCP, and BAM calculations and forecasts

Chart 1.13: Total exports (change compared to the previous year)



Source: Foreign Exchange Office

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



Source: Foreign Exchange Office

hosiery items and ready-made garments rose 19.4 percent, 7.5 percent, 7.5 percent and 7.8 percent, respectively, to 9.8 billion, 3.5 billion, 4.9 billion and 13.1 billion dirhams. In contrast, exports of canned fish and citrus fruit fell 21.3 percent and 15.1 percent, respectively, to 2.5 billion and 1.4 billion dirhams.

On the imports side, the growth reflects higher purchases in most categories of goods. Energy imports, which totaled 60.4 billion dirhams, increased 40.6 percent. This trend is due mainly to a 31.1 percent rise in the average tonne price of imported crude oil to 6,167 dirhams, as the volume imported remained virtually unchanged at 3,304.9 thousand tonnes. Similarly, purchases of diesel and fuel as well as petroleum gas and other types of fuel increased 73.1 percent and 25.9 percent, respectively, to 21.6 billion and 10.6 billion dirhams.

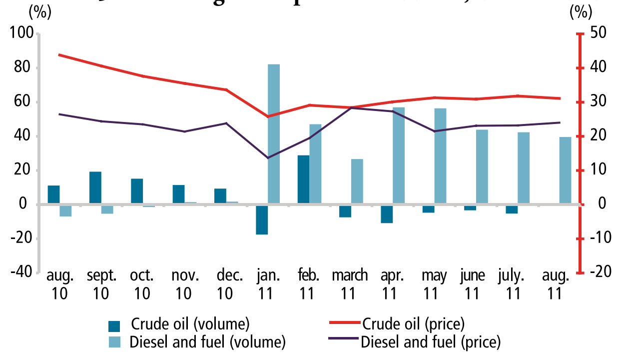
Excluding energy, imports increased by 15.1 percent to 174.6 billion dirhams. In fact, food purchases, totaling 25.3 billion dirhams, increased by 46.7 percent, reflecting in particular the increase of wheat supply from 3.1 to 7.1 billion. Imports of semi-finished goods were up 24.6 percent to 51.2 billion dirhams, mostly because of higher purchases of chemicals by 40 percent and plastics by 30.2 percent. Consumer goods imports also grew by 8.1 percent to 40.1 billion, mainly due to a 10.1 percent increase in drug purchases. In contrast, imports of capital goods were down 3.2 percent to 44.4 billion dirhams.

Table 1.2: YoY change in the trade balance, to the end of August 2011

(In millions of dirhams)	Jan.-Aug 2010	Jan.-Aug 2011*	Change Amount	Change %
Total exports	**94 959.0**	**112 801.7**	**+17 842.7**	**+18.8**
Phosphate and derivatives' exports	22 585.4	30 224.9	+7 639.5	+33.8
Exports excluding phosphates and derivatives	72 373.6	82 576.8	+10 203.2	+14.1
Electricity wires and cables	8 205.0	9 799.6	+1594.6	+19.4
Electronic components	3 290.1	3 537.1	+247.0	+7.5
Hosiery items	4 529.4	4 867.9	+338.5	+7.5
Ready-made garments	12 111.3	13 055.9	+944.6	+7.8
Canned fish	3 151.1	2 481.1	-670.0	-21.3
Total imports	**194 638.0**	**234 994.8**	**+40 356.8**	**+20.7**
Energy imports	42 969.6	60 422.2	+17 452.6	+40.6
Non-energy imports	151 668.4	174 572.6	+22 904.2	+15.1
Semi-finished goods	41 110.8	51 216.0	+10 105.2	+24.6
Food products	17 275.0	25 338.8	+8 063.8	+46.7
Consumer goods	37 040.8	40 055.3	+3 014.5	+8.1
Capital goods	45 844.6	44 383.5	-1 461.1	-3.2
Trade deficit	-99 679.0	-122 193.1	+22 514.1	+22.6

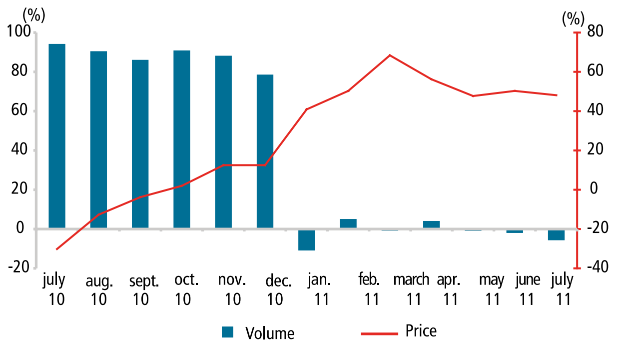
** Real time data*
Source: Foreign Exchange Office

Chart 1.15: YoY change in imports of crude oil, diesel and fuel



Source: Foreign Exchange Office

Chart 1.16 : YoY change in export of phosphate and phosphoric acid



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

As in the past four quarters, nonagricultural output gap would have been close to zero in the first half of 2011, reflecting continued strength in domestic demand and moderation of net external demand. For the coming quarters, its trend remains dependant upon the continued momentum in domestic consumption and investment, as well as upon the materialization of risks to the strength of recovery in major partner countries. In the industrial sector, the BAM survey for July 2011 shows that the capacity utilization rate stood at 76 percent for the whole sector and 71 percent excluding refining, slightly higher than historical averages. Unemployment rose at year-on-year rate of 0.5 percentage points to 8.7 percent in the second quarter of 2011. Moreover, mainly under the impact of the recent rise in minimum wage, the latest data on private sector wages show significant increase in nominal and real terms in the second quarter of 2011, year on year. Overall, various factors suggest the absence of significant demand pressure on prices in the coming quarters.

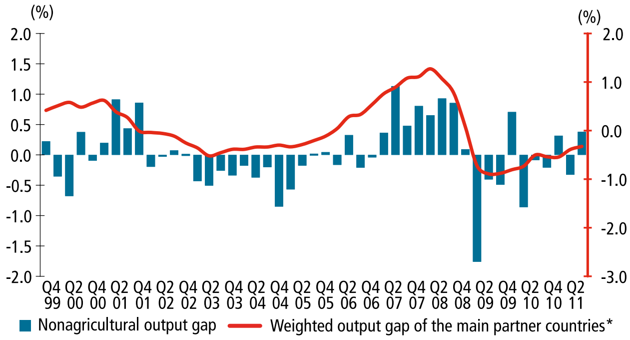
2.1 Pressures on output capacity

Nonagricultural output gap would have been positive in the second quarter of 2011 after a negative value one quarter earlier, standing at a level close to zero in the first half of the year. Over the next few quarters, risks to growth in our major partner countries, through their direct impact on external demand and indirect impact on the domestic one, increase the uncertainty surrounding its future prospects. The different measurements, however, give generally values consistent with low price pressures.

Based on the BAM monthly business survey in the industry, the capacity utilization rate (CUR) grew by 4 percentage points in July 2011 to 76 percent, due mainly to the increase from 74 to 81 percent of the CUR in chemicals and related industries. The CUR in non-refining industries stood at 71 percent. In other sectors, it stabilized at 74 percent in the food industry and slightly declined in electrical and electronics industries, textile and leather industries, as well as mechanical and metallurgical industries to 80 percent, 69 percent and 61 percent, respectively.

Apparent labor productivity[1] in the nonagricultural sector grew 5.4 percent year on year in the second quarter of 2011, to around 125.2 points, reflecting lower employment rate, amid increasing growth in nonagricultural GDP.

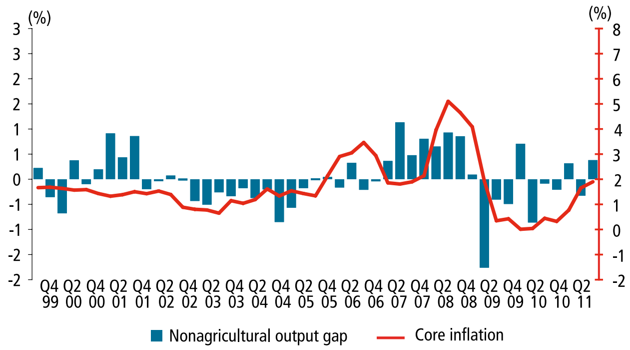
Chart 2.1: Nonagricultural output gap



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

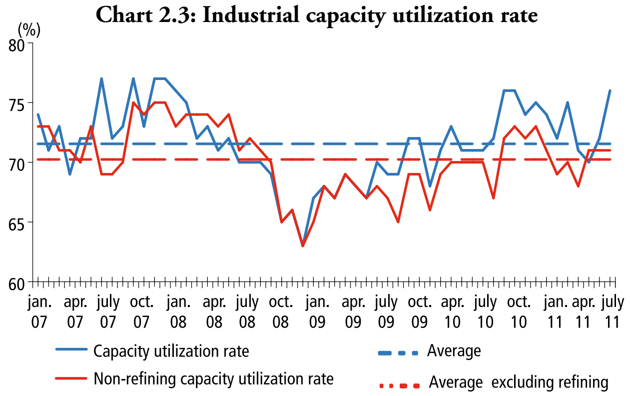
Sources: HCP, and BAM estimates

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 The apparent labor productivity is measured by the ratio between production and employed labor force. This indicator must be interpreted cautiously, as it does not take into account the efficiency with which labor force is used in production.

Meanwhile, the BAM monthly business survey indicates an increase in the unit production cost (UPC) in the second quarter, with an opinion balance of 31 percent, down 9 percentage points on a quarterly basis. Industrials attribute this trend to higher prices for non-energy commodities and wage levels, with respective opinion balances of 37 and 27 percent. These two factors were the main source of higher UPC in all industries, except for mechanical and metallurgical industries for which the financial costs and non-energy commodity were identified as the two main explanatory factors.

2.2 Pressures on the labor market

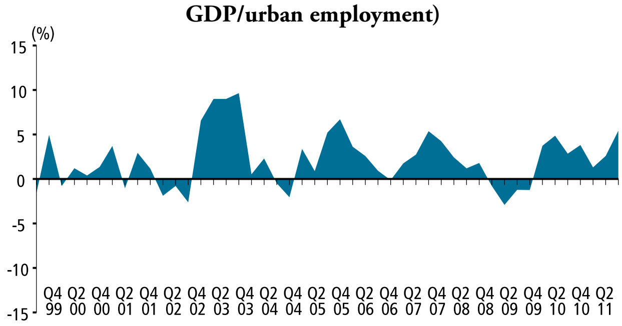
At the end of the second quarter of 2011, labor force aged 15 and over reached 11.61 million persons, down 0.2 percent over the same period of the previous year. This reflects a 0.4 percent increase in urban areas and a 0.8 percent decline in rural ones. As a result, the participation rate fell 0.9 percent to 49.6 percent, following a decline in the urban participation rate from 43.9 to 43.2 percent and from 60.1 to 59.2 percent in rural areas.

The employed labor force shrunk by 0.8 percent to 10.6 million people in the second quarter of 2011. At the same time, employment rate fell 1.2 percent to 45.2 percent due to a 1.1 percentage points decline in the employment rate in both urban and rural areas.

The job market suffered a net loss of 84,000 jobs, including 69 percent in rural areas and 31 percent in urban ones. This change covers a loss of 23,000 gainful jobs and 90,000 unpaid jobs.

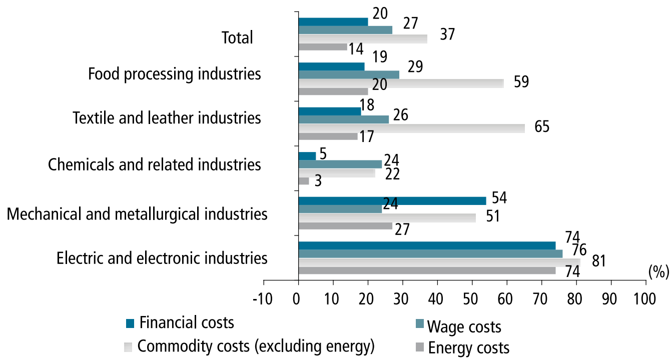
Services are the only sector which recorded a net creation of 125,000 jobs, while agriculture, industry, including handicrafts, and construction registered net job losses totaling 214,000 positions.

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



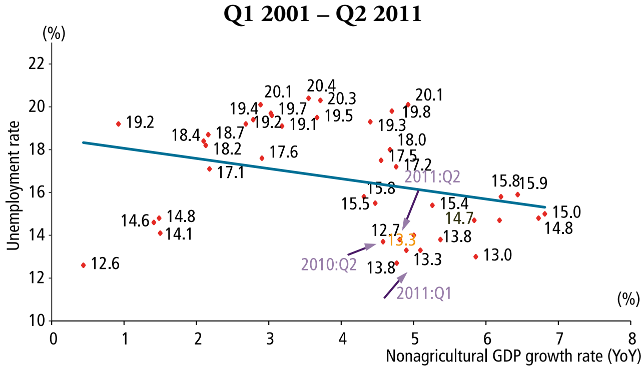
Sources : HCP, and BAM estimates

Chart 2.5: Change in components of unit production cost per sector (Balances of opinion in %, in Q2 of 2011)



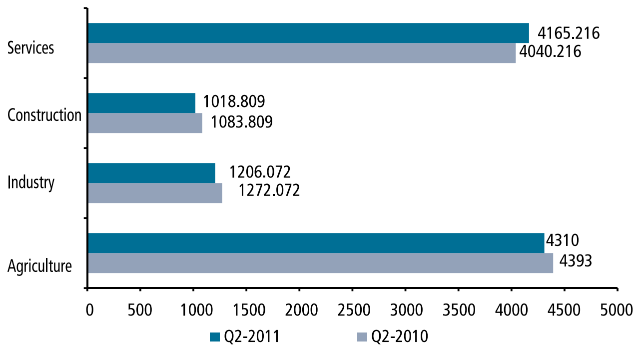
Source: BAM monthly business survey

Chart 2.6: Nonagricultural growth and urban unemployment Q1 2001 – Q2 2011



Source : HCP

Chart 2.7: Employed labor force per sector (in thousands)



Source: HCP

Under these circumstances, unemployment rate rose 0.5 percentage points to 8.7 percent compared with the same period in 2010. This rise is due to higher unemployment rate in both urban and rural areas which moved up to 13.5 percent and 3.6 percent, respectively. The increase mainly concerned the 15-24 year and the 25-34 year age group in urban areas, where the rate rose 2.4 percentage points for both age groups.

Available data on wage costs in the second quarter of 2011 indicate that the unit labor cost (ULC) in the manufacturing sector edged down 0.2 percent at a year-on-year basis. Compared with other countries, the Moroccan ULC declined less rapidly than in Slovakia, Poland and Hungary, with a gap of 5.4 percent, 4.2 percent and 1.9 percent, respectively. On the opposite, it grew more positively than in Canada, France and Belgium.

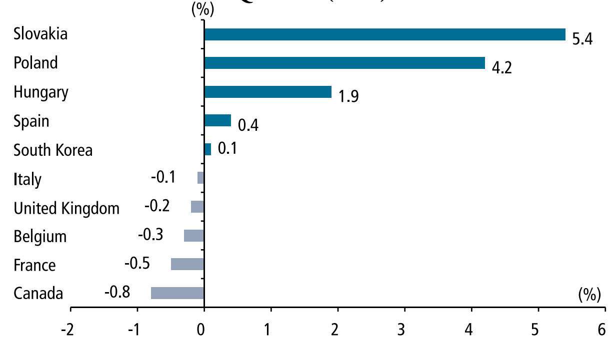
The quarterly average wage index, calculated by the HCP on the basis of the CNSS data, rose in the second quarter of 2011 at a year-on-year rate of 7.5 and 7.3 percent in nominal and real terms, respectively. The BAM business survey in the industrial sector shows higher wage costs in the second quarter of 2011, with a positive balance of opinion at 27 percent. This increase mainly involved electrical and electronics industries and food industries. The minimum wage remained stable in nominal terms and increased slightly in real terms.

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

In million / in %	Q2 - 2010			Q2 - 2011		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (2)	6.03	5.60	11.63	6.06	5.56	11.61
Labor force participation rate (%) (3)	43.90	60.10	50.50	43.20	59.20	49.6
Employed labor force	5.27	5.410	10.68	5.24	5.36	10.60
Employment rate (%) (4)	38.40	58.10	46.40	37.30	57.00	45.20
Unemployment						
Unemployed labor force	763,00	186,00	949,00	816,00	199,00	1015
Unemployment rate (in %) (5)	12.70	3.30	8.20	13.50	3.60	8.70
By age						
.15 - 24 years	31.00	7.00	16.30	33.40	8.10	17.40
.25 - 34 years	17.10	3.80	11.40	19.50	3.70	12.80
.35 - 44 years	6.90	1.40	4.70	7.40	1.70	5.10
By degree						
. Non-graduates	7.20	2.10	3.90	7.20	2.30	4.10
. Graduates	16.90	9.70	15.40	18.20	9.50	16.20

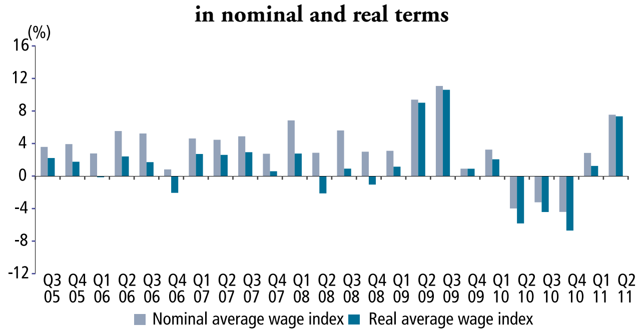
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and above (in millions of persons)
(3) Labor force/total population.
(4) Employed labor force/total population aged 15 years and above.
(5) Unemployed labor force/labor force aged 15 years and above
Source: HCP

Chart 2.8: Change in the unit costs of the manufacturing labor force in Morocco compared with other countries, Q2 2010 – Q2 2011 (in %)



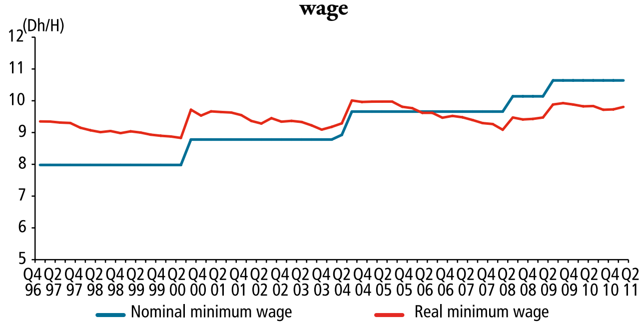
Sources: Datastream, and BAM calculations

Chart 2.9: YoY change in the private sector's average wage index in nominal and real terms



Sources: CNSS, and BAM estimates

Chart 2.10: Quarterly change in real and nominal minimum wage



Sources: Labor Ministry, and BAM calculations

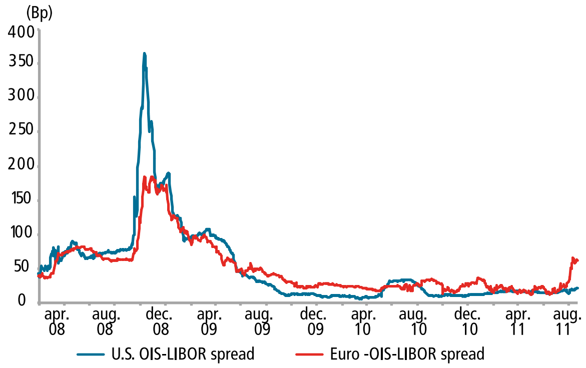
3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The international environment in the first two months of the third quarter of 2011 was marked by rising tensions in the financial markets. This is mainly caused by the deteriorating economic indicators in the second quarter and the difficulties engendered by the sovereign debt crisis in Italy, Spain and the United States. The increasing uncertainties materialized through a risk aversion in money and stock markets, and to a lesser extent, in bond markets. Indeed, money markets came under new pressure as interbank rates rose in both the United States and the euro area. Sovereign bond yields declined somewhat but remained elevated. At the same time, the major stock market indexes in advanced countries, and to a lesser extent in emerging countries, dropped sharply. This turmoil, along with a worsening economic outlook, also impacted credit to the private sector, whose growth slackened in both the euro area and the United States. Economic growth in most advanced economies slowed down markedly, as evidenced by the results of national accounts in the second quarter 2011, as well as the latest high-frequency indicators. In emerging and developing economies, growth continues at a robust pace, albeit with signs of slowdown in some Asian countries, particularly China and India. Moreover, the labor market in advanced economies is still characterized by high unemployment rates which would continue, in light of current economic developments. More generally, the recent economic and financial developments increase risks to the consolidation of recovery. Commodity prices broadly declined in August, in conjunction with the deteriorating global economic outlook. Furthermore, the earlier rise in commodity prices resulted in a further acceleration of inflation in emerging countries in July, while it remained relatively moderate in advanced countries. Overall, these developments, which suggest a decline in external inflationary pressures on the Moroccan economy in the coming months, give rise to new risks to the strength of Morocco's foreign demand.

3.1 Global financial conditions and economic activity

During the third quarter of 2011, tensions intensified again in the financial markets, in conjunction with the contagion risks of the sovereign debt crisis and the worsened global economic outlook. Data on economic growth in the second quarter of 2011 indicate significant slowdown in advanced economies and moderate growth in emerging and developing countries. This trend is coupled with the persistently high unemployment rates in advanced countries.

Chart 3.1: Change in the OIS-LIBOR spread

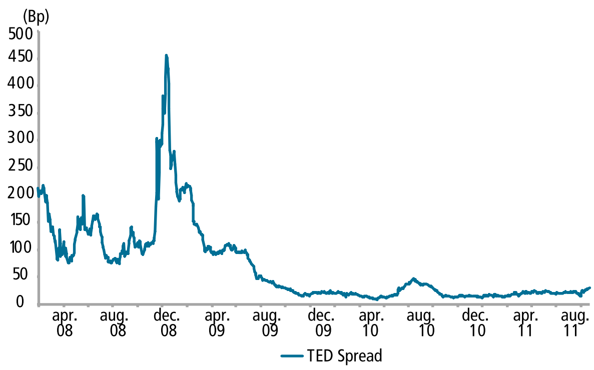


Source: Datastream

3.1.1 Financial conditions

Between July and August 2011, the levels of Euribor and the Libor-OIS spread1 were similar to those registered in 2009. Despite the abundant liquidity injected by the ECB, the 3-month Euribor only slightly decreased from 1.6 percent to 1.56 percent between July and August 2011, while the euro Libor-OIS spread rose sharply to 53 basis points in August, as against 22.6 points a month earlier, with a high of 62 points in August 19, 2011. The 3-month

Chart 3.2: Change in the TED spread[1]



Source: Datastream

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

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.

Libor widened from 0.25 percent to 0.28 percent, while the dollar Libor-OIS spread increased to 18.8 basis points as opposed to 16.7 points.

These signs of deterioration, combined with worsening growth outlook in major advanced countries, increasingly impact credit to the private sector. The latter stagnated in the euro area and rose by a mere 0.6 percent in the United States in July 2011, on a monthly basis. Year on year, credit in the euro area grew by a mere 2.4 percent in July, down from 2.5 percent in June, and in the United States by 0.1 percent from 0 percent.

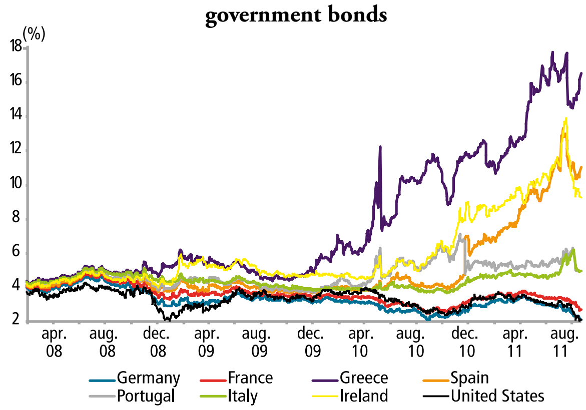
Stock market indices declined again in August 2011, recording substantial drops over several trading days, especially after Standard & Poor's downgraded the U.S. sovereign credit rating. After the declines recorded in July, the DAX was down 17 percent, the CAC40 fell 15.5 percent, the FTSE and Dow Jones Industrials lost 10 percent each, and the Nikkei was down 8.1 percent. Stock indexes in the emerging countries continued the downward trend recorded to the end of July, as the MSCI-EM Index1 fell on average by 10.6 percent in August. The VIX Index2 rose on average to 35.1 basis points in August, up from 19.1 points a month earlier, reflecting high volatility and lack of investor confidence.

The decline registered in bond markets late July 2011 continued through August, especially in the eurozone peripheral countries. Nevertheless, yields remain much higher than early 2011. This decrease is mainly due to the reactivation of the Securities Market Program (SMP) by the European Central Bank in order to reduce the risk of debt crisis contagion in the euro area. Since the launch of the SMP in May 2010, purchases of securities totaled 110.5 billion euros, and the latest

1 The MSCI-EM index measures equity market performance in countries of Central Europe, the Middle East and Africa (Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Jordan, Egypt, Morocco, and South Africa).

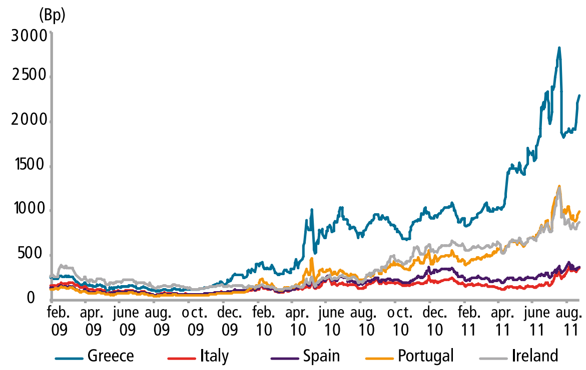
2 The VIX or the Chicago Board Options Exchange Volatility Index is an indicator of U.S. financial market volatility. Set daily by the Chicago Board Options Exchange, it is calculated by averaging volatility for S&P 500 calls and puts. The higher the index is, the more the markets are nervous and pessimistic. In contrast, the lower the index is, the more optimistic investors are about the U.S. financial market. The change in this index is more important than its value itself.

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



Source: Datastream

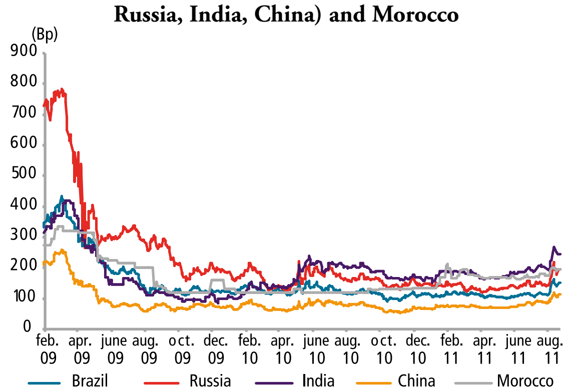
Chart 3.4: Change in CDS[2] in euro area peripheral countries



Source: Datastream

2 Credit Default Swaps (CDS) on the sovereign debt of emerging countries corresponds 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

buybacks by the ECB would have mainly concerned Spanish and Italian debt. Thus, the average yield on 10-year government bonds moved between July and August from 12.2 percent to 9.8 percent in Ireland, from 5.5 percent to 5.4 percent in Italy, and from 5.8 to 5.4 percent in Portugal. Those of Spain and Greece fell from 12 to 10.7 percent and from 16.2 to 15.2 percent, respectively, but rose slightly in August to 11.1 percent and 16.5 percent.

In this context, after hitting record highs on the eve of the second aid package for Greece on July 21, 2011, Credit Default Swaps (CDS) of eurozone peripheral countries decreased somewhat in August 2011, with the exception of those of Spain and Italy which were up.

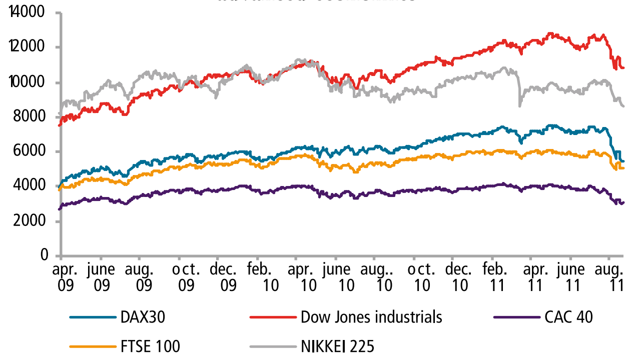
Yields on 10-year sovereign bonds of France and Germany fell from 3.3 percent to 2.9 percent and from 2.7 percent to 2.3 percent, respectively, from July to August 2011.

On the U.S. bond market, Treasury yields shrank by 40 basis points from 2.7 percent to 2.3 percent. This change mostly reflects the Fed's recent and the mounting fears about a possible relapse of the U.S. economy.

In currency markets, like the previous month, the euro in August depreciated 0.5 percent on average to $1.42, reaching a low of $1.41 on August 4, 2011. However, as of the second half of August, the euro recovered somewhat to $1.44 at the end of August, as against 1.42 at the beginning of the same month. Against other currencies, the euro depreciated 1.3 percent versus the pound sterling and 2.8 percent against the Japanese yen.

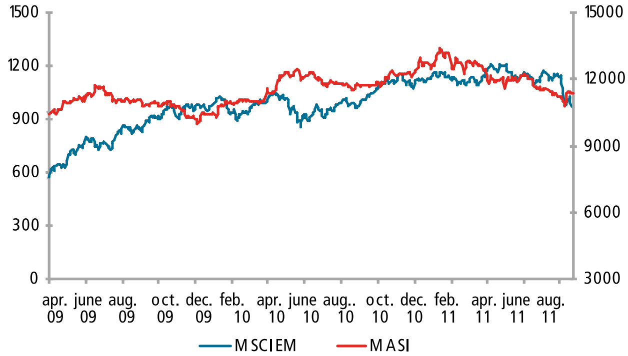
Concerning the latest monetary policy decisions, the Fed kept unchanged the target range for the federal funds rate at 0 percent to 0.25 percent, until mid-2013. However, it said that it was ready to use, at the right time, a series of measures to promote a strong and sustainable economic recovery in a context of price

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

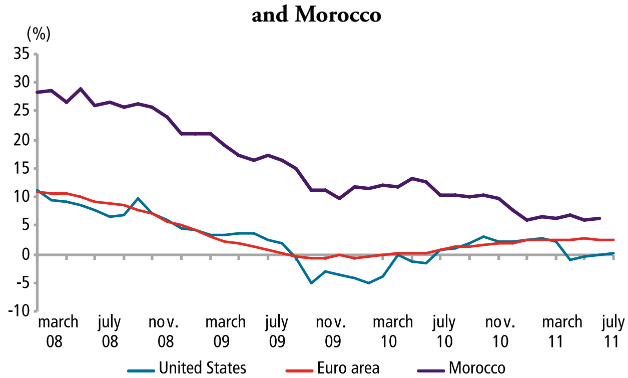


Source: Datastream

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

stability. Similarly, the European Central Bank and the Bank of England kept policy rates unchanged at 1.5 percent and 0.5 percent, respectively.

3.1.2 Global economic activity

Year-on-year growth slowed from 2.2 percent to 1.5 percent in the United States between the first and second quarters of 2011, impacted by the deceleration of growth in household consumption and exports. In the euro area, growth fell to 1.7 percent year on year in the second quarter, after 2.5 percent in the first quarter, reflecting a lower performance of Germany and France, the GDP of which rose 1.6 percent and 2.8 percent year on year, respectively, down from 2.1 percent and 4.6 percent in the first quarter. In Italy and Spain, GDP grew by a mere 0.8 percent and 0.7 percent, respectively, down from 1 percent and 0.9 percent in the previous quarter. In Japan, the economy slipped into technical recession with a contraction in GDP for the third consecutive quarter, ravaged by the lingering impact of the March earthquake. Year on year, Japanese growth reached -0.9 percent in the second quarter after -0.7 percent in the first one.

In emerging Asia, and on the back of strong investment and exports, economic growth remained robust, albeit with a slight slowdown in China from 9.7 percent to 9.5 percent and in India from 7.8 percent to 7.7 percent between the first and second quarter.

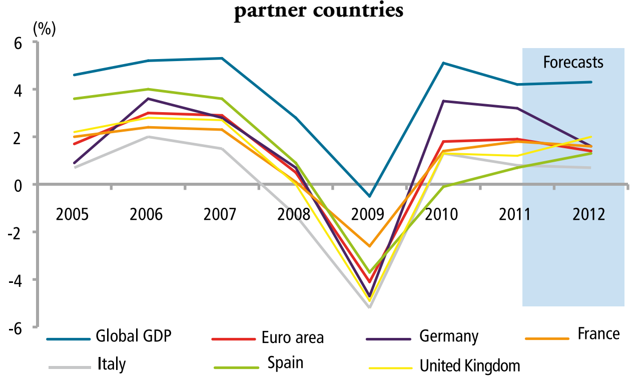
The slowdown trend in economic activity is not expected to reverse in the third quarter, in light of the recent development in high-frequency indicators. In the United States, the manufacturing ISM index was at 50.6 points in August, down at a monthly rate of 0.6 percent and an annual rate of 8.3 percent. The Conference Board Consumer Confidence Index fell to 55.7 points from 59.5 points in July, down 6.4 percent month on month and 4.7 percent year on year. The eurozone manufacturing PMI dropped in August 2011 from 50.4

Table 3.1: YoY change in quarterly growth

	2009	2010				2011	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
United States	0,2	2,2	3,3	3,5	3,1	2,2	1,5
Euro area	-2,1	0,9	2,0	2,0	2,0	2,5	1,7
France	-0,7	1,1	1,5	1,6	1,4	2,1	1,6
Germany	-2,0	2,1	3,9	3,9	4,0	4,6	2,8
Italy	-3,0	0,6	1,5	1,4	1,5	1,0	0,8
Spain	-3,0	-1,4	0,0	0,2	0,6	0,9	0,7
China	11,3	11,9	10,3	9,6	9,8	9,7	9,5

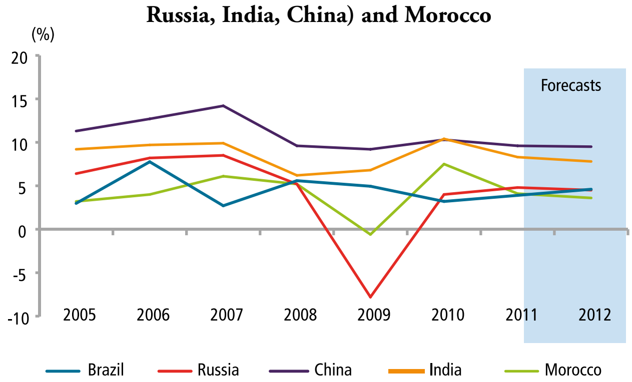
Source: Eurostat

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



Source: IMF

Chart 3.11: GDP growth in the emerging countries (Brazil, Russia, India, China) and Morocco



Source: IMF

to 49.7 points, down 9.8 percent year on year. The composite PMI remained stable at 51.1 points in August month on month, and down 9.1 percent year on year. The business climate index in the euro area, especially in Germany, declined to 108.7 points in August from 112.9 points in the previous month. Similarly, the ZEW Indicator of Economic Sentiment in Germany fell in August to a 25-month record low, reaching -37.6 points after -15.7 points in July.

Regarding the coincident indicators, industrial production in the United States grew by 0.9 percent in July up from 0.2 percent in the previous month. However in the euro area, it declined by 0.7 percent in June after a 0.2 percent rise a month earlier. The overall growth slowdown in advanced and emerging economies significantly contributed to worsening the short-term outlook. In the latest IMF projections global growth was revised downward to 4.2 percent and 4.3 percent in 2011 and 2012, respectively, compared to the outlook of last June which projected increases of 4.3 percent and 4.5 percent.

This decline is dragged down by advanced countries, whose growth would be limited to 1.8 percent in 2011 and 2.2 percent in 2012, down from the previously expected 2.2 percent and 2.6 percent.

Growth projections for emerging and developing countries remained unchanged at 6.6 percent and 6.4 percent in 2011 and 2012, respectively.

By country, the IMF expects GDP to increase in the United States by 1.6 percent and 2 percent, respectively, and by 1.9 percent and 1.4 percent in the euro area.

In China, GDP would grow 9.6 percent in 2011 and 9.5 percent in 2012. In India, the economy would expand by 8.3 percent in 2011, and then decline to 7.8 percent in 2012.

For Morocco's main partner countries, the IMF forecasts growth in 2011 and

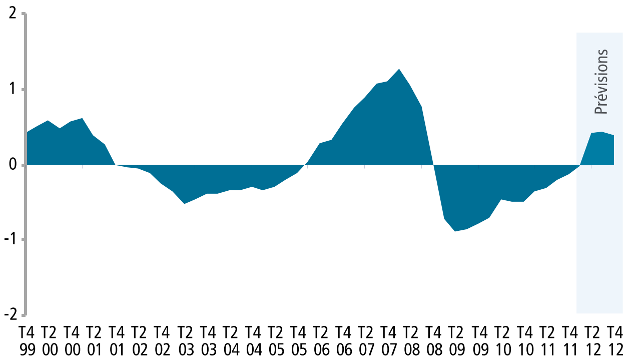
Table 3.2: Global growth outlook

	Forecasts					
	OECD*		European commission*		IMF*	
	2011	2012	2011	2012	2011	2012
Global GDP	-	-	4.0	4.1	4.2	4.3
United States	2.6	3.1	2.6	2.7	1.6	2.0
Euro area	2.0	2.0	1.6	1.8	1.9	1.4
Germany	3.4	2.5	2.6	1.9	3.2	1.6
France	2.2	2.1	1.8	2.0	1.8	1.6
Italy	1.1	1.6	1.0	1.3	0.8	0.7
Spain	0.9	1.6	0.8	1.5	0.7	1.3
United Kingdom	1.4	1.8	1.7	2.1	1.2	2.0
China	9.0	9.2	9.3	9.0	9.6	9.5
India	8.5	8.6	8.0	8.2	8.3	7.8
Brazil	4.1	4.5	4.4	4.3	4.1	3.6
Russia	4.9	4.5	4.5	4.2	4.8	4.5

**OECD , and European Commission: May 2011; IMF: September 2011*

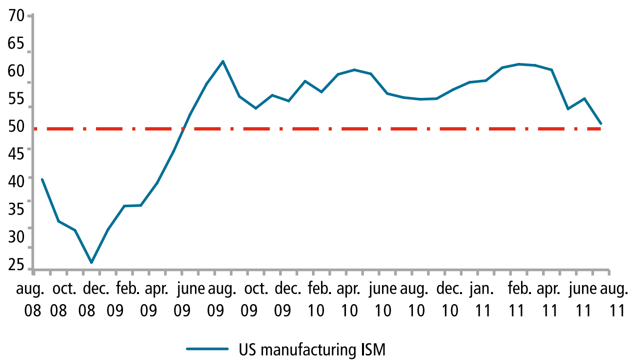
Sources: IMF, European Commission and OECD.

Chart 3.12: Output gap of the main partner countries



Sources: European Commission, and BAM calculations

Chart 3.13: ISM growth in the United States



Sources: Dtatstream

2012 to reach 1.8 percent and 1.6 percent in France, 3.2 percent and 1.6 percent in Germany, 0.8 percent and 0.7 percent in Italy, and 0.7 percent and 1.3 percent in Spain, respectively.

3.1.3 Labor market

Internationally, the labor market is still marked by high unemployment rates in advanced countries.

Unemployment rate slightly slowed in the United States in July 2011 to 9.1 percent from 9.2 percent in June. In the euro area, it stabilized at 9.9 percent in June compared to the previous month, with respective rates of 9.7 percent in France, 8 percent in Italy, 6.1 percent in Germany and 21 percent in Spain.

Spain in particular continues to post record highs in unemployment rates because of structural problems in employment, troubled housing market and still insufficient labor-market reform policies.

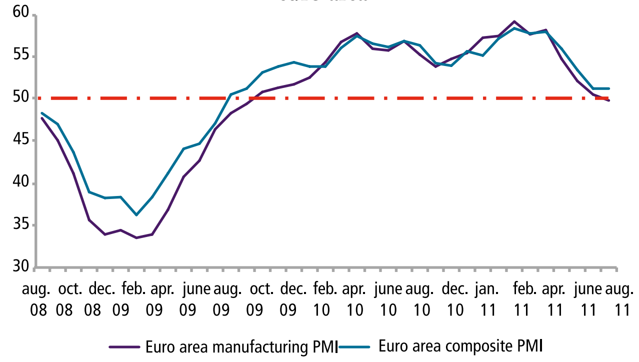
Moreover, uncertainty about short-term growth outlook as well as tensions in financial markets coupled with fiscal difficulties could hinder improvement of conditions in the labor market in advanced countries. Forecasts of several international organizations suggest that unemployment rates should remain elevated in 2011 and then slightly decrease in 2012, but would not fall to their pre-crisis level.

Latest projections by the IMF in September suggest that unemployment rate in the United States would reach 8.6 and 7.8 percent in 2011 and 2012, respectively. In the euro area, it would be 10 percent and 9.6 percent in 2011 and 2012, respectively.

3.2 Commodity prices and inflation

The deteriorating growth outlook in advanced countries and the turmoil in financial markets impacted commodity price in August. Inflation did not change

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



Sources: Dtatstream

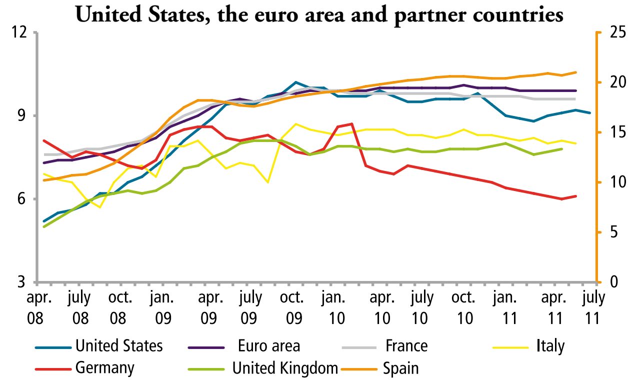
Table 3.3: Change in unemployment rate in the United States, the euro aera and the partner countries

	2009	2010	M4 2011	M5 2011	M6 2011
United States	9.3	9.6	9.0	9.1	9.2
Euro area*	9.6	10.1	9.9	9.9	9.9
France	9.5	9.8	9.6	9.6	9.7
Italy	7.8	8.4	8.0	8.1	8.0
Germany	7.7	7.1	6.2	6.1	6.1
Spain	18.0	20.1	20.7	20.8	21.0
United Kingdom	7.6	7.8	7.7	7.8	n.a

(*) Harmonized indexes

Sources: Eurostat

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



Source: Eurostat

significantly in July, remaining subdued in advanced countries and relatively high in emerging and developing countries.

3.2.1 Energy commodity prices

Although higher 48 percent over the same period of last year, the price of Brent fell at a monthly rate of 6.6 percent in August to $109.7 a barrel, because of the joint effect of financial market turmoil, slower demand and lower supply uncertainties.

The current economic instability led to a downward revision of OPEC's global oil demand forecast on August 9, 2011. Indeed, OPEC projected global demand to grow by 1.2 million barrels a day (mb/d) in 2011 and 1.3 mb/d in 2012. The International Energy Agency (IEA) only marginally lowered its forecast for oil demand on August 10, considering that Japan's demand would be quite important in the coming years to cover any anticipated decline from other countries. According to the agency, demand would increase by 1.37 mb/d in 2011 and 1.64 mb/d in 2012.

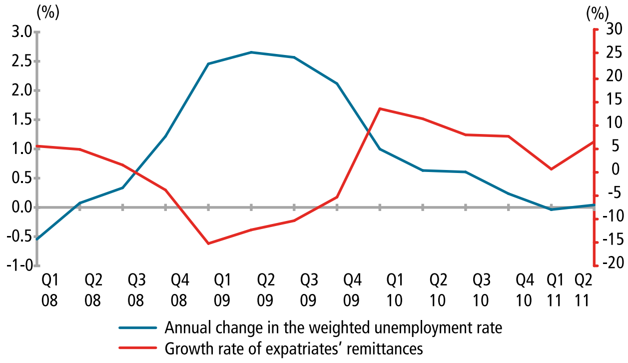
Regarding prices, the World Bank predicts oil price to record an annual increase of 35.6 percent in 2011 to $107.2 a barrel, before falling back to 102.1 and to $98.7 a barrel in 2012 and 2013, respectively. Moreover, the latest projections by the IMF expect an average price of $106.34 a barrel in 2011 and $109.25 in 2012. The oil futures price stood at $111.75 a barrel in 2012 and $110 in 2013.

Natural gas price decreased 3.5 percent in August, particularly due to temperature increase. Coal price slightly rose at a monthly rate of 0.6 percent in July and at an annual rate 25 percent.

3.2.2 Non-energy commodity prices

In non-energy commodity markets, prices also fell in August, as evidenced by the monthly decrease of 2.3 percent of the non-energy Dow Jones Index. This decline includes a 6.9 percent drop in the DJ-UBS

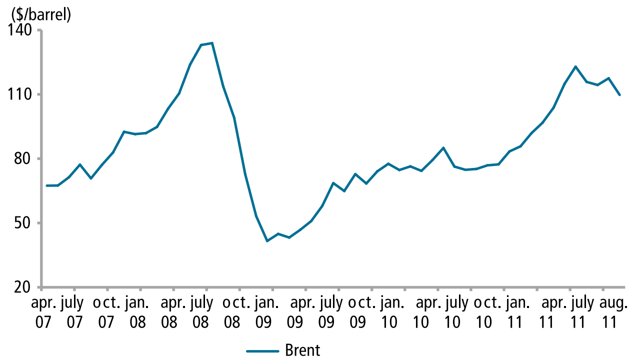
Chart 3.16: YoY change in main partner countries' weighted unemployment rate and expatriates' remittances* growth rate



** 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



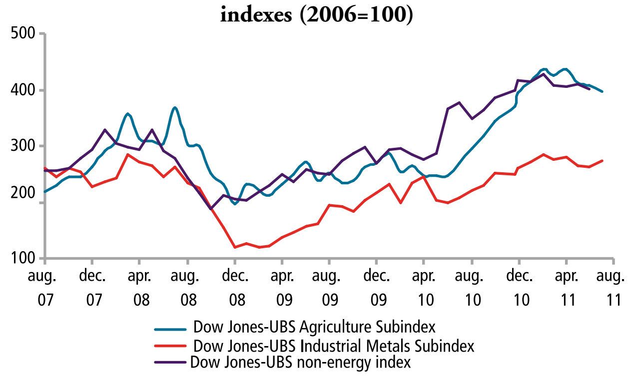
Source: Datastream

Table 3.4: Futures of oil (Brent in U.S. $)

	Q3:11	Q4:11	Q1:12	Q2:12	2012	2013	2014
Oil	110	110	110.5	113.15	111.75	110	111.85

Source: Bloomberg

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



Source: Datastream

industrial metals index and a 1.8 percent increase in the agricultural price index. Year on year, price indexes maintained their upward trend, as the overall index excluding energy was up 2.9 percent, the agricultural index 66.1 percent and the industrial metals index 29.6 percent.

By commodity, prices for nickel, copper and aluminum fell by 8.2 percent, 7 percent and 5.7 percent, respectively. In contrast, drought in the southern plains of the United States drove agricultural prices up, as prices for corn and wheat rose at a monthly rate of 17.2 percent and 8 percent, respectively.

The continued increase in food prices further supports the upward trend of prices for phosphates and derivatives. In August, the price of crude phosphate stabilized at $197.5 a tonne, totaling an annual increase of 58 percent. The prices of TSP and DAP recorded a monthly rise of 0.9 percent and 1.3 percent, respectively, and an annual increase of 47 percent and 32.9 percent. Moreover, the price of potassium chloride and urea showed a monthly increase of 4.5 percent and 0.5 percent, respectively, but remained 39.8 percent and 74.9 percent higher than the same period of last year.

3.2.3 Inflation in the world

Globally, inflation stabilized in July at 4.8 percent for the second consecutive month. This trend covers a stagnant inflation at 7.4 percent in emerging markets and a slight increase from 2.9 percent to 3 percent in developed countries. In the United States, it stabilized at 3.6 percent for the third month in a row, while core inflation continued to accelerate, from 1.6 percent to 1.8 percent in July.

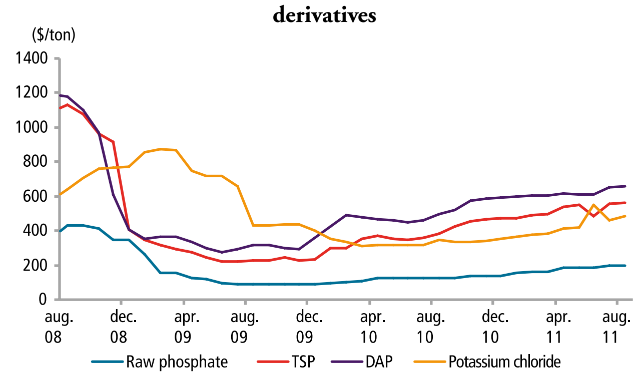
In the euro area, inflation slightly eased from 2.7 percent to 2.5 percent in July, mainly due to the decline in the price index excluding energy whose year-on-year change was 2 percent from 2.2

Table 3.5: Futures prices of wheat, corn and sugar

	Q1:11	Q2:11	Q3:11	Q4:11	2011	2012	2013
Wheat(cents/bu)	831.00	871.60	912.06	930.26	886.55	883	837.43
Corn (cents/bu)	682.92	722.48	659.66	613.90	669.15	565.21	516.98
Sugar (11cents/bl)	30.32	26.39	24.30	23.59	26.11	51.65	20.06

Source : Bloomberg

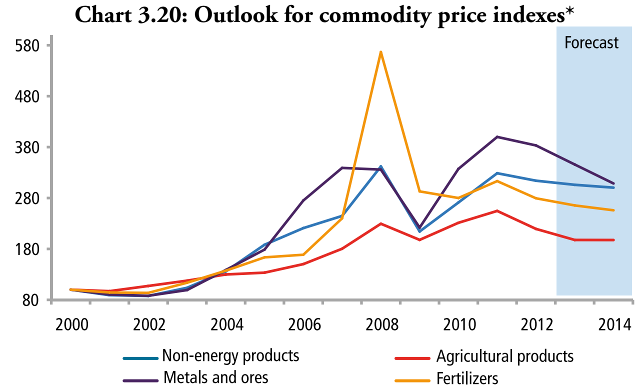
Chart 3.19: Change in the world prices of phosphate and its derivatives



(*) Updated on July 11, 2010

Source: World Bank

Chart 3.20: Outlook for commodity price indexes*



(*) Updated on July 11, 2010

Source: World Bank

Table 3.6: Recent trend in world inflation, YoY

	July 2010	May 2011	June 2011	July 2011	Forecast 2011	Forecast 2012
United States	1.2	3.6	3.6	3.5	3.0	1.2
Euro area*	1.7	2.7	2.7	2.5	2.6	1.8
Germany	1.2	2.4	2.4	2.6	2.5	1.6
France	1.9	2.2	2.3	2.1	2.2	1.7
Spain	1.8	3.4	3.0	3.0	3.0	1.7
Italy	1.8	3.0	3.0	2.1	2.6	1.9
Japan	0.8	0.3	0.2	n.a	-0.4	-0.4
China	3.3	5.5	6.4	6.5	4.7	3.3

(*) Harmonized indexes

Sources : IMF, Eurostat

percent a month earlier. In the major partner countries, inflation was up in Germany from 2.4 to 2.6 percent, stabilized at 3 percent in Spain, but decreased in France from 2.3 to 2.1 percent, and in Italy from 3 percent to 2.1 percent. In addition, the latest forecasts of the European Commission revealed a stable inflation in the euro area to 2.5 percent in August.

In emerging and developing economies, inflation remained at very high levels in July. It continued to accelerate in China, reaching a record high of 6.5 percent since 2008, mainly driven by surging food prices and continued demand pressures. Similarly, inflation in Brazil rose 6.6 percent in July from 6.4 percent a month earlier.

IMF short-term projections expect slowdown in inflation, notably in 2012, when prices would increase 1.2 percent, 1.8 percent and 3.3 percent in the United States, the euro area and China, respectively.

3.3 Morocco's import unit price index

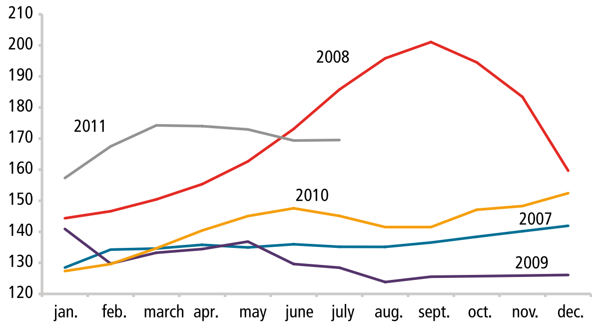
The latest available data show that the non-energy import price index (IPI) slightly rose at a monthly rate of 0.1 percent in July 2011, from a 2.1 percent decline in June. In fact, the mining IPI recorded a month-on-month increase of 0.8 percent, compared to stability a month earlier, mainly as a result of the 0.9 percent rise in the average unit import price of crude sulfur.

The IPI of semi-finished goods was up 0.3 percent, versus a decline of about 4 percent in June, mainly in conjunction with a 0.5 percent increase in the average unit import price of plastics.

At the same time, the food IPI slightly fell 0.03 percent, compared with a 2.6 percent decline in June. This trend mainly reflects the 0.1 percent decrease in the average unit import price of wheat.

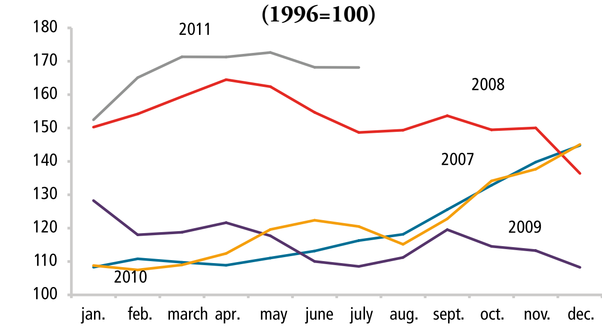
Year on year, non-energy import price index was up 16.8 percent in July, from 13 percent

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



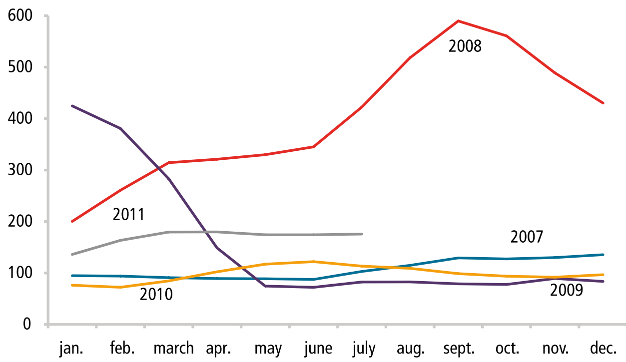
Sources: Foreign Exchange Office, and BAM calculations

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



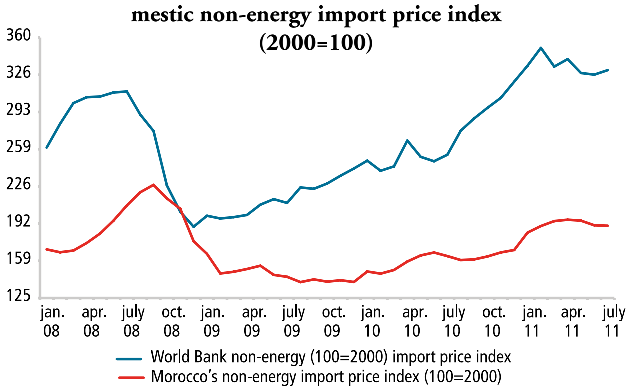
Sources: Foreign Exchange Office, and BAM calculations

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



Sources: Foreign Exchange Office, and BAM calculations

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 a year earlier. The mining IPI increased by 55 percent, mostly because of the significant expansion in the unit import price of sulfur, offset by the 5.4 percent decline in iron and steel unit import price. The food IPI was up 39.5 percent, mainly driven by the rise in the unit import price of wheat and corn by 45.8 percent and 38.3 percent, respectively. Meanwhile, the IPI of semi-finished goods posted a rise of 7.2 percent, following the 8.6 percent growth in the unit import price of plastics.

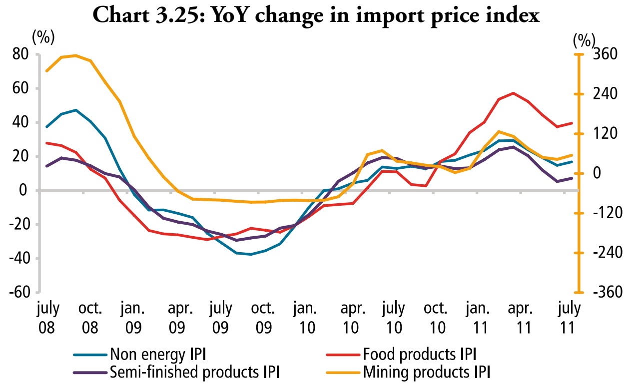
All of these elements indicate easing inflationary pressures from commodities. However, uncertainties still linger over the outlook for commodity prices.

Table 3.7: Change in import price index

	Monthly change in %			Annual change in %		
	May 11	June 11	July 11	May 11	June 11	July 11
Non energy IPI	-0.6	-2.1	0.10	19.2	14.8	16.8
Food IPI	0.8	-2.6	-0.03	44.3	37.5	39.5
Semi-finished products IPI	-1.0	-4.0	0.30	11.9	5.3	7.2
Mining IPI	-3.1	0.0	0.80	48.7	42.8	55.0

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 data for the month of July 2011 indicate slight increase in the annual growth rates of monetary and credit aggregates, and further reduction of the money gap. Indeed, after having virtually stabilized around 4.2 percent during the first two quarters of the year, the annual growth rate of M3 stood at 4.7 percent, mainly reflecting the continued gradual strengthening of demand deposits and investments as well as in time deposits with banks. Credit grew at a year-on-year rate of 7.1 percent, after an average of 6.5 percent in the previous quarter, primarily driven by the continued expansion in cash advances. Concerning lending rates, Bank Al-Maghrib's survey among banks for the second quarter of 2011 shows an increase of 7 basis points in the weighted average rate. This mostly reflects higher rates on real-estate loans and cash advances. The dirham's effective exchange rate slightly depreciated from one quarter to another in nominal terms, while in real terms the national currency depreciated more markedly, as the inflation rate in Morocco was lower than in the major trading partners and competitors. The real estate price index showed a quarterly decline of 1.6 percent following an increase of 2.1 percent a quarter earlier. Year on year, it was up 1.9 percent, down from 4.8 percent in the previous quarter.

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

4.1 Monetary conditions

4.1.1 Interest rates

In a context where inflation central forecast is consistent with the price stability objective and the balance of risks surrounding this forecast is slightly tilted to the upside, the Board of Bank Al-Maghrib decided, at its last meeting on June 14, 2011, to keep the key rate unchanged at 3.25 percent. Under these conditions, the interbank overnight rate averaged 3.28 percent in July and August 2011, virtually unchanged from the second quarter.

Meanwhile, rates on short, medium and long-term primary market Treasury bonds remained virtually unchanged in July 2011, after having broadly registered very slight decreases at the end of the second quarter. The same pattern of change was observed in the secondary market, both for short-term yields as well as for medium and long-term yields.

The weighted average of 6 and 12-month deposit rates increased at the same pace observed in the first quarter, reaching 3.60 percent, up 5 basis points between

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

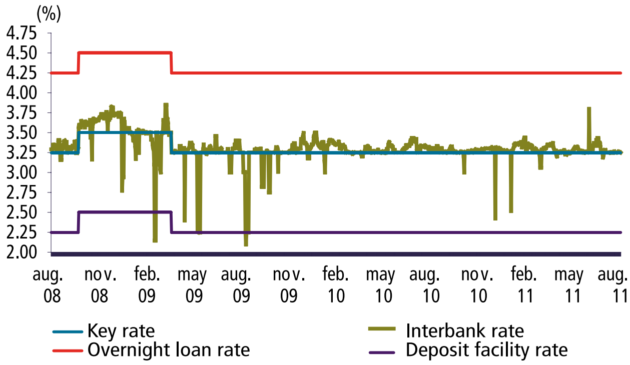


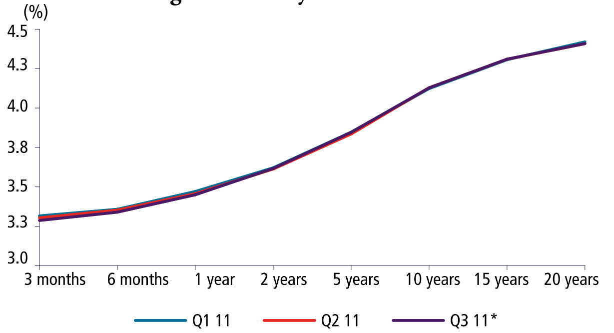
Table 4.1: Change in Treasury bond yields on the primary market

	2010				2011		
	Q1	Q2	Q3	Q4	Q1	Q2	July 2011
13 weeks	3.44	3.39	-	3.29	3.31	3.30	3.30
26 weeks	3.56	3.45	3.41	3.33	-	-	-
52 weeks	3.62	3.55	3.49	3.48	3.46	3.45	-
2 years	3.73	3.69	3.68	3.62	3.63	3.61	3.61
5 years	3.95	3.90	3.90	3.85	3.85	3.84	3.85
10 years	4.20	4.19	4.17	4.15	4.13	4.12	-
15 years	4.32	4.35	-	4.34	4.32	4.33	4.34

the second quarter and July 2011. This reflects higher interest rates on both 6 and 12-month deposits.

With regard to lending rates, BAM survey among banks for the second quarter of 2011 shows an increase of 7 basis points in the weighted average of bank lending rates, to 6.19 percent. This mainly reflects higher interest rates on real estate loans and cash advances. In contrast, rates on consumer loans again declined, and those of equipment loans were down after two quarters of increase.

Chart 4.2: Change in maturity structure of TB interest rates



**Observation of the third quarter of 2011 corresponds to the arithmetic average of data from July 1 to August 29, 2011*

Table 4.2: Rates on time deposits

	2010				2011		
	Q1	Q2	Q3	Q4	Q1	Q2	July 2011
6 months	3.28	3.32	3.32	3.33	3.28	3.34	3.38
12 months	3.65	3.64	3.71	3.77	3.79	3.72	3.77
Weighted average	3.48	3.48	3.59	3.60	3.60	3.55	3.60

Box 4.1: Liquidity and monetary policy implementation

In the second quarter of 2011, shortage in banks' liquidity widened 6 billion dirhams compared with the end of the previous quarter (from 15.6 to 21.6 billion dirhams), despite the decision of the Bank Board to exclude passbook accounts from the basis for calculating required reserves (+4.7 billion dirhams). Indeed, the autonomous factors (excluding Treasury intervention in the money market) had a very restrictive effect on banking liquidity of nearly 11.9 billion dirhams, mainly due to trading in foreign assets and net withdrawals of currency in circulation.

Transactions on foreign assets led to a liquidity drain of 6.5 billion dirhams resulting from the difference between purchases of foreign currencies by commercial banks with a total of 13.2 billion dirhams and sales of foreign banknotes, which reached 6.8 billion dirhams.

Similarly, currency in circulation increased by 3.3 billion dirhams, following cash outflows mainly in June reaching 1.9 billion dirhams at the start of the summer.

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

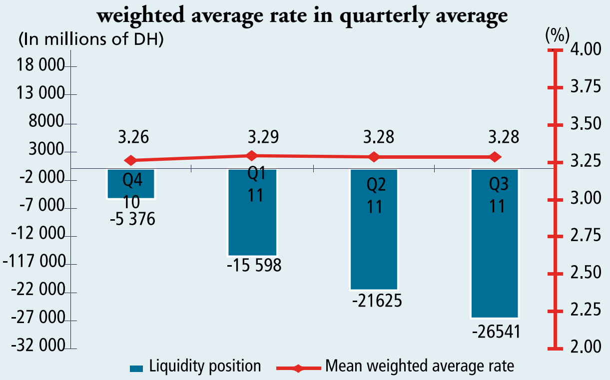
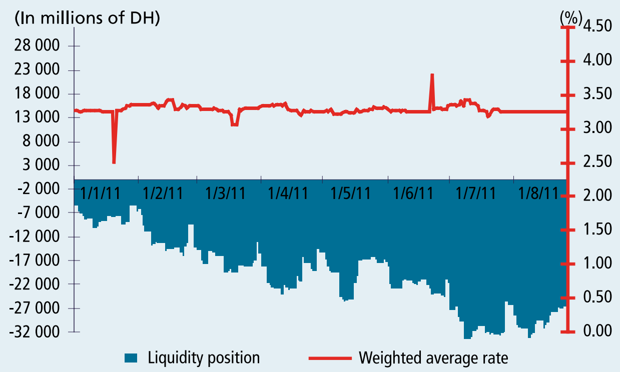


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



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

In the third quarter of 2011(2), lack of bank liquidity widened by 4.9 billion dirhams, mainly due to the restrictive impact of autonomous factors excluding Treasury interventions in the money market (-5.2 billion dirhams).

Chart B 4.1.3: Change in reserve requirements

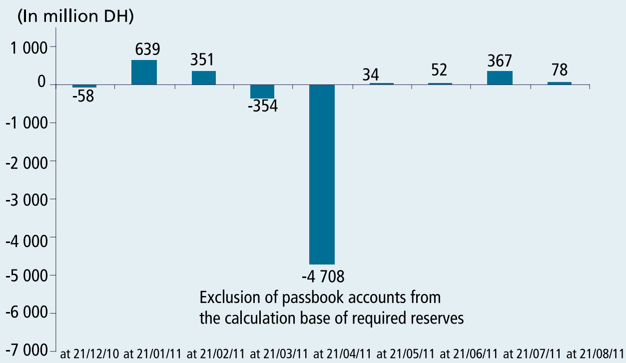
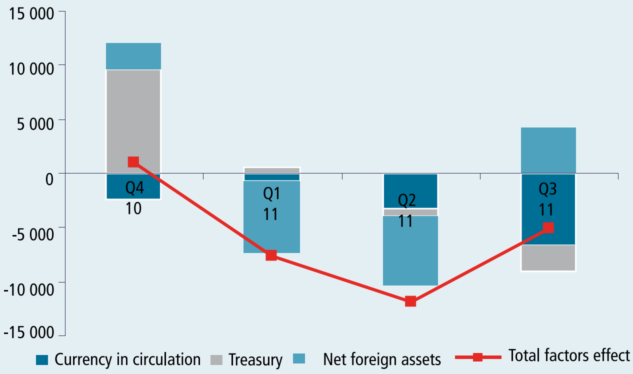


Chart B 4.1.4: Change in liquidity factors' effect



Currency in circulation grew by 6.6 billion dirhams in conjunction with school holidays and the month of Ramadan.

Moreover, Treasury operations exerted a negative impact of 2.5 billion dirhams on banks' liquidity because of bank purchases of Treasury bonds (11.2 billion dirhams) and the collection of the second installment of corporate tax for fiscal 2011 (10 billion dirhams), offset in part by repayments of domestic debt maturities to the banking system (10.9 billion dirhams) and the payment of subsidization expenses (6.6 billion dirhams).

However, transactions on foreign assets caused a liquidity injection of 4.2 billion dirhams resulting from the difference between sales of foreign banknotes, at 10.1 billion dirhams, and purchases of foreign currencies by commercial banks with a total of 5.9 billion dirhams.

During the third quarter, Treasury interventions in the money market had no impact on bank liquidity and involved an average daily outstanding amount of 2 billion dirhams, from 2.8 billion dirhams the previous quarter.

To fill the shortage in bank liquidity, which averaged 30 billion dirhams during the quarter (up from 20.6 billion the previous quarter), Bank Al-Maghrib intervened through the 7-day advances with an average daily amount of 28.5 billion dirhams, up from 18 billion a quarter earlier.

In the third quarter of 2011, the weighted average rate (WAR) stood at 3.28 percent on average, unchanged from the previous quarter. In addition, the WAR volatility fell 1 basis point from the level recorded in the second quarter 2011 to 6 basis points.

Chart B 4.1.5: BAM interventions on the money market

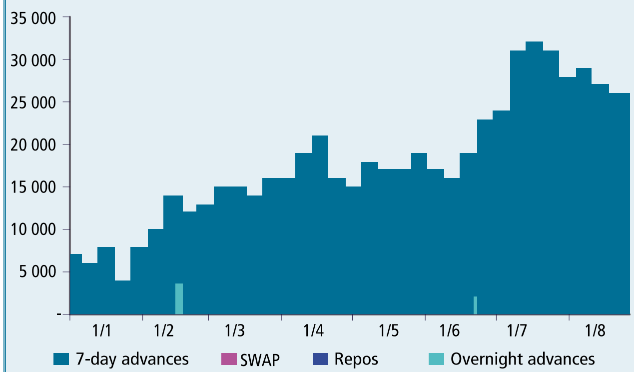
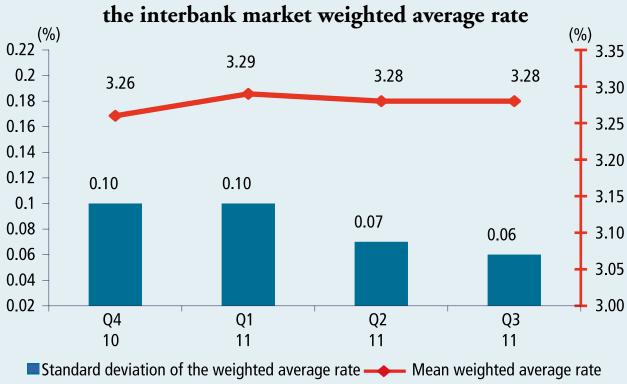


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



2The third quarter of 2011 only includes the period from July 1 to August 26.

4.1.2 Money, credit and liquid investments

M3 growth

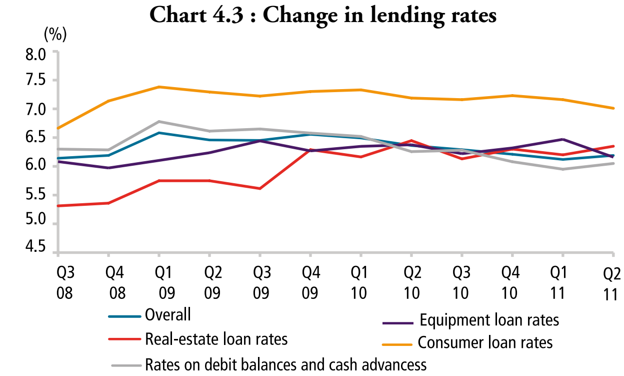
The pace of growth in money supply slightly accelerated in July to 4.7 percent year on year, after virtual stagnating around 4.2 percent in the first two quarters of the year. Although this development caused money surplus to narrow less rapidly, inflationary pressures from the monetary sphere remain broadly contained over the medium term.

Claims on the economy continue to make the largest contribution to growth in money supply, compared with other counterparts, whose contributions remain much lower, as in the last two quarters.

The change in M3 by type of cash reveals an increase in currency in circulation at a rate slightly lower than in the second quarter 2011, at 9.1 percent as against 9.4 percent. Bank money, despite a monthly downward adjustment in July, registered a 4.2 percent increase year on year, after 3.7 percent in the previous quarter. Time deposits with banks and demand deposits were up 4.5 percent and 8.8 percent in July, respectively, from 3.8 percent and 8.1 percent a quarter earlier. Certificates of deposit continued to grow at a strong annual pace, mostly on the back of their greater appeal amid continued tightening of bank liquidity and moderate growth in deposit resources. However, the securities of money market UCITS, which are characterized by a high degree of volatility in the short run, again adversely affected the pace of money creation, registering an annual contraction of almost 17 percent in July, mainly due to a base effect.

The sectoral breakdown of deposits included in money supply continues to show an increase in the contribution of household deposits, particularly their

Chart 4.3 : Change in lending rates



Source: BAM monthly survey among banks

Chart 4.4: Change in interbank rate and lending rates

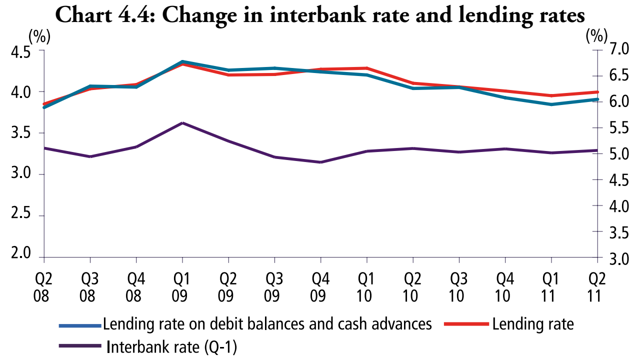


Chart 4.5: YoY M3 growth and its trend

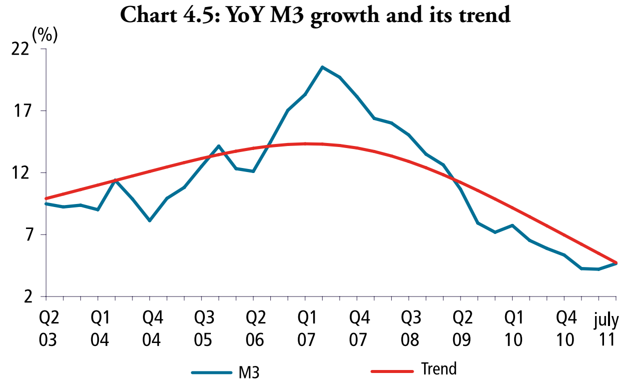
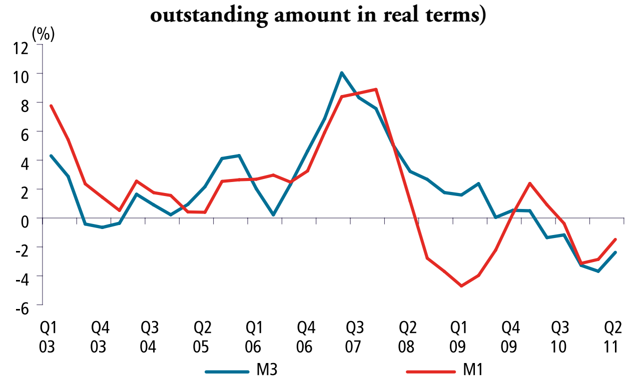


Chart 4.6: Money gap (in percentage of M3 and M1 balance outstanding amount in real terms)



demand deposits with banks which grew in July at an annual rate slightly higher than the previous quarter, reaching 6.8 percent instead of 6.4 percent. Public sector deposits further increased, resulting in an adjustment of their contribution to the growth of total deposits. The contribution of private nonfinancial corporations' deposits was less significant, while that of financial sectors' deposits remained negative, thus continuing the trend observed in recent quarters.

Bank loans

The latest available data show a slight rise in the annual growth rate of bank lending to 7.1 percent in July, from 6.4 percent and 6.5 percent in the first and second quarters 2011, respectively.

By economic purpose, credit growth was mainly driven by the growth in cash advances. The latter increased by 16 percent in July up from 11 percent in the second quarter, continuing the upward trend that began in the fourth quarter of 2010. This development is linked both to the lingering effect of the increase recorded in June[1] as well as to a base effect. In contrast, the annual growth rate of equipment loans again slowed down, from 11.4 percent in the previous quarter to 7.4 percent in July, in part reflecting a base effect linked to the strong growth seen a year earlier. Similarly, real estate loans slowed down somewhat, growing at an annual rate of 8.8 percent, down from 9 percent. This development again includes a lesser annual increase in home loans, down from 11.5 percent in the second quarter of 2011 to 10.4 percent in July, and a slight increase in the annual growth rate of loans to property developers, to 4.2 percent from 3.6 percent and 3 percent in the last two quarters. The annual growth rate of consumer loans fell to

1 *In June 2011, cash advances increased significantly in relation to the high demand from some companies operating in the industrial sector, mainly oil, and in transportation and telecommunication.*

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

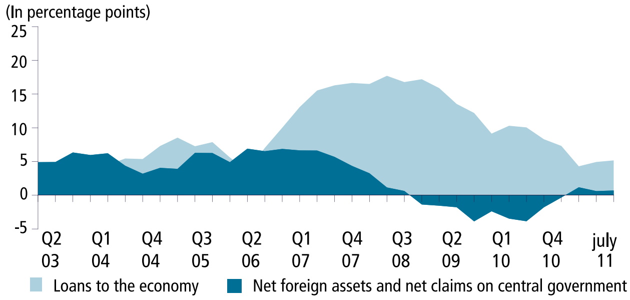


Chart 4.8: YoY change in the major M3 components

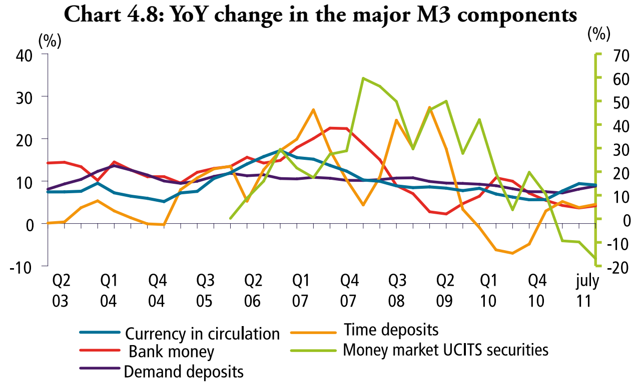


Chart 4.9: Institutional sectors' contribution to total deposits' growth

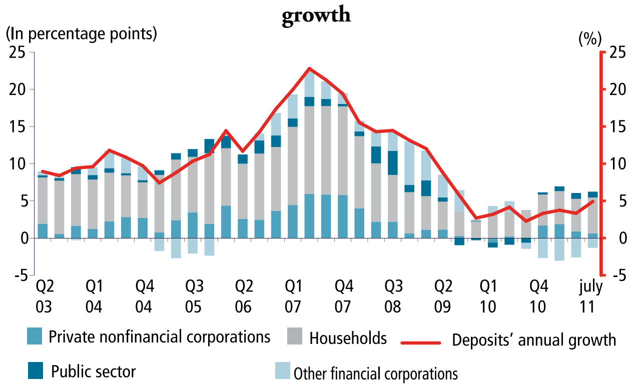
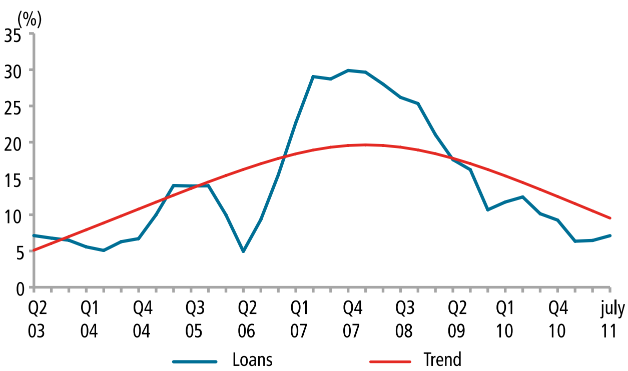


Chart 4.10: YoY growth and trend of bank loans



5.4 percent in July after 5.8 percent the previous quarter, thereby continuing the slowdown that began several quarters before. The various claims on customers showed a new annual decline of 7.5 percent in July, which resulted in maintaining their negative contribution to the growth of total credit since the first quarter of 2011.

Analysis of loans structure by institutional sector in July revealed an annual expansion of 17.8 percent in loans to the public sector, well above the 3.5 percent registered in the second quarter of 2011, thereby contributing 0.8 percentage point to overall credit growth, instead of only 0.2 point a quarter earlier. Loans to private nonfinancial corporations, despite the deceleration in their annual growth rate from 15.4 percent to 14.4 percent, continue to make the largest contribution, amounting to 6.5 percentage points in July, as against 6.9 points in the previous quarter. Similarly, the annual growth rate of loans to households fell from 2.5 percent in the second quarter to 1.9 percent in July. Therefore, their contribution to the growth of bank credit reached 0.7 percentage point instead of 0.9 point. Loans to other financial corporations fell 7.9 percent in July, which remains less pronounced than the 10.8 percent seen in the second quarter.

Other sources of money creation

In the second quarter of 2011, the annual growth rate of net foreign assets fell to 0.5 percent after 4.6 percent in the first quarter, primarily related to the widening trade deficit and higher transfer of dividends abroad. In July, these reserves increased by a mere 0.2 percent year on year, despite a monthly rise of 2.2 percent. This change covers a slower growth in net foreign assets of

Chart 4.11: YoY growth of major bank loan categories

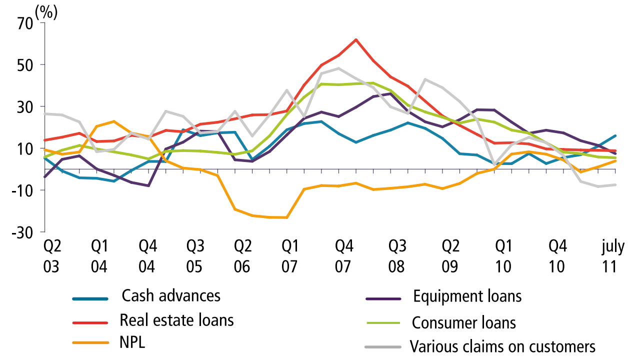


Chart 4.12: Contribution of the various loan categories to credit growth, YoY

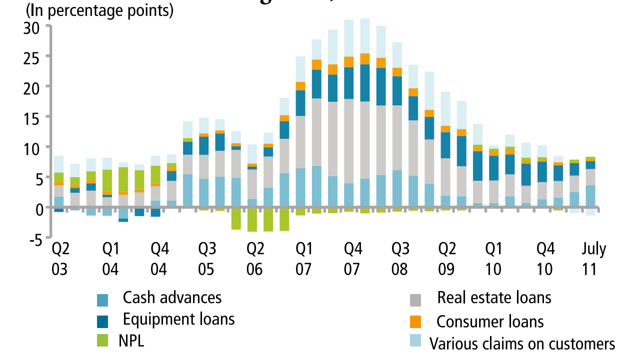


Chart 4.13: Contribution of institutional sectors to credit growth, YoY

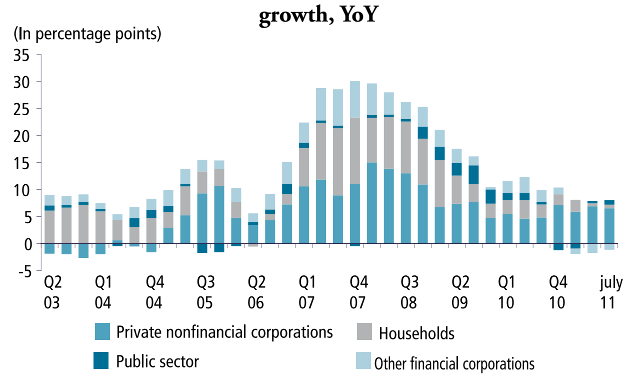
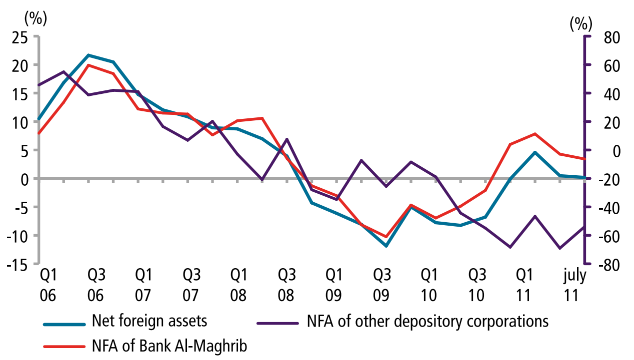


Chart 4.14: Annual growth of net foreign assets



Bank Al-Maghrib and a less rapid decline in those of other depository corporations.

Net claims on central government registered an annual increase of 7.2 percent in July, up from 5.7 percent a quarter earlier, mainly reflecting the higher recourse of the central government to other depository corporations.

Liquid investments

Although slowing from one quarter to another, total liquid investment aggregates grew at an annual rate of 12.3 percent in July, following 11.2 percent in the previous quarter.

This trend is mainly driven by the change in assets included in the LI1 aggregate, particularly marketable Treasury bonds, the annual growth rate of which accelerated from 8.3 percent in the previous quarter to 15.8 percent in July. However, the growth rate of bond UCITS securities, included in the LI2 aggregate, continued its downward trend, falling to 6.7 percent, from 21 percent and 15.1 percent in the first and second quarters of 2011, respectively. Similarly, the annual growth in the securities of equity and diversified UCITS, included in the LI3 aggregate, declined from 7.8 percent in the second quarter to 5.4 percent in July, reflecting stocks underperformance on the Casablanca stock exchange.

Exchange rate

At the end of the second quarter of 2011 and compared with the previous quarter, the national currency depreciated 0.87 percent against the euro. On the opposite, it appreciated 4.30 percent and 2.46 percent vis-à-vis the U.S. dollar and the pound sterling, respectively.

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

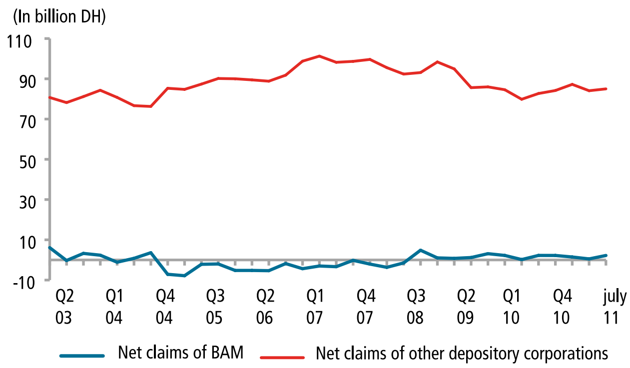


Chart 4.16: YoY change in liquid investments and time deposits

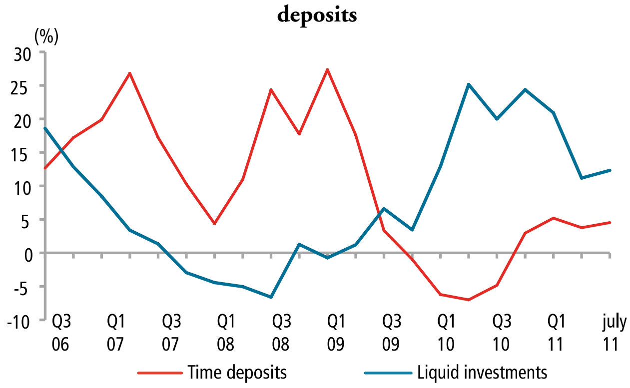


Chart 4.17: YoY change in LI1 and LI2 aggregates

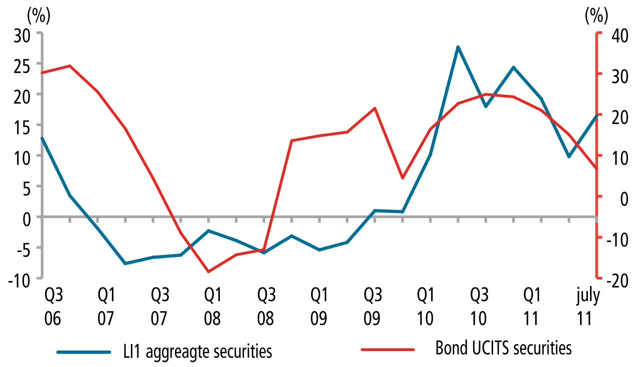
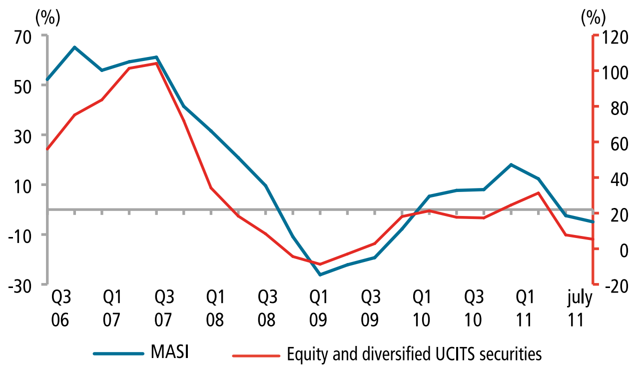


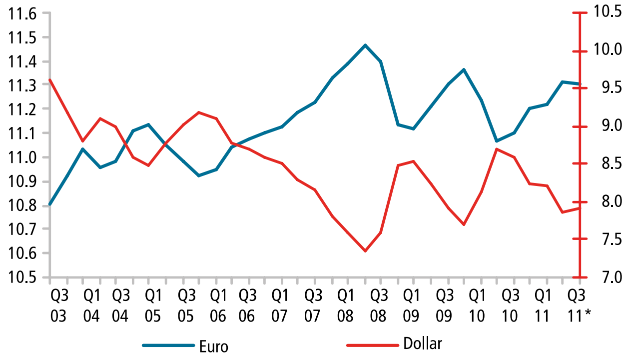
Chart 4.18: YoY growth of LI3 and MASI



On average over the months of July and August and compared with the previous quarter, the dirham increased 0.10 percent against the euro and decreased 0.55 percent and 0.12 percent against the dollar and the pound sterling, respectively.

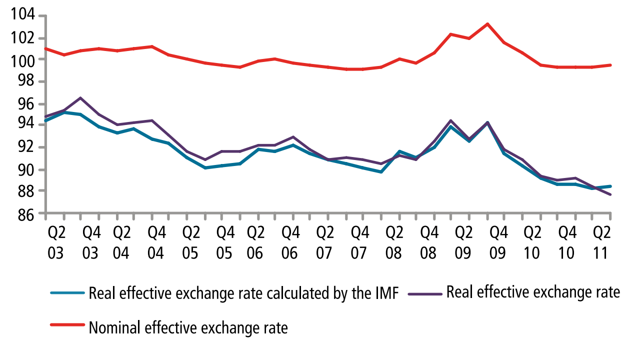
The nominal effective exchange rate of the dirham, calculated on the basis of bilateral exchange rates with Morocco's major partners and competitors, slightly depreciated at a quarterly rate of 0.13 percent. In real terms, the national currency depreciated more significantly, reaching 0.75 percent, as inflation rate in Morocco was generally lower than that of major trading partners and competitors.

Chart 4.19: Exchange rate of the dirham



**Observation of the third quarter of 2011 corresponds to the arithmetic average of data from July 1 to August 30, 2011*

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



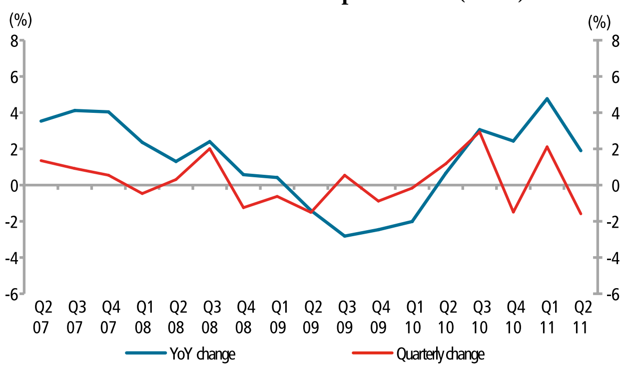
Source: IMF and BAM calculations

4.2. Asset prices

4.2.1 Real estate assets

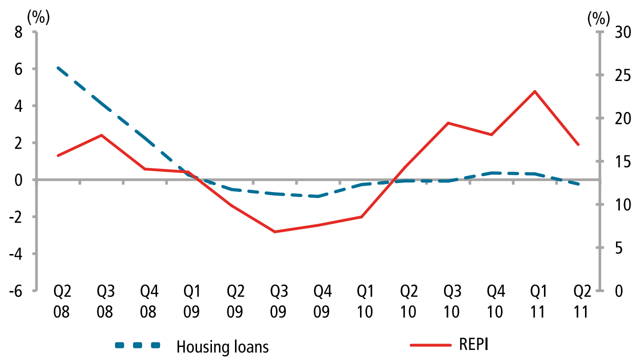
At the end of the second quarter 2011, the real estate price index[1] (REPI) points to a quarterly decline of 1.6 percent after an increase of 2.1 percent a quarter earlier. This decrease is primarily related to the contraction in the prices of land and commercial property. Year on year, prices continued the upward trend that started in the second quarter of 2010, with a rate of 1.9 percent. This development includes a 3.8 percent increase in residential property prices and a decline of 2.2 percent and 2 percent in those of land and commercial property, respectively.

Chart 4.21: Real estate price index (REPI)



In addition, the number of property sales registered at the ANCFCC, captured 35 days after the end of the second quarter, fell 17.5 percent to 15,938 transactions. This decline reflects lower sales of all categories.

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



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

Meanwhile, housing loans increased during the second quarter of 2011 at an annual rate lower than the previous

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.

quarter, at 11.5 percent instead of 12.1 percent. The real estate stock market index has lost 11.3 percent since the beginning of the year.

4.2.2 Stock prices

Like the previous quarter, the MASI was down 5.4 percent in the second quarter 2011 and up 2.8 percent in August. Also, its counter-performance since the beginning of the year was at 9 percent. Concerning more particularly the real-estate sector index, it fell 6.7 percent in the second quarter 2011 and 3.9 percent in August.

At the same time, market capitalization decreased at a quarterly rate of 5.6 percent to 525.6 billion dirhams in the second quarter of 2011. However, it increased in August to 528.4 billion dirhams.

Similarly, the PER[1] of the Casablanca stock market fell from one quarter to the next, from 16.6 to 16.1, however reaching 16.7 in August. It thus remains relatively high compared to other markets of comparable size. The price to book ratio[2], at 3.8 in August, remains among the highest compared to other markets.

The trading volume stood at 14.7[3] billion dirhams in the second quarter 2011, down from 47.7 billion a quarter earlier. It totaled 8 billion dirhams at the end of August.

Sectoral indexes broadly trended downward. Indeed, only the stock market indexes of mining, oil and gas and holding companies appreciated by 14 percent, 7.9 percent and 2.7 percent,

1 PER : Price Earnings Ratio

2 Price to book ratio is the ratio of the stock's market value (market capitalization) compared to its book value.

3 As of January 3, 2011, to comply with international standards, the Casablanca Stock Exchange changed the publication of the trading volume, which is published on a unidirectional basis (purchase) instead of a bidirectional basis (purchase and sale).

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

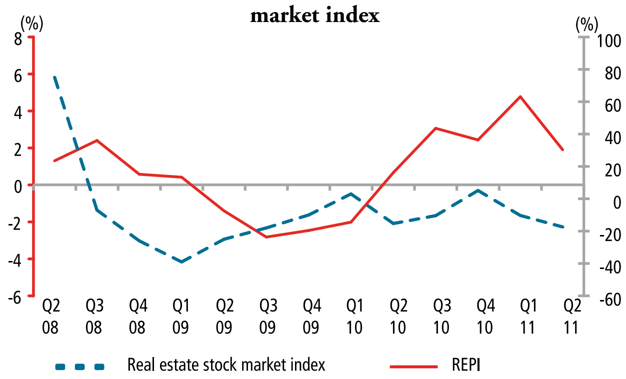


Chart 4.24: Stock market indexes

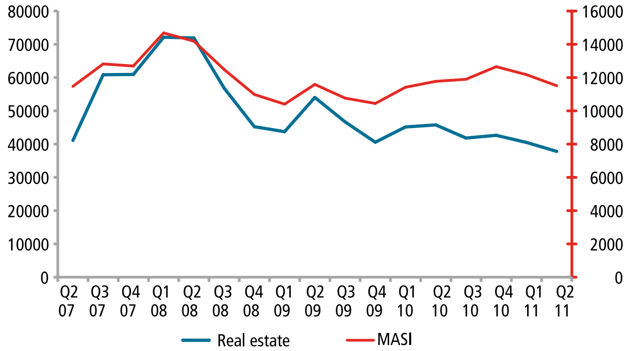
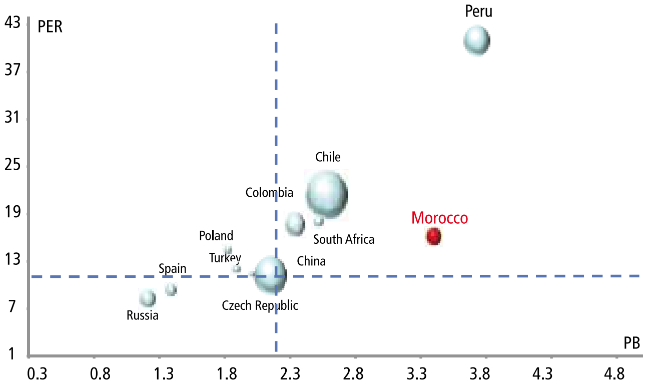


Table 4.3: Equity market's PER

PER	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	August 2011
Argentina	17.5	12.9	11.1	12.7	13.4	11.5	10.1
Brazil	16.4	14.9	14.7	14.8	14.2	11.9	10.7
Mexico	17.1	13.5	14.3	15.7	15.3	13.4	12.7
Turkey	11.0	12.6	11.5	13.5	12.8	12.0	11.3
Morocco	**16.9**	**18.1**	**17.7**	**19.1**	**16.6**	**16.1**	**16.7**

Sources: Datastream and CFG

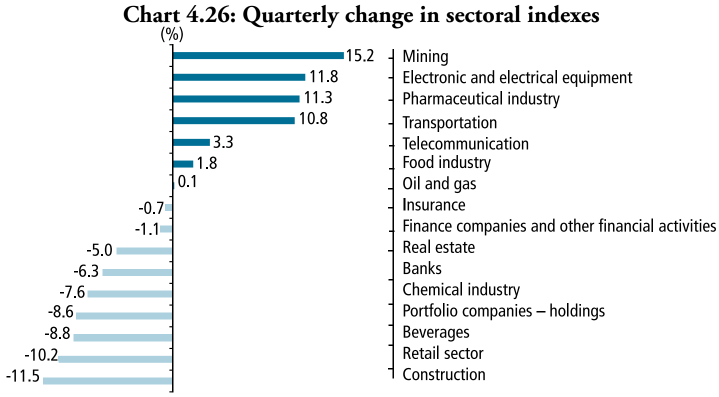
Chart 4.25: Equity market's PER in Morocco and in some emerging countries (*) at the end of June 2011



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

Sources: Datastream, CFG, and BAM calculations respectively, while the index of the beverages sector remained almost stable. However, other indexes showed decreases ranging from 0.8 percent for the retail sector to 10.9 percent in the entertainment and hotels sector.

Chart 4.26: Quarterly change in sectoral indexes



Source: Casablanca stock exchange

5. RECENT INFLATION TRENDS

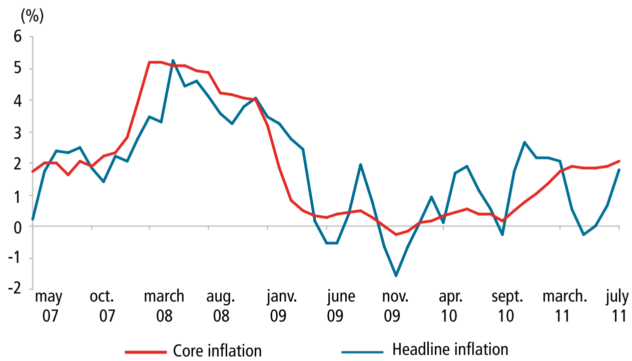
Recent data confirm the assessment made in the previous monetary policy reports (MPR), which predicted a trend in line with price stability over the medium term, characterized however by large monthly fluctuations in headline inflation and a continued uptrend in core inflation. Reflecting base effects and one-off shocks to some food volatile prices, headline inflation slowed down sharply to 0.2 percent in the second quarter, before rising to 1.8 percent in July. Core inflation (CPIX) was 2 percent after 1.9 percent in June, in conjunction with the 2.6 percent increase in the price index of tradable goods included in the CPIX (CPIXT), itself reflecting the delayed transmission of the change in world food prices and inflation in major trading partners. In contrast, inflation of nontradable goods (CPIXNT) remained at 1.4 percent, reflecting the continued moderation in domestic demand pressures. Although less strong than in 2008, the rise in commodity prices continues to impact industrial producer prices, the index of which rose 0.3 percent between June and July and 14.5 percent year on year.

5.1 Inflation trends

After standing at 0 percent in May and 0.7 percent in June, headline inflation, measured by the annual change in the consumer price index (CPI) reached 1.8 percent in July 2011, averaging 0.9 percent over the first seven months of the year, from 0.7 percent in the same period of last year. This recent trend in inflation reflects the change in the prices of the "volatile food" component which grew from -4.6 percent in June to 3.0 percent in July, as well as the slight increase of core inflation.

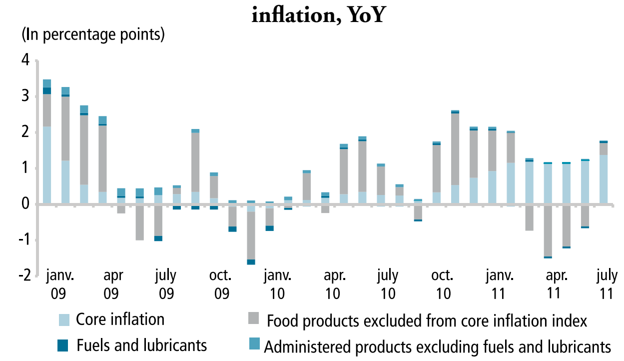
The impact of supply shocks on volatile food prices, which is considered broadly neutral over the medium term, remains noticeable on the monthly and quarterly fluctuations of inflation. In addition to the accelerated growth of fresh fish prices from 11.5 percent to 16.2 percent, the 3 percent increase in "volatile food" prices reflects the rise in fresh vegetable prices (+ 6.7 percent from -15.7 percent) and the lesser decline in fresh fruit prices from -4.9 percent to -0.8 percent. The prices of regulated goods excluding fuel and lubricants increased 0.1 percent, unchanged from the previous month, in conjunction with the stability of prices for key products in this category, particularly tobacco, electricity and pharmaceuticals. In contrast, prices of fuel and lubricants did not change, in a context of continued freezing of the indexation mechanism of petroleum product prices.

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

Core inflation (CPIX), which excludes volatile food and regulated products, stood at 2 percent after 1.9 percent in June. The absolute gap between headline inflation and core inflation eased to 0.3 percentage points in July, down from about 1.8 to 1.2 percentage points in May and June, respectively.

Analysis of the major components shows that recent changes in core inflation were mainly due to the faster growth in food prices that are included therein and those of clothing and footwear (+1.8 percent compared with +1.5 percent). The rise in the prices of certain components slowed down slightly, particularly those of "miscellaneous goods and services" (+1.8 percent versus +2 percent) and "restaurants and hotels" (+1.5 percent versus +1.6 percent). It should be noted that since January 2011, the CPIX has trended upward but slowed somewhat since last March. Thus, over the first seven months of 2011, core inflation averaged 1.8 percent from 0.3 percent a year earlier, in connection with higher prices of some basic foodstuffs, particularly cereal-based products (+2.1 percent versus -1.6 percent), oils and fats (+12.8 percent versus -0.8 percent) and milk (+0.4 percent instead of +0.1 percent).

Table 5.1: Inflation and its components

	Monthly change (%)			YoY(%)		
	May 11	June 11	July 11	May 11	June 11	July 11
Headline inflation	**0.3**	**-0.4**	**0.6**	**0.0**	**0.7**	**1.8**
Including:						
- Volatile food products excluded from core inflation	2.2	-3.6	3.5	-8.2	-4.6	3.0
- Fuels and lubricants	0.0	0.0	0.0	0.0	0.0	0.0
- Administered goods excluding fuels and lubricants	0.0	0.0	0.0	0.1	0.1	0.1
Core inflation	**0.2**	**0.3**	**0.3**	**1.8**	**1.9**	**2.0**
Including:						
- Food products	-0.1	0.2	0.4	3.1	3.2	3.5
- Clothing and footwear	0.0	0.0	0.1	1.3	1.5	1.8
- Housing, water, gas, electricity and other fuels*	0.1	0.0	0.1	0.9	0.8	0.9
- Furniture, household appliances and common house maintenance	0.2	0.0	0.1	0.9	0.8	1.0
- Health*	0.0	0.0	0.0	0.2	0.2	0.2
- Transportation*	0.1	-0.2	-0.1	-0.5	-0.6	-0.7
- Communication	0.0	0.0	0.0	-1.4	-1.4	-1.4
- Entertainment and culture	0.0	-0.1	0.0	-0.8	-0.6	-0.5
- Education	0.0	0.0	0.0	4.6	4.6	4.6
- Restaurants and hotels	0.1	0.7	0.2	1.1	1.6	1.5
- Miscellaneous goods and services	0.0	0.1	0.1	2.0	2.0	1.8

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

5.2 Tradable and nontradable goods

Detailed analysis of the change in goods prices by category of tradables and nontradables indicates that core inflation is driven to a large extent by the trend in the prices of tradable goods, which is in turn impacted by inflation of our major trading partners and the high commodity prices.

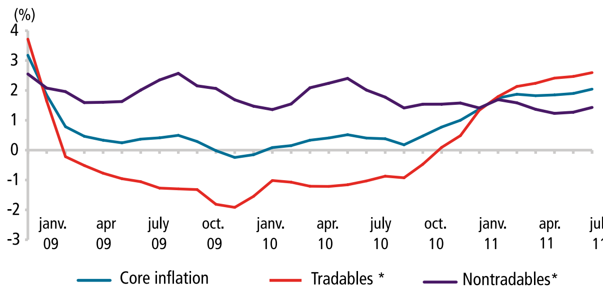
Indeed, inflation of tradable goods (CPIXT) reached 2.5 percent and 2.6 percent in June and July 2011, thus averaging 2.1 percent over the first seven months of the year instead of -1.2 percent over the same period last year. The increase mainly concerned cereal-based products, oils and fats and tea that contributed 64 percent to the rise in the inflation of this category.

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	July 2009	Jan. 2009	Apr. 2010	Oct. 2010	Jan. 2011	Avr. 2011	July 2011
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	3074	3074	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

At the same time, the price index of nontradables excluding volatile and regulated goods (CPIXNT) continues to denote the absence of significant inflationary pressures at the domestic level. It registered an annual increase of 1.2 percent in May, 1.3 percent in June and 1.4 percent in July, compared with an average rate of 2.2 percent for the same months of 2010. By product, this recent trend primarily reflects the slower rise in the prices of "fresh meat", "rent actually paid" and "restaurants, cafes and similar institutions".

5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that headline inflation is still influenced to a large extent by the trend in the prices of unprocessed goods. After successive declines over the last four months, prices in this category, whose profile is largely conditioned by changes in volatile food products, recorded an annual increase of 2.7 percent in July and positively contributed 0.6 points to inflation instead of -0.5 points a month earlier.

Prices of processed goods excluding fuel and lubricants grew by 2 percent after 1.9 percent in June, averaging 1.7 percent over the first seven months of 2011. The contribution of this category of goods to the change in the overall index is estimated at 0.9 percentage points.

Prices of services increased at a rate almost identical to the previous three months, at 0.9 percent, thus contributing 0.3 points to inflation. Meanwhile, prices of fuel and lubricants stagnated since June 2010 compared to levels seen a year earlier.

5.4 Industrial producer price index

The data of the manufacturing producer price index in July come in line with

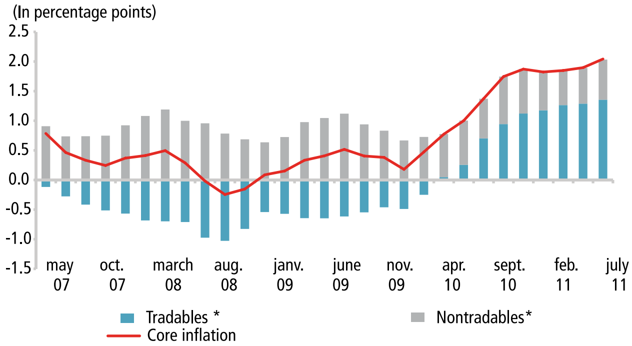
Table 5.3: Change in tradables* and nontradables* price indexes

	Monthly change (%)			YoY change (%)		
	May 11	June 11	July 11	May 11	June 11	July 11
Tradables	0.1	0.0	0.2	2.4	2.5	2.6
Nontradables	-0.1	0.2	0.1	1.2	1.3	1.4

** Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

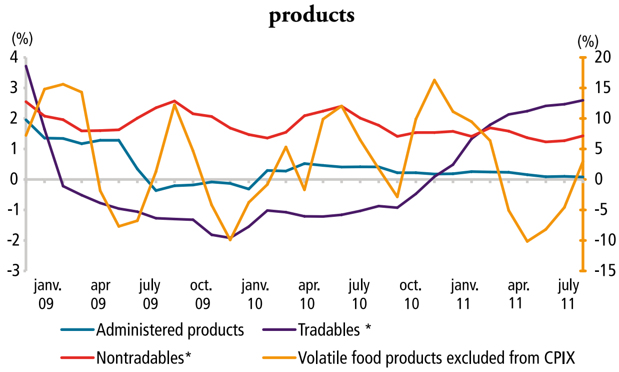
Chart 5.4: Contribution of tradables* and nontradables* to core inflation (YoY)



** Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

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



** Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

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

	Monthly contribution to inflation		YoY contribution to inflation	
	June 11	July 11	June 11	July 11
Products excluded from core inflation index	-0.5	0.4	-0.6	0.4
Including:				
Administered products	0.0	0.0	0.0	0.0
Volatile food products	-0.5	0.4	-0.6	0.4
Tradables*	0.0	0.1	0.9	0.9
Nontradables*	0.1	0.0	0.4	0.5

** Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

corporate managers' anticipations gathered as part of Bank Al-Maghrib's business survey of June, who projected a lull in the rise of production costs. The data thus indicate a slight monthly increase of 0.3 percent in the general manufacturing producer price index calculated on the basis of ex-factory prices excluding taxes and subsidies.

This development, which occurs in a context marked by still high commodity prices and persistent inflationary pressures in most emerging economies, reflects a slowdown in the decline of prices for coking and refining industry (-0.1 percent instead of -2.8 percent in June) and a 0.5 percent increase in other sectors. The change observed in non-refining producer prices is largely driven by the 1.5 percent increase in prices of the food industry.

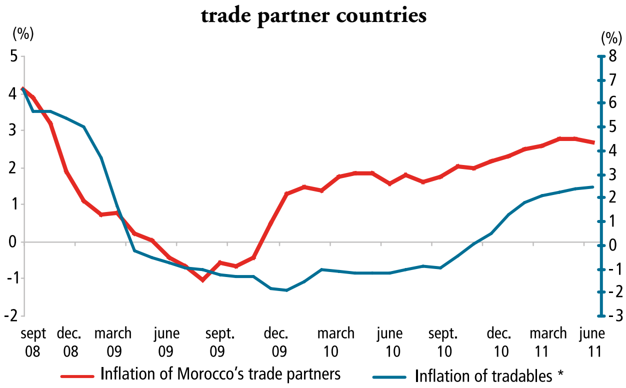
Year on year, the reference index appreciated 14.4 percent in July from 14.5 percent in June and 14.1 percent in May, covering the slightly slower rise in the prices of the coking and refining industry (+28.3 percent versus +29.7 percent) and the accelerated increase in the food industry prices (+4.3 percent versus +3.0 percent).

5.5 Inflation expectations

The results of Bank Al-Maghrib business survey in July 2011 show that the prices of industrial products are expected to remain moderate, as evidenced by the increase in the percentage of corporate managers who anticipated stagnation, from 66 percent in June to 88 percent in July, while it averaged 67 percent during the first five months of 2011. This moderation is also confirmed by the lower proportion of corporate managers who expected an increase in industrial prices (see Chart 5.11).

Meanwhile, survey results highlight the continued moderation in inflation over the next three months. Indeed, the percentage of corporate managers who anticipated stagnation stood at 71 percent in July as

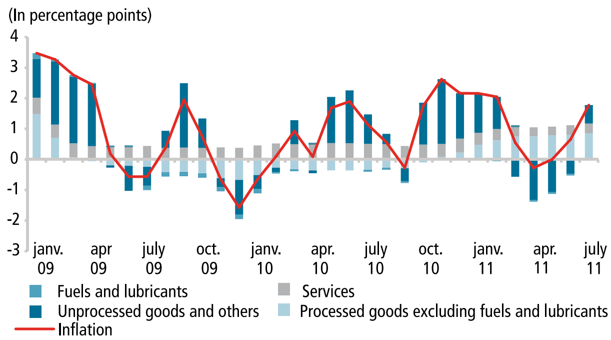
Chart 5.6: YoY change in inflation of tradables* and inflation in trade partner countries



** Excluding volatile food and administered products*

Sources: HCP, IFS, and BAM calculations

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



Sources: HCP, and BAM calculations

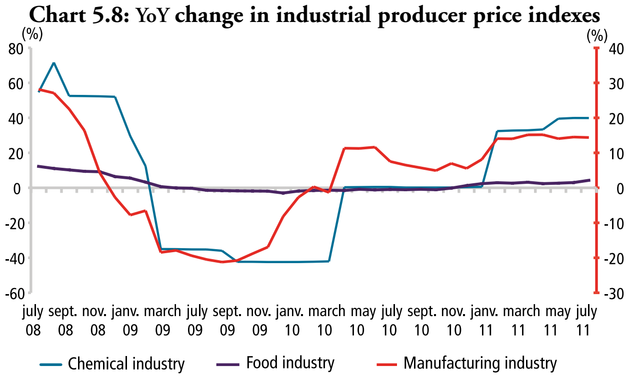
Table 5.5: Price indexes for goods and services

	Monthly change (%)			YoY change (%)		
	May 11	June 11	July 11	May 11	June 11	July 11
Processed goods*	0.0	-0.1	0.2	2.0	1.9	2.0
Unprocessed goods and others	1.1	-1.8	2.3	-4.5	-2.1	2.7
Services	0.0	0.1	0.0	0.9	1.0	0.9
Fuels and lubricants	0.0	0.0	0.0	0.0	0.0	0.0

** Excluding fuels and lubricants*

Sources: HCP, and BAM calculations

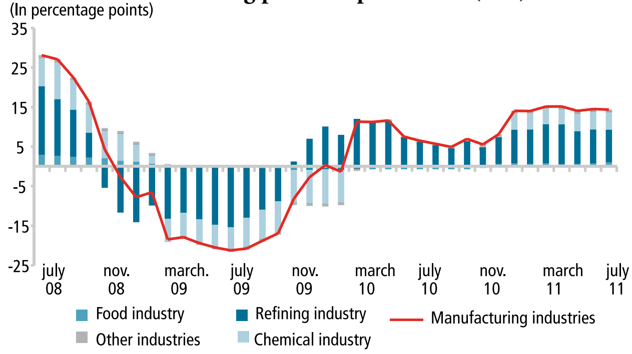
Chart 5.8: YoY change in industrial producer price indexes



Sources: HCP, and BAM calculations

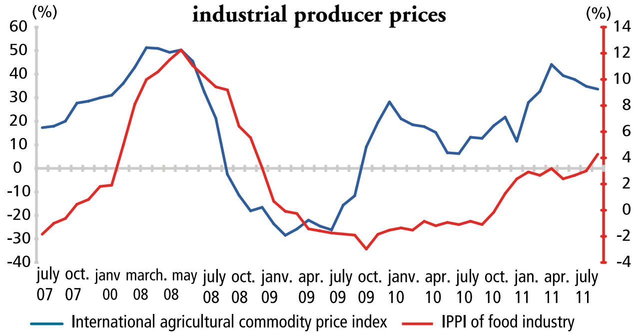
against an average of 64 percent in the first half of 2011. At the same time, the share of those who expected an increase edged down, while the proportion of corporate managers expecting a decrease remained stable throughout the period of 2011 (see Chart 5.12).

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



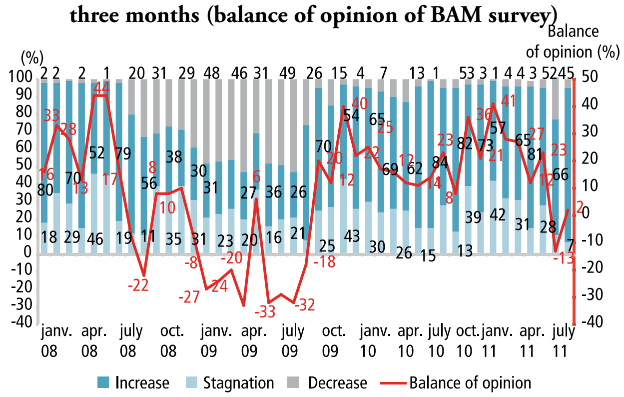
Sources: HCP, and BAM calculations

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



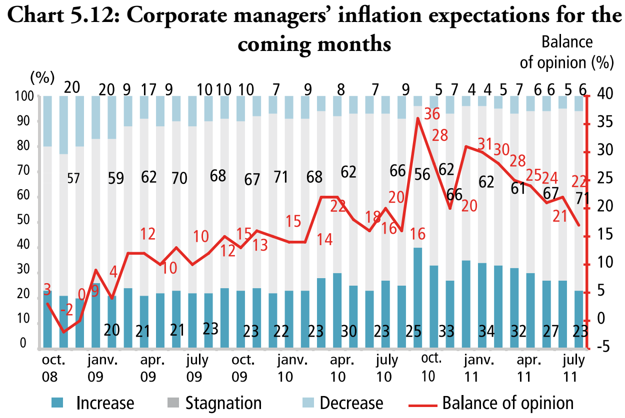
Sources: World Bank, HCP, and BAM calculations

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



Source: BAM monthly business survey

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



Source: BAM monthly business survey

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 2 percent, substantially similar to the average rate expected in the last Monetary Policy Report (1.9 percent). For the full year 2011, inflation should be around 1.3 percent instead of 1.4 percent. For the year 2012, inflation would average 2.1 percent. The balance of risks to this forecast exercise is slightly tilted to the downside, amid slowing global economic activity and assuming the continuation of fuel prices at the pump at their current level.

6.1 Baseline scenario assumptions

6.1.1 International environment

After a broadly favorable outlook, the international economic environment in the second quarter of this year was marked by a slowdown of growth in major advanced economies. On the opposite, emerging markets still exhibit high growth rates, though the risks of overheating are becoming more pressing.

The slower growth in developed countries results from a context marked by supply chain problems in manufacturing following the natural disasters that hit Japan, a more moderate private consumption and the contraction of real household income in connection with the higher prices due to the rise in prices of energy products during the first months of the year.

The financial sector did not report better prospects. Indeed, confidence deteriorated considerably with the risks hanging over the debt sustainability of euro area peripheral countries and the United States whose sovereign rating was lowered in the third quarter by Standard & Poor's rating agency. Thus, the trend in financial markets was characterized by higher credit default swap spreads and significant drop in stock prices.

Despite the combination of all these factors that exerted strong pressure on production, the euro area and the United States continued to register positive growth rates of 1.7 percent and 1.6 percent, respectively, in the second quarter of 2011. This performance is attributable to the momentum in exports, in connection with strong demand from emerging markets and the resilience of private demand for durable consumer goods and investment. The latter was mainly driven by the confidence of households and corporate managers which remains broadly favorable.

With regard to growth prospects, the International Monetary Fund, in its latest projections for the current year, expects a growth rate of around 1.9 percent in the euro area and 1.6 percent in the United States, which represents a significant revision from the projections of June in which it predicted 2 percent for the euro area and 2.5 percent for the U.S. economy. For the year 2012, the forecasts also point to a downward revision. Indeed, growth would reach 2 percent instead of 2.7 percent in the United States and 1.4 percent versus 1.7 percent in the euro area.

Risks to global growth outlook increased considerably from the last Monetary Policy Report, and are titled to the downside. Indeed, markets remain concerned about the fiscal vulnerabilities affecting some euro area countries which may impact the soundness of banks' balance sheets that are already fragile because of their low capitalization. Moreover, the deterioration of these economies' fundamentals could trigger a sudden loss of investor confidence in the sustainability of their debt.

Meanwhile, the fiscal adjustments undertaken by advanced countries, in particular the United States, Britain and France, although essential, may compromise economic growth if the confidence of households and corporate managers decreases significantly.

In the emerging countries, financial vulnerabilities, external imbalances and the tightening of monetary policy that rapid credit growth could induce are additional risks to the global economic downturn.

Given these developments, the weighted growth rates of our major trading partners (France, Germany, Italy, Spain and the UK) adopted in this MPR are about 1.4 percent in 2011 and in 2012. Compared to those presented in the June MPR (1.5 percent in 2011 and 1.7 percent in 2012), these assumptions were revised downward in light of less favorable global economic outlook. It should be noted that the United Kingdom was included among the main partner countries due to the growing importance of trade it has with Morocco. Finally, it is also worth noting that this growth rate is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

Although prices in the euro area trended downward in recent months, following increases early 2011 which forced the ECB to raise its key rate, inflation remains always above 2 percent. This momentum results from higher energy and commodity prices which, despite their significant deceleration, remain elevated.

In this context, the ECB anticipates in its September bulletin an inflation rate of 2.6 percent in 2011 and 1.7 percent in 2012. Risks to the future trend of inflation in the euro area are balanced. Indeed, fears of a higher-than-expected rise in energy prices as well as of potential increases in indirect taxes and regulated prices because of fiscal adjustments are offset by the impact of a lower-than-expected growth in the euro area.

Regarding the three-month Euribor, the baseline scenario of this forecast assumes a rate of 1.31 percent for the second half of the year. This rate is expected to decline gradually, reaching an average of 1.03 percent and 1.07 percent in the first and second half of 2012, respectively.

Finally, given the slowdown in commodity prices that began in April resulting from the ease in tension on food markets, forecasts of non-energy import prices, included in the forecast models developed by Bank Al-Maghrib, show deceleration in the last two quarters of this year followed by virtual stagnation in 2012.

6.1.2 National environment

In accordance with assumptions made in the previous MPR, the Moroccan economy should continue to trend well in 2011, driven mainly by domestic demand. Indeed, the outlook for agricultural and nonagricultural value added shows continued growth on the back of the good crop year 2010-2011 and the consolidation of private demand components. Foreign demand for Morocco posted a significant recovery in the first half of the year. However, its development remains dependent on growth momentum in the major partner countries.

The latest estimates of the Ministry of Agriculture for the crop year 2010-2011 expect a cereal production of 84 million quintals. This figure was slightly revised down from the previous quarter (74.6 million quintals) and exceeds cereal production of the crop year 2009-2010. Therefore, the primary sector's contribution to the overall growth for the current year would be positive compared to last year. Regarding the 2011-2012 agricultural season, and given the lack of visibility, our central scenario projects an average cereal production of about 68 million quintals. Compared to previous forecasts, BAM has revised upward the definition of the cereal production of an average crop year, previously set at 60 million quintals, due to changes in the area of cereal crops and their yields during the last ten years.

Nonagricultural activity in 2011 should continue to grow as strongly as in 2010. This increase would reflect the strength in the mining sector, the rally in the construction industry and the momentum in the processing industries. Altogether, nonagricultural value added would benefit from the stronger household final consumption and the broadly positive trend in private investment.

In this connection, the momentum in household demand would be driven by better purchasing power in the wake of wage increases, positive impact of the crop year 2010-2011 and higher transfers of Moroccan expatriates. It would also be supported by price moderation and the continued growth in consumer loans despite the slowdown they recorded this year.

The positive trend in private investment mostly results from the improvement in equipment loans and the recovery of capital goods imports. Finally, notwithstanding pressure from subsidization expenses on state budget, general government investment would be significant.

These prospects suggest continued growth of nonagricultural value added during 2011, as expected in the previous MPR. Under these conditions, we assume nonagricultural GDP to expand within a range of 4.5 to 5.5 percent.

BAM forecasts for overall growth were not revised from last quarter and still anticipate a growth rate between 4.5 and 5.5 percent.

This year's second quarter data on the labor market show that national unemployment rate was up 0.5 percent from the same period of 2010, to reach 8.7 percent. This increase was more pronounced in urban than rural areas. Indeed, the urban unemployment rate rose from 12.7 percent to 13.5 percent while the rural unemployment rate edged up from 3.3 percent to 3.6 percent over the same period.

With regard to changes in employment, except the service sector which provided 125,000 new jobs, other economic sectors registered job losses. In fact, the agriculture, forestry and fishing sector lost 83,000 jobs, followed by the industrial sector (including handicrafts) where 66,000 jobs were destroyed, and the construction industry which lost 65,000 positions.

Nevertheless, job prospects in the industrial sector suggest improvement for the current quarter. Indeed, BAM's quarterly business survey indicates that manufacturers predict an increase in the total workforce employed in all industries, except for textile and leather industries where job creation is expected to stagnate.

Furthermore, in light of the decisions taken in the framework of social dialogue, we assume a minimum wage level of DH11.70/hour over the first four quarters of the forecast horizon and DH12.24/hour from the fifth quarter.

In an international context marked by slowing global demand and high volatility in financial markets, the IMF in its most recent projections slightly lowered its forecast for the Brent barrel price to $106.34 in 2011 and $109.25 in 2012. Meanwhile, the World Bank expects a barrel price of $107.2 and $102.1 in 2011 and 2012, respectively.

Although energy prices are expected to ease, subsidization expenses would continue to put pressure on fiscal deficit in 2011. However, given the government's commitment, fuel prices should not increase in the coming months of this year. Looking ahead to 2012, under the initial assumption on the price of oil barrel adopted in the draft budget bill and the general policy of maintaining household purchasing power, the central forecast scenario assumes stagnation in diesel price at the pump at DH7.15 per liter.

6.2 Inflation outlook and balance of risks

Assuming the non-realization of the major risks described below, the central projection for the next six quarters is expected at 2 percent. This rate, close to the average forecast of 1.9 percent presented in the last Monetary Policy Report, remains consistent with the objective of price stability. The inflation forecast for 2011 is about 1.3 percent, a level similar to the 1.4 percent projected in the previous MPR.

In the third quarter of 2011, inflation should hover around 1.8 percent, from 1.6 percent in the previous MPR. In the fourth quarter of this year, a rate similar to that anticipated in the previous report (1.7 percent) is expected.

Finally, in the first half of 2012, inflation is expected to average 2.3 percent instead of 2.5 percent. In the second half of 2012, it would average 1.8 percent (see Table 6.1).

These projections are based on assumptions considered most likely. 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. 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 slight downward asymmetry, involving a high probability that inflation would deviate 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 steeper decline of commodity prices, in conjunction with the downturn in global demand and the strong volatility of financial markets, can influence the future trend in import prices.

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

Table 6.1: Inflation outlook for Q3 2011- Q4 2012

	2011		2012				Average		FH*
	Q3	Q4	Q1	Q2	Q3	Q4	2011	2012	
Central forecast (%)	1.8	1.7	2.0	2.5	1.7	2.0	1.3	2.1	2.0

(Quarterly data, YoY)

*Forecast horizon**

Chart 6.1: Inflation forecast, Q3 2011- Q4 2012 (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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