بنك المغرب
BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 19 / 2011

Document prepared for
the Bank Board
June 14, 2011

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LIST OF ABBREVIATIONS

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

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 14, 2011

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, June 14, 2011.
2. During this meeting, the Board considered and approved the 2010 Annual Report on Morocco's economic, monetary and financial situation as well as on the Bank's activities.
3. The Board also reviewed recent economic, monetary and financial trends, and inflation forecasts up to the third quarter of 2012.
4. The Board noted that, since the last meeting, headline inflation stood at a year-on-year rate of -0.3 percent in April, down from 1.6 percent in the first quarter. Meanwhile, core inflation, which reflects the underlying trend in prices, grew 1.8 percent in April, after 1.7 percent in the first quarter. Reflecting the trend in international commodity prices, industrial producer prices rose by 15.2 percent in April. The Board also noted that the monthly increase in industrial producer prices slowed markedly to 1.3 percent in April, from 9 percent in the first quarter.
5. Internationally, the global economy continued to recover, although at an uneven pace across regions and countries. In advanced economies, growth uncertainties persist, particularly in light of developments registered in the first quarter of 2011. In emerging markets, economic activity remains robust, despite the slight slowdown in some Asian countries.
6. While prospects for global growth seem positive, significant uncertainties remain. These are mainly related to the trend in labor and credit markets in advanced countries, and sovereign debt in the euro area. Risks also arise from the volatility of international commodity prices, inflationary pressures in emerging markets, and geopolitical tensions in the MENA region.
7. Nationally, both external and internal demand continued to improve. Therefore, overall growth and nonagricultural GDP would stand between 4.5 and 5.5 percent in 2011. In this context, nonagricultural output gap, relevant to the assessment of inflationary pressures, should broadly remain at levels that pose no risk to price stability. However, some pressures from the labor market may emerge in the coming quarters.
8. Analysis of monetary conditions to the end of April 2011 shows the continued slowdown in M3 growth, down to 4.1 percent year on year from an average of 4.3 percent in the first quarter. Under these circumstances, money gap remained negative, suggesting the absence of monetary pressure on prices. Bank credit grew at a year-on-year rate of 6.8 percent to the end of April, and would be around 8 percent for the full year.
9. Based on all these elements, the central inflation forecast seems in line with the medium-term price stability objective. Headline inflation is projected at 1.9 percent on average

over the forecast horizon. At the end of this horizon (third quarter of 2012), it is expected to reach 2.4 percent. Considering the sharp decline in food prices between January and April, the forecast for 2011 was revised downward to 1.4 percent, from the 2.1 percent projected in the last Monetary Policy Report. Core inflation should remain subdued, not exceeding 2 percent.

10. In this context where the central inflation forecast remains consistent with the price stability objective and the balance of risks is slightly tilted to the upside, the Board decided to keep the key rate unchanged at 3.25 percent.

11. To strengthen the Bank's governance and follow the best practices, the Board established an Audit Committee, from among its members, whose mission is to report to the Board on issues relating to accounting information, internal and external audit, internal control, and risk management.

OVERVIEW

The analyses and forecasts published in the Monetary Policy Report of March 2011 indicate that the trend of consumer prices remained generally moderate, though marked by occasional fluctuations related to volatile food prices. After it reached 2.0 percent in February and 0.6 percent in March, year-on-year inflation dropped to -0.3 percent in April, averaging 1.6 in the first quarter and 1.1 percent in the first four months of 2011. Core inflation, which reflects the fundamental trend in prices, stood at 1.8 percent in April after recording 1.9 percent in March and 1.7 percent in February 2011, as its average over the first four months of the year was 1.7 percent. The gap between headline inflation and core inflation widened to 2.1 percentage points in April, against 0.8 points on average over the first three months of the year, reflecting the combined effect of the upward trend in tradable goods prices and the decline of volatile food prices. In contrast, pressure on commodity world prices was particularly noticeable in terms of industrial producer price which increased, year-on-year, by 15.2 percent in April 2011, after recording 15.1 percent in March and 14 percent in February 2011. However, the monthly growth rate of industrial producer price declined slightly from 2.9 percent in March to 1.3 percent in April, reflecting a decline in the growth rate of the main world commodity prices.

The international environment was marked by the continuing recovery of the global economy, though at different rates between advanced and emerging countries. In advanced countries, the uncertainties surrounding growth still persist, particularly in light of the developments registered over the first quarter of 2011. Growth in the United States recorded a year-on-year slowdown from 2.8 percent to 2.3 percent, while it increased from 2 percent to 2.5 percent in the euro area, mainly due to the strong economic performance of Germany and France. Economic activity improvement in several advanced countries was also noticeable through the evolution of high-frequency indicators recorded at the end of April, except for unemployment rates which remained at high levels. In emerging economies, growth remained relatively strong, despite the slight decrease in some Asian countries, as a result of the dissipation of the base effects in the first of quarter of 2011.

More generally, growth prospects seem favorable, but the consolidation of recovery remains fraught with uncertainty. In addition to the unfavorable developments in the labor market, credit, and sovereign debt in advanced countries, especially in the euro area, risk factors also concern fluctuations in commodity prices, inflation pressures in emerging countries, and the impact of recent geopolitical tensions in the MENA region. Furthermore, world inflation continued its upward trend in April, reflecting in particular the dissemination of the past surge in food and energy commodities prices.

At the domestic level, available data show continued recovery in exports, which increased by 24.1 percent at the end of April, year-on-year, with 14.4 percent of exports excluding phosphates and derivatives. Concurrently, imports recorded an increase of 24.6 percent, mainly as a result of the 37 percent increase in energy products' purchases, resulting thus in widening the trade deficit. Tourism receipts and Moroccan expatriates' remittances increased by 7.9 percent and 3.8 percent respectively, year-on-year, at rates lower than those recorded during the same period of the previous year.

Against this backdrop, nonagricultural growth is expected to stand at 4.5 percent in the second quarter and to range between 4.5 percent and 5.5 percent throughout 2011, in the event of non-occurrence of risk factors surrounding the recovery in the main partner countries. Consequently, nonagricultural output gap, relevant to the assessment of inflationary pressures, is projected to register values close to zero in 2011. On the other hand, agricultural growth is expected to show some consolidation, thereby raising overall GDP growth to the same level projected for nonagricultural activities.

As to monetary conditions, end-April data indicate the ongoing slowdown in money supply. M3 aggregate rose by 4.1 percent, after 4.3 percent recorded in the first quarter of 2011, mainly due to the deceleration of growth in time deposits and a decline in money market UCITS, thus keeping the real money surplus at negative levels. Credit growth, in turn, stood at 6.8 percent from 6.4 percent in the first quarter, and is expected to average 8 percent throughout the year, a rate close to its long-term level. Regarding borrowing rates, the results of the survey conducted by Bank Al Maghrib with banks for the first quarter of 2011 reveal a decline in weighted average rate, mainly reflecting the drop in interest rates on cash advances and real estate loans. Similarly, the real estate price index rose by 5 percent in the first quarter year-on-year, as against 1.2 percent in the previous quarter.

Based on all these elements, inflation in the next six quarters is set to remain in line with the price stability objective. By the end of the forecast horizon, the third quarter of 2012, inflation is expected to stand at 2.4 percent, while on average, it is expected to stand at 1.9 percent for the same horizon. Due to the decrease in food prices between January and April, 2011 inflation forecast was lowered, standing at 1.4 percent instead of 2.1 percent in the previous forecast (MPR of March 2011).

As for the balance of risks surrounding this central forecast, it remains in a slightly upward trend, mainly due to the trend of commodity prices on international markets.

1. AGGREGATE SUPPLY AND DEMAND

In 2010, overall growth stood at 3.7 percent, reflecting a 4.5 percent recovery in non-agricultural GDP and a decline by 1.6 percent ine agricultural value added. For their part, economic indicators at the end of April suggest a slight upward revision of growth forecasts throughout 2011. Overall GDP is expected to grow at a rate ranging between 4.5 and 5.5 percent, instead of the previously forecast rate ranging between 4 and 5 percent, owing to the consolidation of agricultural activities, as estimates for nonagricultural growth were maintained between 4.5 percent and 5.5 percent. However, this outlook remains fraught with uncertainty related to the sustainability and extent of economic activity in the euro area, which determines the trend of foreign demand for Morocco. In turn, the different components of domestic demand are expected to improve compared to 2010, without generating significant pressures on output capacities and prices.

1.1 Output

National growth stood at 3.7 percent in 2010, reflecting a rise by 4.5 percent in nonagricultural GDP and a drop by 1.6 percent in the agricultural value added. Such changes are generally in line with the estimates of Bank Al-Maghrib published in the Monetary Policy Report (MPR) of March 2010.

The updated estimates of cereal production in the light of available indicators at the end of April 2011, indicate that cereal production , for the current crop year, is expected to maintain its level stated in the MPR of March 2010, at about 80 million quintals, up by 7.5 percent compared to the last crop year (see Box 1.1). This trend is mainly attributed to the early and good temporal and territorial rainfall distribution that has encouraged autumn cereals planting.

Regarding the secondary sector, its value-added is expected to grow by almost 3 percent in the first half of 2011, reflecting the combined effect of maintaining the still dynamic mining and energy sectors as well as the stable performance of the processing industry. The value added of the extractive industries would rise by 1.2 percent in the first quarter of 2011 as against 107.9 percent a year earlier, which is a significant drop attributed to the gradual dissipation of the base effects. In parallel with the increase in fertilizers demand and the maintenance of phosphates and derivatives prices at high levels, production of the OCP, the

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

Activity sectors, in%	2009			2010				2011	
	QII	QIII	QIV	QI	QII	QIII	QIV	QI_F	QII_F
Agriculture	31.2	29.4	31.1	-8.1	-7.6	-7.8	-7.5	4.1	3.9
Nonagricultural VA	0.1	0.9	5.6	6.1	4.9	4.6	4.4	4.2	4.5
Extractive industry	-31.0	-21.9	14.0	107.9	48.1	21.9	10.7	1.2	3.8
Processing industry	-1.9	-0.7	3.3	1.6	1.5	2.7	3.0	2.8	3.0
Electricity and water	-1.6	3.1	7.6	6.7	11.0	12.3	10.8	5.1	5.3
Construction	3.9	1.0	6.1	2.9	2.6	1.0	-1.6	1.8	2.1
Trade	2.7	3.0	5.3	1.6	1.9	2.2	2.9	3.3	3.9
Hotels and restaurants	-2.0	0.1	2.9	6.7	8.3	8.4	8.6	4.9	2.9
Transportation	2.6	2.3	4.9	7.6	5.6	6.9	6.0	5.2	5.3
Post and telecommunication	3.3	3.9	1.1	4.1	3.1	7.8	12.7	7.6	7.8
General government and social security	7.7	7.6	7.6	3.4	3.3	3.4	3.4	3.4	3.5
Other services*	3.7	3.5	4.0	4.3	4.9	4.8	5.0	5.4	5.6
Taxes on products net of subsidies	3.1	6.5	5.1	4.1	4.0	3.9	4.3	4.3	4.4
Nonagricultural GDP	0.3	1.8	5.3	5.8	4.8	4.5	4.4	4.2	4.5
Gross domestic product	4.1	4.8	8.7	4.0	3.0	2.9	2.8	4.2	4.4

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

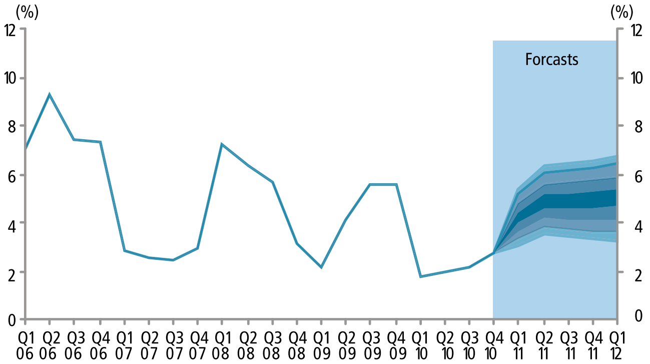
Sources: HCP, and BAM estimates and forecasts main national business actor in the mining sector, increased by 42.6 percent and 19.5 percent with regard to fertilizers and phosphoric acid, respectively, at the end of March.

Activity in the processing industry is projected to grow but at a moderate and lower pace compared to the pre-crisis period. The most recent results of the business survey conducted by Bank Al-Maghrib in April showed a drop in production, sales and in orders received by companies, form one month to another. However, in terms of the activity's development prospects, professionals project an increase in production as well as in local and foreign sales. They also consider the overall business climate generally good. In this context, the sector's added value is expected to stabilize around 3 percent in the first half of 2011.

With regard to the "electricity and water" sector, the net output of the National Electricity Office (ONE) increased by only 2.3 percent in the first quarter 2011, as against 10.8 percent throughout 2010, mainly due to the lower production of the hydropower plants, inducing a 112.6 percent increase of imports. Concurrently, total sales of ONE rose by 9.1 percent, year on year, with an increase by 9.9 percent of sales to industrialists and 6 percent to household sales. Given these elements, growth in this sector would be around 5.1 percent in the first quarter of 2011 after 10.8 percent in the fourth quarter of 2010.

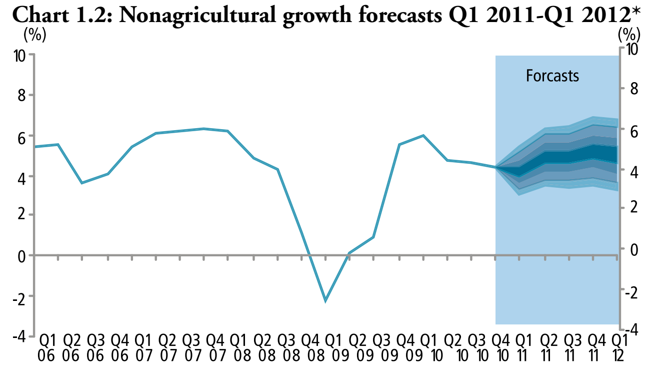
Construction and public works are expected to record gradual recovery in 2011, after a slowdown phase posted since the fourth quarter of 2008. The latest indicators of the sector confirm this trend, notably sales of cement, which rose at the end of April, from 7.6 percent, year-on-year, to reach 5.2 million tons, and real estate loans, which increased by 9.2 percent. In addition, the ongoing strengthening of social housing programs is expected to further boost the sector, as its added value growth posted 1.8 percent and 2.1 percent in the first and

Chart 1.1: Growth forecasts Q4 2011-Q1 2012*



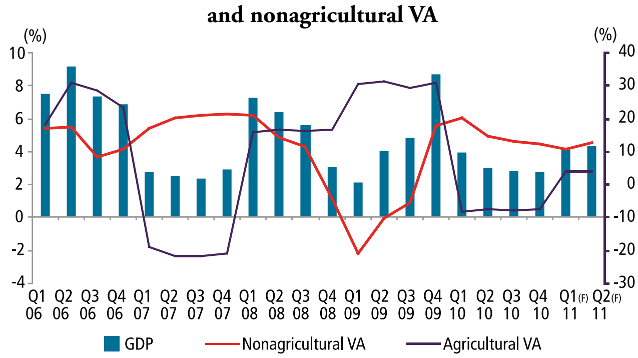
(*) Fan chart based on the standard deviation
Sources: HCP, and BAM forecasts and estimates

Chart 1.2: Nonagricultural growth forecasts Q1 2011-Q1 2012*



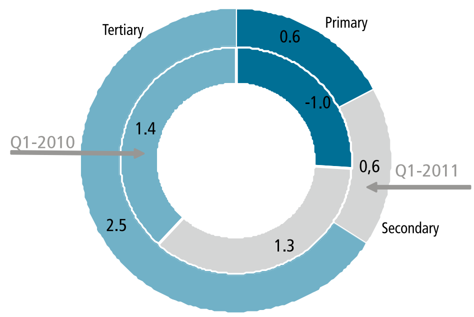
(*) Fan chart based on the standard deviation
Sources: HCP, and BAM forecasts

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

Box 1.1: Forecast of cereal production in 2011 on the basis of available data, as of late May 2011

The 2010-2011 crop year was characterized by an early start of rainfall, which favored the planting of autumn cereals. The planted area reached 5.1 million hectares, up 3 percent compared to a standard season, mainly due to a 10 percent rise in the area devoted to soft wheat, while the cultivation of barley has declined by 3 percent.

In addition to a rainfall volume almost normal (the average of the last five years), the current season enjoys a favorable temporal and spatial distribution as well as greater use of certified seeds and fertilizers.

These conditions have resulted in a vegetation cover considered as "Good" across the country, according to studies conducted in late March by the Royal Remote Sensing Center, except for Haouz, Oriental and Pre-Saharan regions.

The cereal production forecasting framework developed by BAM allows regular updating of cereal production forecast based on three tools: econometric model, similar season method and a method based on rainfall indicator.

Thus, based on climate data as at end-May 2011, the spatial econometric model provides for a cereal output of 85 million quintals: 36 million quintals of soft wheat, 23 million quintals of hard wheat and 27 million quintals of barley, up 18 percent, 50 percent and 21 percent respectively, compared to the last five-year average.

The similar-season method provides an estimation of 75 million quintals: 30 million quintals of soft wheat, 18 million quintals of hard wheat and 27 million quintals of barley.

The implementation of the method based on rainfall indicator led to a cereal output forecast of about 88 million quintals.

Overall, the average forecast of the three methods has not significantly changed compared to last year, standing at around 83 million quintals, up 22 percent compared to the last five crop years and 10 percent over the last season. This level is equivalent to the forecast published in MPR with data as at March 20, 2010.

Chart B1.1.1: 10-day rainfall accumulation

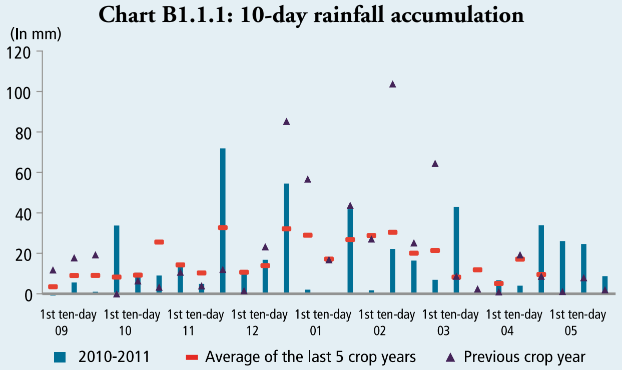


Chart B1.1.2: Number of days with precipitation

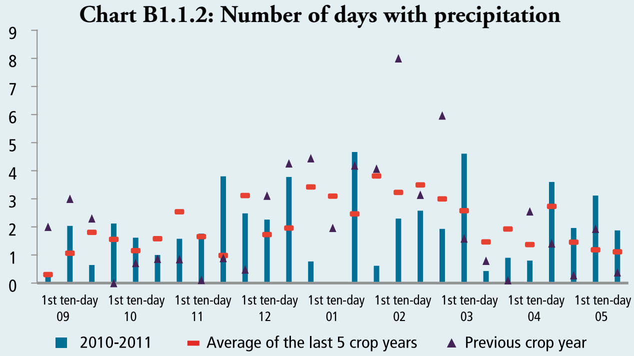


Chart B1.1.3: Rainfall deficit of the 2010-2011 crop year by weather station

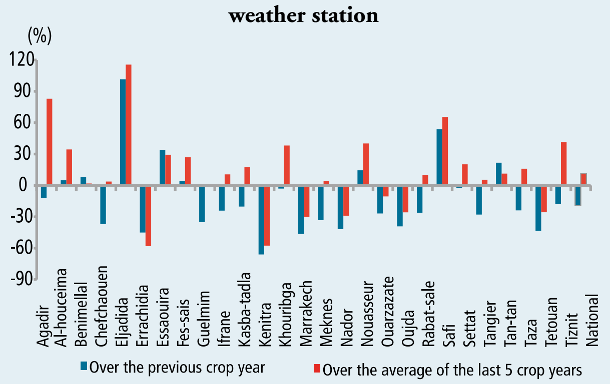
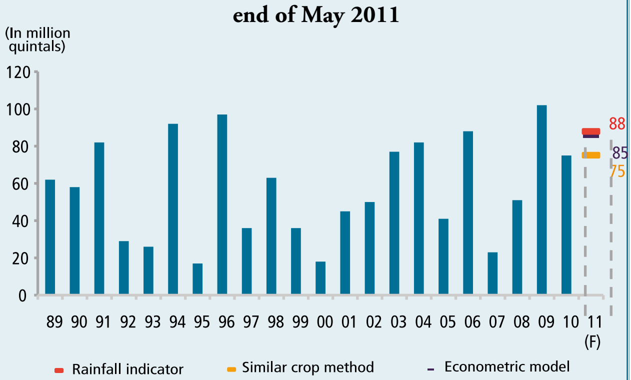


Chart B1.1.4: Trend and forecast of cereal production to the end of May 2011



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

second quarters of 2011 respectively, after shrinking by 1.6 percent in the fourth quarter of 2010.

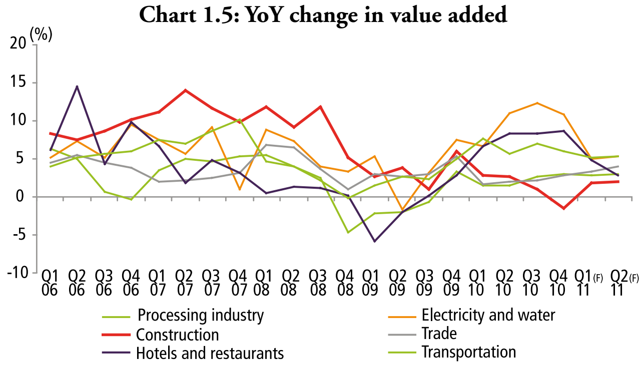
The service sector growth is expected to contribute by 2.5 percentage points to GDP growth for the first half of 2011, reflecting the good performance of activity in all sectors, except for "hotels and restaurants" whose main indicators slowed down at the end of April 2011. The increase pace of tourists' flows dipped in one year, from 10.7 percent to 9.6 percent, as overnight stays in classified units dropped from 7.4 percent to 5.0 percent and tourism receipts from 12.1 percent to 7.9 percent. Growth in this sector is expected to slow down by 8.6 percent in the fourth quarter of 2010 to 4.9 percent and 2.9 percent in the first and second quarters of 2011 respectively, reflecting partly the base effect related to the rapid growth posted in 2010.

Concurrently, the value added of trade and transport are expected to be driven by the momentum of other sectors, as their growth is expected to stand at 3.3 percent and 5.2 percent respectively in the first quarter of 2011.

As for the value added of post and telecommunications, it is expected to grow by 7.6 percent, as demonstrated by the trend of different indicators of the sector. At the end of March 2011, land-line telephony grew by 5.7 percent and mobile telephony by 23.4 percent. In addition, the number of Internet subscribers reached 2.2 million, up 59.5 percent compared to the same period of 2010.

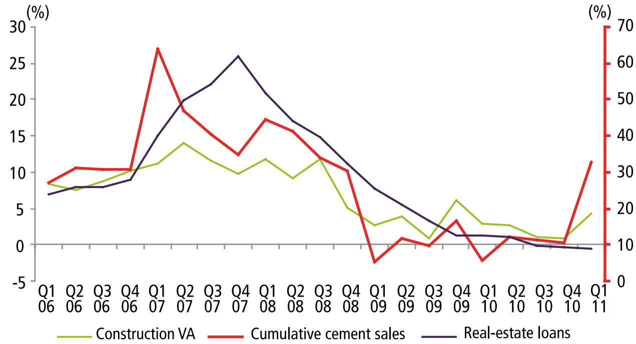
Overall, the development prospects of economic activity for the financial year 2011 were revised upward. Overall growth is now expected to range between 4.5 percent and 5.5 percent instead of 4 percent and 5 percent as previously projected, reflecting a positive contribution of agricultural value added driven by the strong performance of the

Chart 1.5: YoY change in value added



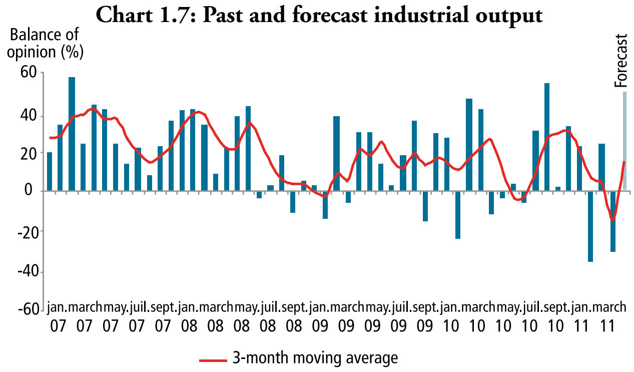
Sources: HCP, and BAM forecasts

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

2010-2011 crop year and stabilization of nonagricultural growth, in the event of non-occurrence of external risk factors.

1.2 Consumption

In 2010, growth of household final consumption in nominal terms increased at a faster rate than the one recorded in 2009. In real terms, its growth, however, decreased in one year from 4.6 percent to 2.2 percent.

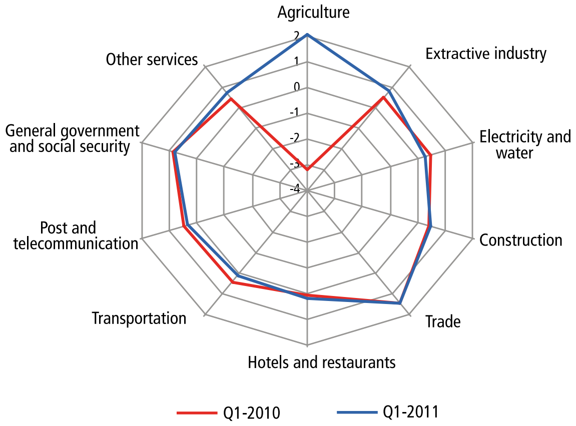
In 2011, household final consumption is expected to accelerate following the improvement in purchasing power, as a result of the strong performance of nonagricultural activities, expected increase in wages, keeping inflation at a moderate level and the recovery in agricultural production which would enhance rural household consumption.

The most recent indicators confirm, indeed, the positive consumer trend. Finished consumer goods imports increased by 10.6 percent at the end of April as against 0.7 percent over the same period the previous year, while consumer loans, despite their decline from one year to another, grew by 6.2 percent at the end of April. However, increase rates of tourism revenues and Moroccan expatriates' remittances were limited to 7.9 percent and 3.8 percent respectively in late April.

Driven by higher personnel costs, following the government's decision to readjust public sector wages and pensions, final consumption of general government is expected to grow at a faster rate compared to its long-term trend.

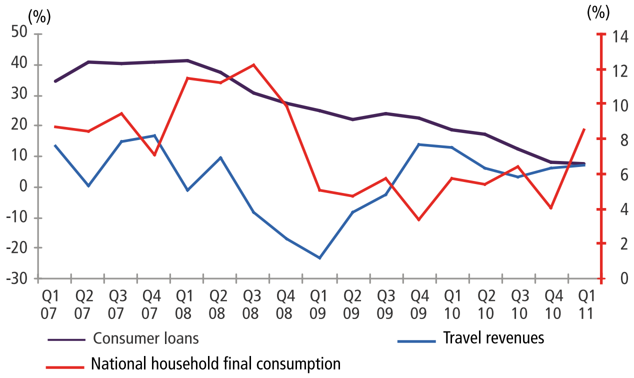
Overall, final national consumption is expected to grow by nearly 10 percent in current prices from 3.6 percent in 2010.

Chart 1.8: Sectors' contribution to overall growth



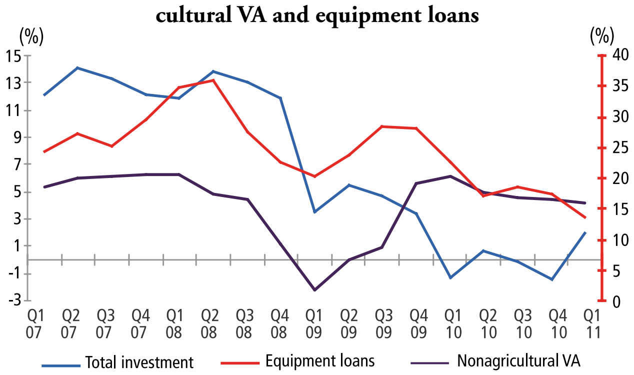
Sources: HCP, and BAM forecasts and calculations

Chart 1.9: YoY quarterly change in household final consumption, consumer loans and travel revenues



Sources: HCP, and BAM forecasts and calculations

Chart 1.10: YoY quarterly change in total investment, nonagricultural VA and equipment loans



Sources: HCP, and BAM forecasts and calculations

1.3 Investment

Despite of the expected decline in general government investment, investment is set to grow in 2011 after the slight drop registered in 2010. Findings of BAM industrial business survey for the first quarter 2011 indicate positive assessment of the overall business climate. Conditions of industrial activity for the next quarter are considered favorable according to professionals' expectations.

Other available indicators corroborate this trend, including the observed and expected improvement of non-agricultural activities, the increase in equipment loans by 11.8 percent end April 2011 and the maintenance of finished equipment imports at a level similar to that of 2010. As for real-estate investment, in particular, it is expected to rebound this year, owing to improved activity in the construction sector.

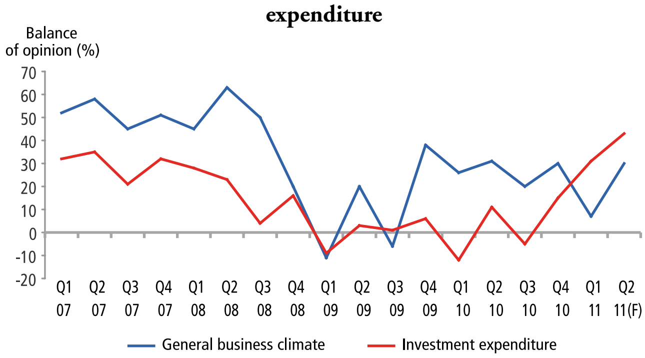
In contrast, public investment is projected to decline; the Treasury situation in the first three months of 2011 has shown a drop by 16.9 percent in investment spending. This trend is due to pressures on other expenses, mainly payroll and subsidization costs, against the backdrop of a decline in the growth rate of public resources.

Under these circumstances, total investment is expected to increase in value by nearly 5 percent at the end of the year.

1.4 Foreign trade

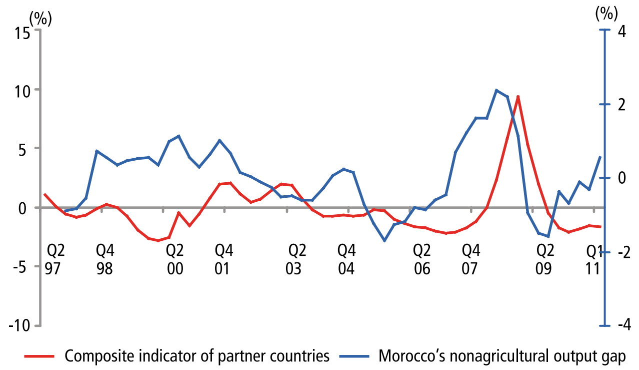
Data available at the end of April 2011 show the continuing recovery in foreign demand for Morocco, as shown by the increase in exports. However, trade deficit has significantly widened compared to the same period in the previous year. The trade balance has generated, after the first four months, a deficit of 60.3 billion dirhams, up 25 percent compared to the same period in the previous year. This development is explained by a growth

Chart 1.11: Change in general business climate and investment expenditure



Source: BAM calculations and forecasts

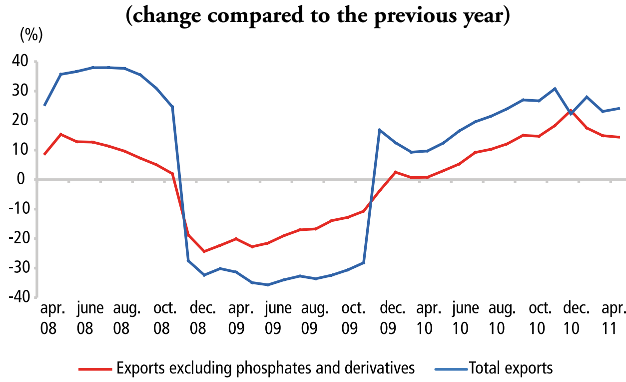
Chart 1.12: Weighted composite leading indicator of partner countries*



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

Sources: OECD, and BAM calculations

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



Source: Foreign Exchange Office

of 24.6 percent or 22.9 billion in imports, greater than the 24.1 percent or 10.8 billion in exports. The coverage rate has thus stabilized at 48 percent.

The strengthening of exports is attributable both to the 64 percent increase in sales of phosphates and derivatives, and the 14.4 percent rise in exports excluding phosphates. Therefore, the shipment of phosphates, natural and chemical fertilizers and phosphoric acid grew by 62.5 percent, 143.2 percent and 11.4 percent respectively, compared to the same period of 2010, to reach 3.6 billion, 6.4 billion and 4.4 billion dirhams.

Shipments of wires and cables, electronic components, knitwear and clothing rose by 42.6 percent, 17.3 percent, 10.9 percent and 14.6 percent, respectively, for 5.1 billion, 1.8 billion, 2.3 billion and 6.6 billion dirhams. In contrast, exports of citrus and canned fish dropped by 11.8 percent and 25.6 percent respectively, to stood at 1.2 billion for both products.

Imports growth is explained by the increase in purchases of all product categories. Thus, the energy bill, amounting to 27.5 billion dirhams, rose by 37 percent. This development is mainly due to an increase of 30.1 percent in the average price per ton of imported crude oil amounting to 6.090 dirhams, while the imported volume declined by 10.8 percent to 1561.8 thousand tons. Similarly, purchases of gas oil and fuel, as well as petroleum gas and other hydrocarbons recorded respective increases of 100 percent and 17.9 percent to stand at 9.8 billion and 5 billion dirhams. Excluding energy, imports increased by 21.1 percent, to stand at 88.6 billion dirhams.

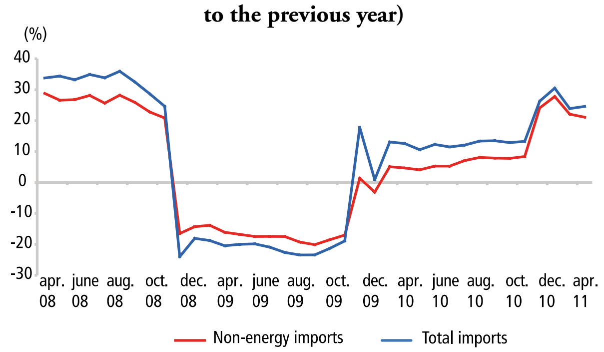
Purchases of food products, amounting to 15.7 billion dirhams, were up by 75.3 percent, owing to the expansion of wheat procurements, up from 1.9 billion to 6.3 billion. This is due to an increase by more than 100 percent of imports volume

Table 1.2: YoY change in the trade balance, at the end of first four months of 2011

(In millions of dirhams)	jan.-apr. 2010	jan.-apr. 2011*	Change Amount	Change %
Total exports	**44 939.0**	**55 776.1**	**+10 837.1**	**+24.1**
Phosphate and derivatives' exports	8 770.3	14 382.3	+5 612.0	+64.0
Exports excluding phosphates and derivatives	36 168.7	41 393.8	+5 225.1	+14.4
Electricity wires and cables	3 610.1	5149.0	+1538.9	+42.6
Electronic components	1 573.2	1 845.3	+272.1	+17.3
Hosiery items	2 088.2	2 316.8	+228.6	+10.9
Ready-made garments	5 728.8	6 563.7	+834.9	+14.6
Citrus fruit	1 394.5	1 230.0	-164.5	-11.8
Total imports	**93 223.1**	**116 110.7**	**+22 887.6**	**+24.6**
Energy imports	20 084.1	27 519.7	+7 435.6	+37.0
Non-energy imports	73 139.0	88 591.0	+15 452.0	+21.1
Semi-finished goods	19 281.9	23 987.6	+4 705.7	+24.4
Food products	8 953.6	15 692.3	+6 738.7	+75.3
Consumer goods	17 542.3	19 400.6	+1 858.3	+10.6
Capital goods	22 752.5	22 677.3	-75.2	-0.3
Trade deficit	**-48 284.1**	**-60 334.6**	**12 050.5**	**25.0**

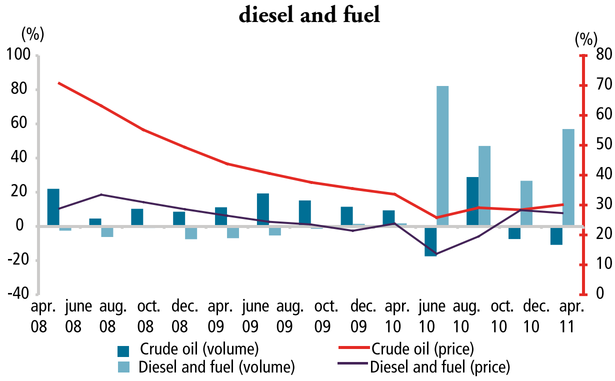
** Real time data*
Source: Foreign Exchange Office

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



Source: Foreign Exchange Office

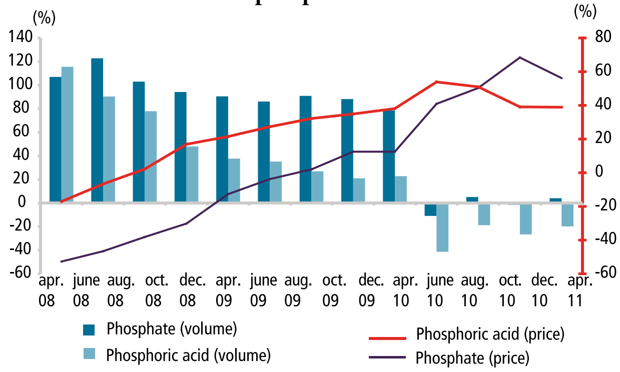
Chart 1.15: YoY change in the volume and price of crude oil, diesel and fuel



Source: Foreign Exchange Office

which reached 2090.7 thousand tons, and to the significant increase in the average price per imported ton moving from 1,793 dirhams per ton to 3,021 dirhams. Imports of semi-finished products, amounting to 24 billion, were up 24.4 percent, due primarily to increased purchases of plastics by 30.6 percent and chemicals by 25.2 percent. Imports of consumer goods also rose by 10.6 percent reaching 19.4 billion, following in particular an 8.8 percent increase in medicine's purchases. In contrast, equipment goods imports showed a slight drop by 0.3 percent to stand at 22.7 billion dirhams.

Chart 1.16 : YoY change in the volume and price of phosphate and phosphoric acid



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

In line with the analysis of the latest MPR, nonagricultural output gap showed a negative value in the first quarter of 2011, after standing slightly positive in the fourth quarter of 2010. Overall, various measures indicate the absence of demand-driven pressures. Similarly, the results of BAM monthly survey conducted in April 2011 indicate that the output capacity utilization rate in the industrial sector has slightly declined, to stand at historical average, that is 71 percent, while this rate, excluding refining, remains below its average level. In terms of employment, the first quarter of 2011 was characterized by a 0.9 percentage points drop in year on year national unemployment rate, reflecting a decrease of 1.4 and 0.3 percentage points respectively in urban and rural areas. Moreover, available data on wages in the private sector show a drop in year on year nominal and real terms in the fourth quarter 2010. Overall, analysis of the changes in various factors indicates the absence of significant pressures on prices. Were the latter to move up slightly in the forthcoming quarters, under the effect of the expected rise in the minimum wage and wages in the public service, the conditions of demand should not exert significant pressure on prices.

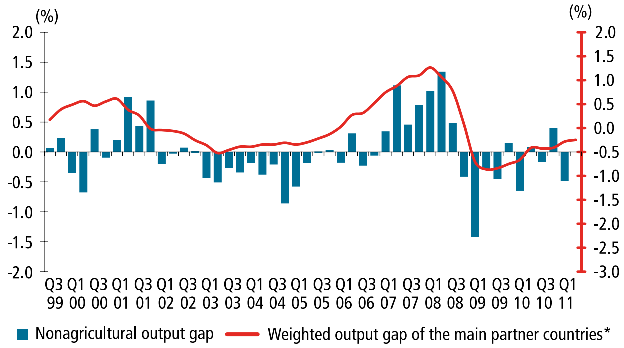
2.1 Pressures on output capacity

The non-agricultural output-gap recorded a rate below zero in the first quarter of 2011, after posting a positive value in the fourth quarter 2010. Its trend in the coming quarters is partly conditioned by that of the output-gap in the main partner countries, in turn surrounded by several uncertainties.

Given the results of BAM industrial monthly business survey for April 2011, the output capacity utilization rate fell by 4 percentage points to stand at its historical average, which is 71 percent, while, excluding refining activity, it remains below its average level. This change stems mainly from the drop in the output capacity utilization rate of chemical and parachemical industries from 79 percent to 73 percent from one month to another. In other sectors, the output capacity utilization rate recorded a slight decline in electrical and electronic industries as well as in the textile and leather sector to post respectively 83 percent and 73 percent; It stabilized at 61 percent in the mechanical and metallurgical sector and increased in the agri-food industry to stand at 73 percent.

As for the index of apparent labor productivity in non-agricultural activities, it grew year-on-year by 1.7 percent, in the first quarter 2011, amounting to about 120.6 points. Based on estimates conducted

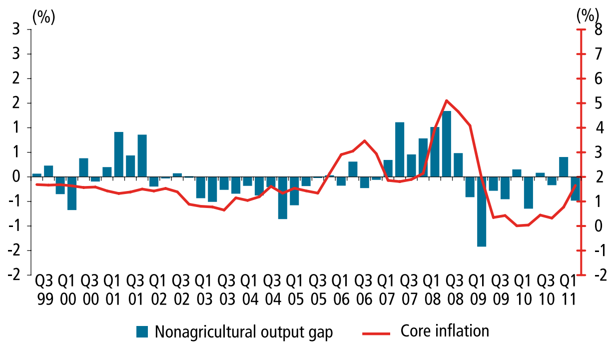
Chart 2.1: Nonagricultural output gap



(*) 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 nonagricultural output gap and core inflation



Sources: HCP, and BAM estimates

by BAM, this change is the result of the increase in urban employment at a rate lower than that of non-agricultural GDP.

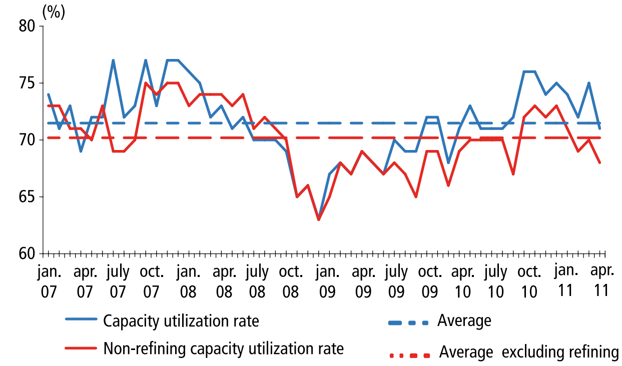
In parallel, the results of BAM monthly industrial business survey show an increase in the production unit cost from one quarter to another, with a balance of opinion of 40 percent. According to industrialists, this is due to the rising cost of non-energy commodities and to financial costs, with a balance of opinion of 50 percent and 32 percent respectively. On the sectoral level, on top of the costs of non-energy commodities, which represent the key factor impaction the production unit cost in all sectors, wages were the second stated factor in electrical and electronic industries, while the level of financial costs was the second factor identified in chemical and parachemical industries as well as in textile and leather sectors; energy costs constituted the second factor identified in agri-food industries.

2.2 Pressures on the labor market

In the first quarter 2011, the labor force aged 15 and over settled at 11.444.000 persons compared to the same quarter of 2010, reflecting an increase by 0.1 percent in urban areas and a decrease by 0.1 percent in rural areas. However, activity rate declined from 49.9 percent to 49.1 percent over the same period, due to the decline in the activity rate from 58.1 percent to 57.1 percent in rural areas, while it increased in urban areas form 43.7 percent to 44.3 percent. Employed labor force rose by 1 percent to stand at 10.407 million persons in the first quarter 2011. Employment rate, in turn, dropped from 44.9 percent to 44.6 percent, owing to the decline in rural employment rate from 55.4 percent to 54.7 percent, while the rate in urban areas increased by 0.1 points, to stand at 37.9 percent.

The labor market has in fact witnessed a net creation of 103,000 job positions,

Chart 2.3: Industrial capacity utilization rate

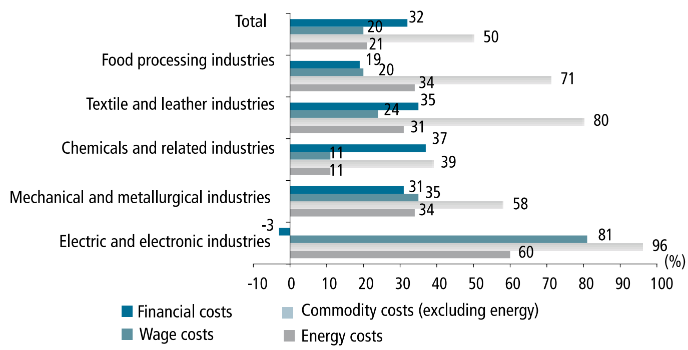


Source: BAM monthly business survey

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

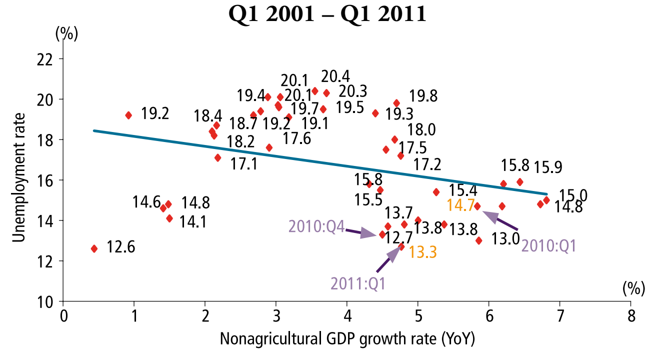
Sources : HCP, and BAM estimates

Chart 2.5: Change in components of unit production cost per sector (Balances of opinion in %, in Q1 of 2011)



Source: BAM monthly business survey

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



following the creation of 126,000 jobs in urban areas and the loss of 23,000 jobs in rural areas. Paid employment amounted to 133,000 jobs, more than 89 percent of which in cities. On the other hand, unpaid employment fell by 30,000 jobs, with the loss of 37,000 jobs in rural areas and the creation of only 7,000 jobs in urban areas. At the sectoral level, construction and public works sectors were the only providers of employment with 73.3 percent and 26.7 percent respectively, while agriculture and industry witnessed net job losses amounting to 93,000 positions. This result is confirmed by the findings of BAM monthly industrial business survey, which indicates a drop in the labor force in the first quarter of 2011.

Under these conditions, the unemployed labor force, estimated at 1.037 million persons, declined by almost 9 percent and the unemployment rate fell by 0.9 percentage point to 9.1 percent. This decline is due to the decrease by 1.4 percentage-point in urban areas to 13.3 percent and by 0.3 point in rural areas to 4.3 percent. By age group, the decline in the unemployment rate affected all groups with drops ranging from 0.9 percentage points for the 15-24 age group to 5.8 percentage points for the 25-34 age group.

With regard to the available data on wage costs for the fourth quarter of 2010, they indicate that the unit labor cost in the industrial cost recorded a year-on-year drop by 0.4 percent. By international comparison, the Moroccan unit labor cost declined at a slower pace than that of Hungary, Poland and South Korea; that is a gap of 3.3 percent, 2.2 percent and 2 percent respectively. It has developed more favorably against those of Great Britain, Greece and Italy, which posted a more or less significant increase.

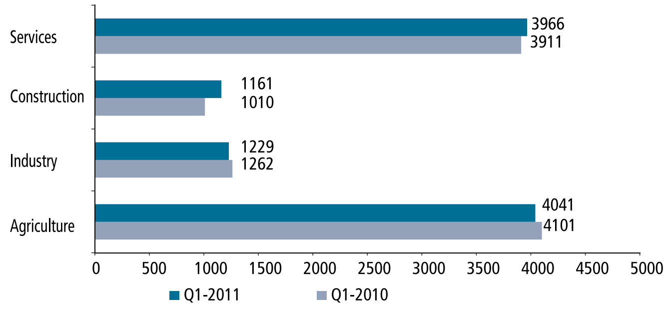
As for the quarterly average wage index in the private sector, calculated by the High Planning Commission based on CNSS data, it shows a year-on-year decrease of 4.4 percent and 6.7 percent, respectively,

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

In million / in %	Q1 - 2010			Q1 - 2011		
	Urban	Rural	Total	Urban	Rural	Total.
Labor force and employment						
Labor force (2)	6,05	5,40	11,44	6,09	5,35	11,44
Labor force participation rate (%) (3)	44,3	58,1	49,9	43,7	57,1	49,1
Employed labor force	5,16	5,15	10,30	5,28	5,12	10,41
Employment rate (%) (4)	37,8	55,4	44,9	37,9	54,7	44,6
Unemployment						
Unemployed labor force	889	250	1139	809	228	1037
Unemployment rate (in %) (5)	14,7	4,6	10,0	13,3	4,3	9,1
By age						
.15 - 24 years	31,6	9,1	18,5	29,3	8,9	17,4
.35 - 44 years	8,9	3,3	6,7	7,5	2,5	5,5
By degree						
. Non-graduates	9,4	3,0	5,4	7,8	2,3	4,4
. Graduates	19,0	12,8	17,7	17,8	13,6	16,8

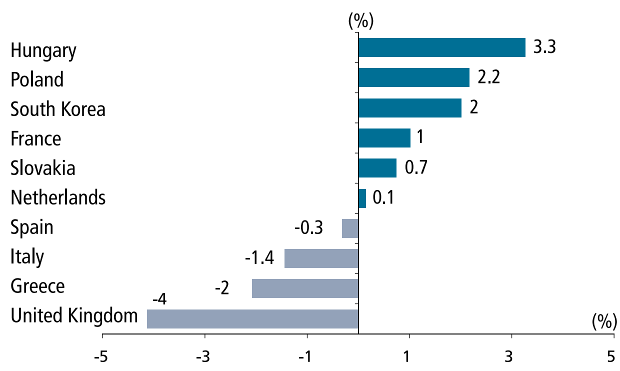
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and above (in millions of persons)
(3) Labor force/total population.
(4) Employed labor force/total population aged 15 years and above.
(5) Unemployed labor force/labor force aged 15 years and above
Source: HCP

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



Source: HCP

Chart 2.8: Change in the unit costs of the manufacturing labor force in Morocco compared with other countries, Q4 2009 – Q4 2010 (in %)



Sources: Datastream, and BAM calculations in nominal and real terms in the fourth quarter of 2010.

In the first quarter of 2011, the results of BAM industrial business survey show a rise in wage costs with a positive balance of opinion of 20 percent. This has mainly concerned electrical and electronic industries as well as chemical and parachemical industries with balances of opinion of 81 percent and 35 percent respectively.

Minimum wage almost stagnated in nominal and real terms during the first quarter of 2011. Over the coming months, the minimum wage increase by 10 percent in July 2011 and 5 percent in July 2012, as well as the pay rise of civil servants would spread to the other wage categories. Retrospective analysis and the results of BAM estimates (see Box 2.1, Monetary Policy Report No. 7 of June 2008) show that these changes may have an upward effect on inflation, but at a rate expected to remain limited, all else being equal.

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 results of the Q1-2011 national accounts generally emphasize the continued recovery, though at clearly different paces between advanced and emerging economies. In advanced countries, some differences are observed, particularly between the United States, where growth has posted a year-on-year slowdown, and the euro area, where it has accelerated, mainly driven by the strong performance of Germany and France. Improved performance in these countries is also confirmed by the most recent high frequency indicators. As for emerging countries, growth remains strong in general, although the dissipation of base effects in the first quarter of 2011 led to a slight slowdown in some Asian countries. Moreover, the labor market in advanced economies is characterized by high unemployment rates, which are expected to persist in the short term, but with some improvement as of 2012. More generally, growth prospects seem favorable, as shown by the forecast of several organisms, particularly the IMF, but the consolidation of recovery is still fraught with uncertainties, primarily due to the disruption in financial markets, mainly in the sovereign debt compartment in the euro area. In fact, rates of yields on peripheral countries' sovereign bonds recorded once again an upward trend, while those of the United States, France and Germany posted a decline. Turbulences in the euro area have also passed on to the foreign exchange market, as shown by the depreciation of the euro against all major currencies, and also on the money market with the interbank rate increase. Inflation continued to rise throughout April, reflecting particularly the higher cost of food and energy commodity. As the latter's prices posted general declines in May 2011, their impact on world inflation is expected to ease in the short term. Still, moderation of inflationary pressures remains determined by the magnitude of direct and second-round effects of previous increases, especially in emerging countries, where various analyses indicate the existence of overheating signs and demand pressures on production capacities. The anterior price-rise of commodities at the international level has also passed on to producer prices at the national level and could be transmitted, in the coming quarters, to consumer prices or result in further expansion of subsidization expenses. In terms of activity, the persisting growth slowdown in partner countries could limit the consolidation of external demand and its contribution to national growth.

3.1 Global financial conditions and economic activity

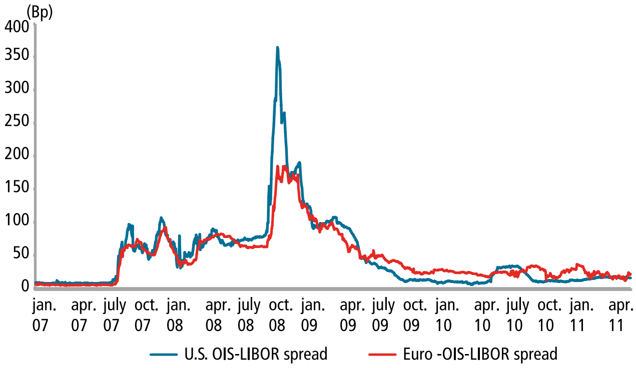
At the end of May, the international financial markets were marked by tensions due to difficulties recorded in sovereign debt markets of the euro area. The disruptions particularly concerned sovereign bonds compartment and money market, with a further rise in bond yields and interbank rates.

As for economic activity, the latest available indicators show the continued recovery of the global economy. This change is accompanied, however, by the persistence of high levels of unemployment and by the emergence of arbitrage, increasingly tough for economic policies in advanced countries, to strike a balance between the objectives of monetary conditions standardization, fiscal restraint and support to a still fragile economic recovery.

3.1.1 Financial conditions

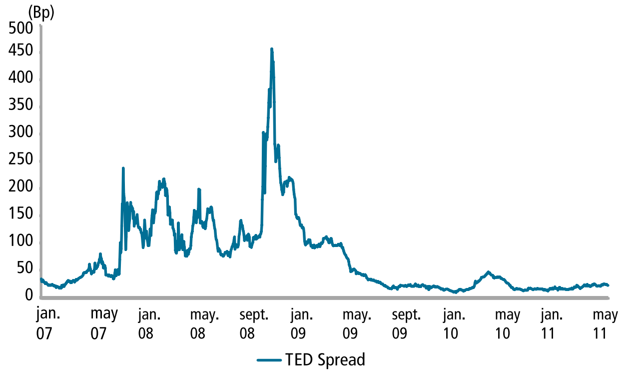
In May, internal financial markets were characterized by a general rise in sovereign

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

Chart 3.2: Change in the TED spread[1]



Source: Datastream

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

rates of the euro area peripheral countries. Thus, the monthly average rates on the 10-year government bonds moved between May and April 2011, from 13.9 percent to 15.5 in Greece, from 9.1 percent to 9.5 percent in Spain and from 9.6 percent to 10.1 percent in Ireland. Despite the rescue plans started last year by the EU and IMF, the debt situation of several countries witnessed no striking improvement, as Standard and Poor's once again cut the rating of Greece by two notches, from "BB-" to "B". However, the rate of yields on 10-year U.S Treasury bills stood at 3.19 percent in May, while it recorded 3.43 the previous month. Similarly, 10-year sovereign rates of French bonds and German Bund fell from 3.69 percent to 3.53 percent and from 3.35 percent to 3.13 percent respectively.

On derivatives market, credit default swaps (CDS) of the euro area peripheral countries increased in May 2011, while those in emerging economies witnessed contrasting changes, ranging from a decrease of 3.6 percent in Brazil to an increase of 3.6 percent in Russia from April to May 2011.

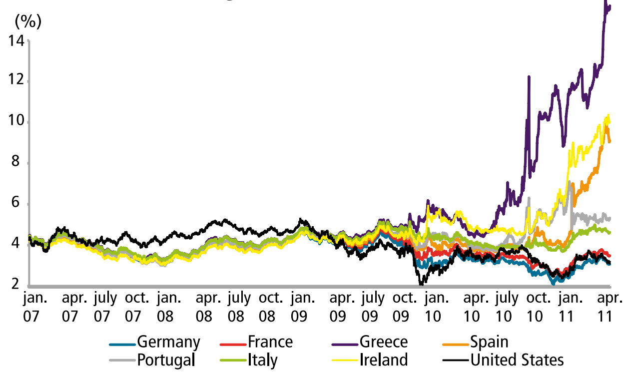
On the money markets, interbank rates in the U.S and Europe posted the same trends as the previous month. The 3-month dollar Libor was down to 0.26 percent in May 2010, against 0.28 percent one month earlier, while 3-month Euribor rose to 1.42 percent from 1.32 percent over the same period.

Regarding interest rate spread, the 3-month libor-OIS1 dollar almost stagnated at 16 basis points, while the 3-month libor-OIS euro rose from 16.7 basis points to 18.2 points.

The stock index of advanced countries recorded different changes in May, with the FTSE declining by 0.7 percent and the DAX increasing by 2.7 percent year-

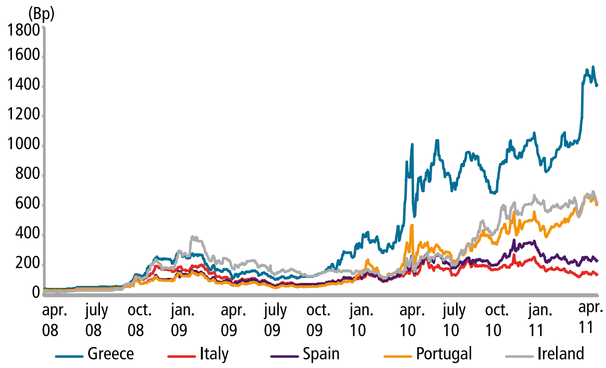
1 The OIS-LIBOR spread reflects the interest rate risk. It corresponds to the difference between the three-month interbank rate (LIBOR Eurodollar) and three-month overnight indexed swaps rate (OIS).

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



Source: Datastream

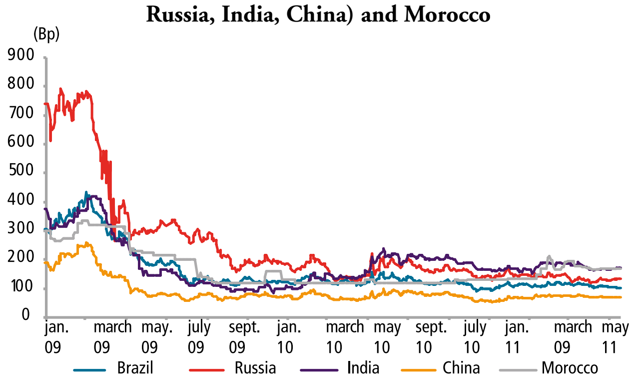
Chart 3.4: Change in CDS[2] in euro area peripheral countries



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

on-year. On the other hand, emerging economies indexes posted a drop, as MSCI EM1 showed a monthly decline of 2.7 percent in May 2011. Moreover, the VIX2 index, which provides information on the extent of price volatility on stock markets, averaged 16.9 basis points in May as against 16.2 percent one month earlier.

On the international foreign exchange markets, the euro reversed its upward trend recorded over the past 5 months, hence depreciating vis-à-vis the major currencies, mainly owing to the rising concerns about the public debt situation in several countries of the area. Thus, the euro depreciated against the dollar by an average of 2.7 percent between April and May to settle at 1.44 percent, with a lower level of 1.41 dollar posted in May 17, 2011. The single currency has also depreciated by 3 percent against the Japanese yen while it increased by 2.1 percent against the pound sterling.

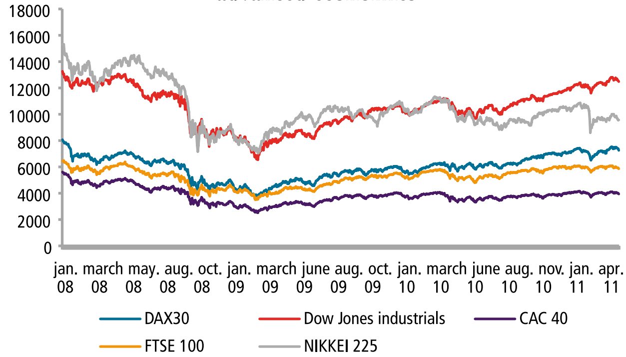
Loans to the private sector increased slightly in the euro area, up by 2.6 percent year-on-year, after 2.4 recorded in March, whereas, in the United States, it scored a monthly increase of 0.4 percent in April, dropping by 1 percent year-on-year.

Concerning monetary policies, major central banks of advanced economies decided, during their last meetings, to maintain the status quo. The ECB and the Bank of England kept their key interest rates unchanged at 1.25 percent and 0.5 percent respectively, while the FED maintained its interbank rate within the range of 0 percent to 0.25 percent.

1 The MSCI EM index is a stock market composite index that measures the performance of share markets in Central Europe, Middle East and Africa (Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Jordan, Egypt, Morocco, and South Africa).

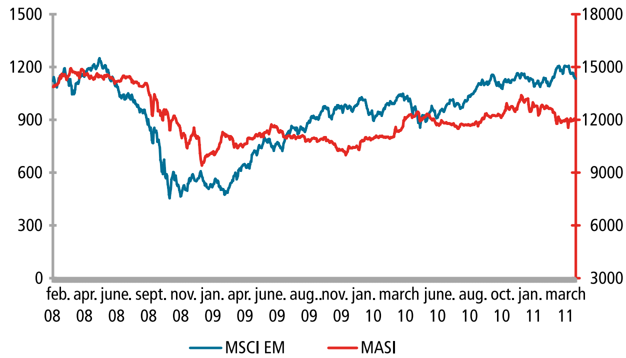
2 VIX, or the Chicago Board Options Exchange (CBOE) Volatility Index, shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The stronger the value of this index is , the more nervous the markets get, and a higher fear results. Conversely, a low value indicates relative fear on the American financial market. The variation of this index is more significant than its value.

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



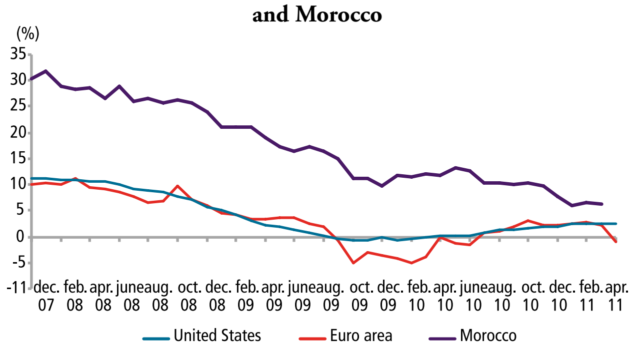
Source: Datastream

Chart 3.7: Change in the MSCI EM and MASI



Source: Datastream

Chart 3.8: YoY change in credit in the United States, euro area and Morocco



Source: Datastream

3.1.2 Global economic activity

Data on the international economic situation show continued recovery in the first quarter of 2011. However, growth remains uneven across regions a well as among advanced countries, particularly between the United States and the euro area.

According to the latest data issued by the U.S. Department of Commerce, US GDP grew in the first quarter of 2011by 1.8 percent on an annualized quarterly basis and by 2.3 percent, year on year, after 3.1 percent and 2.8 percent recorded the previous quarter respectively. This development is due the growth rate slowdown of household consumption from 4.1 percent to 2.7 percent and exports from 8.6 percent to 4.9 percent.

On the contrary, growth in the euro area decelerated to reach 0.8 percent on a quarterly basis and 2.5 percent year on year, the fastest rate recorded for more than three years. Besides the slight improvement in foreign trade in the area, this performance is due to a rebound in investment and an increase in private consumption in Germany and France. By country, it reflects a significant rise in German growth from 3.8 percent to 4.8 percent and in France from 1.5 percent to 2.2 percent, as well as a GDP increase in Italy and Spain, limited to 1 percent and 0.8 percent respectively.

In Japan, GDP has posted, for the second consecutive quarter, a decline following the lingering effects of the last March earthquake. It decreased by 0.9 percent on a quarterly basis in the first quarter of 2011, after the 0.8 percent recorded the previous quarter. Year-on-year growth in Japan stood at -0.7 percent after an increase of 2.4 percent posted in the fourth quarter of 2010.

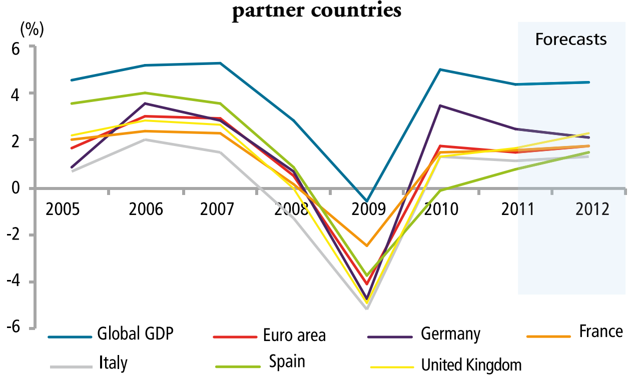
As for emerging Asian countries, growth remained strong in China at 9.7 percent year on year in the first quarter of 2011 as

Table 3.1: YoY change in quarterly growth

	2009		2010				2011
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
United States	-2.7	0.2	2.4	3	3.2	2.8	2.3
Euro area	-4	-2	0.8	2	2	2	2.5
France	-2.7	-0.5	1.2	1.6	1.7	1.5	2.2
Germany	-4.4	-2	2.1	3.9	3.9	4	4.8
Italy	-4.7	-2.9	0.6	1.5	1.4	1.5	1
Spain	-3.9	-3	-1.4	0	0.2	0.6	0.8
China	9.6	11.3	11.9	10.3	9.6	9.8	9.7

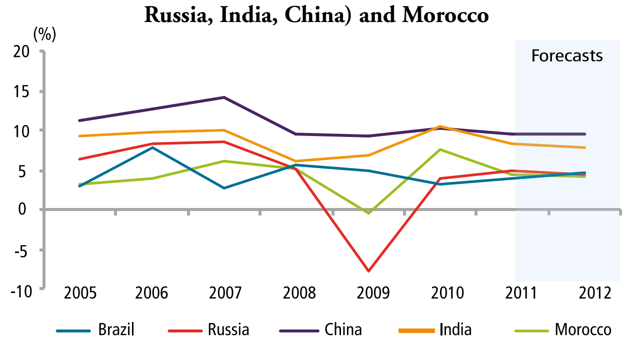
Source: Eurostat

Chart 3.9: YoY GDP growth in the world, the euro area and partner countries



Source: IMF

Chart 3.10: GDP growth in the emerging countries (Brazil, Russia, India, China) and Morocco



Source: IMF

against 9.8 percent in the fourth quarter of 2010, mainly owing to the continued strong household consumer spending, investment and foreign trade.

The most recent high-frequency indicators show continued recovery of economic activity in main advanced countries. The American Consumer Confidence index (prepared by the Conference Board) stood at 65.4 points in April 2011, up 2.5 percent from one month to another and 13.3 percent year on year. ISM manufacturing fell by 1.3 percent in April 2011 from one month to the other, but remained stable year on year.

In the euro area, the manufacturing PMI index rose to 57.7 points in April instead of 57.5 points the previous month, while the PMI composite edged up slightly by 0.3 percent from one month to the other and 0.9 percent year on year, to reach 57.8 points.

Coincident indicators, especially industrial production, recorded in the United States a monthly increase of 0.8 percent in April, while it fell in the euro area by 0.2 percent in March following a rise of 0.6 percent one month earlier.

According to the latest projections of most international organizations, the global economic outlook is generally favorable. However, several risk factors still hinder the consolidation of recovery in industrialized economies, where production in many countries has not yet reached their pre-crisis rates, and labor markets still post high unemployment levels. In the euro area peripheral countries, uncertainties result from the combination of a still very modest growth and the worsening fiscal imbalances as well as the balance sheets of financial institutions. On the other hand, risks in emerging countries are more related to the overheating signs and rising inflation pressures than to growth prospects.

According to the latest IMF projections of April 2011, world GDP would increase by

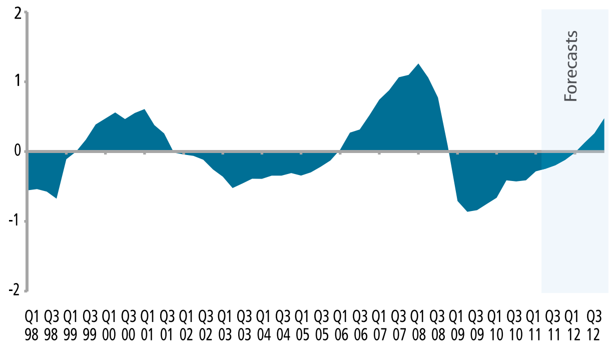
Table 3.2: Global growth outlook

	Forecasts					
	OECD*		European commission*		IMF*	
	2011	2012	2011	2012	2011	2012
Global GDP	-	-	4.0	4.1	4.4	4.5
United States	2.6	3.1	2.6	2.7	2.8	2.9
Euro area	2.0	2.0	1.6	1.8	1.6	1.8
Germany	3.4	2.5	2.6	1.9	2.5	2.1
France	2.2	2.1	1.8	2.0	1.6	1.8
Italy	1.1	1.6	1.0	1.3	1.3	1.1
Spain	0.9	1.6	0.8	1.5	0.8	1.6
United Kingdom	1.4	1.8	1.7	2.1	1.7	2.3
China	9.0	9.2	9.3	9.0	9.6	9.5
India	8.5	8.6	8.0	8.2	8.2	7.8
Brazil	4.1	4.5	4.4	4.3	4.5	4.1
Russia	4.9	4.5	4.5	4.2	4.8	4.5

**OECD : forecasts of November 2010, European commission: May 2011; IMF: April 2011*

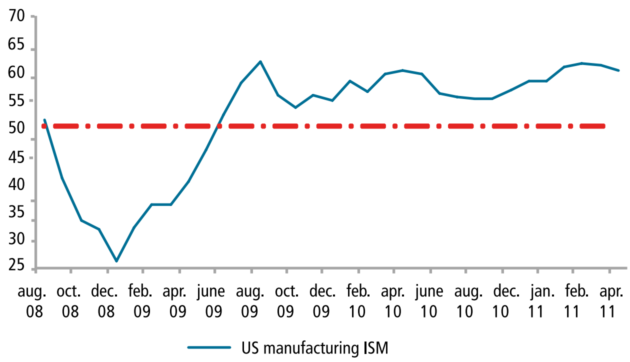
Sources: IMF, European commission and OECD.

Chart 3.11: Output gap of the main partner countries



Sources: European Commission, and BAM calculations

Chart 3.12: ISM growth in the US



Sources: Dtatstream

4.4 percent and 4.5 percent in 2011 and 2012 respectively. In advanced countries, growth would reach 2.4 percent in 2011 and 2.6 percent in 2012, while in emerging and developing countries, growth would remain stable at 6.5 percent between 2011 and 2012. By country, IMF expects GDP growth in the United States to rise by 2.8 percent in 2011 and 1.6 percent in the euro area.

As for the main partner countries of Morocco, the IMF forecasts GDP growth in 2011 and 2012 to reach respectively 1.6 percent and 1.8 percent in France, 2.5 percent and 2.1 percent in Germany, 1.1 percent and 1.3 percent in Italy and 0.8 percent and 1.6 percent in Spain. In China, GDP is expected to increase by 9.6 percent and 9.5 percent in 2011 and 2012 respectively, while it would settle at 8.2 percent and 7.8 percent in India.

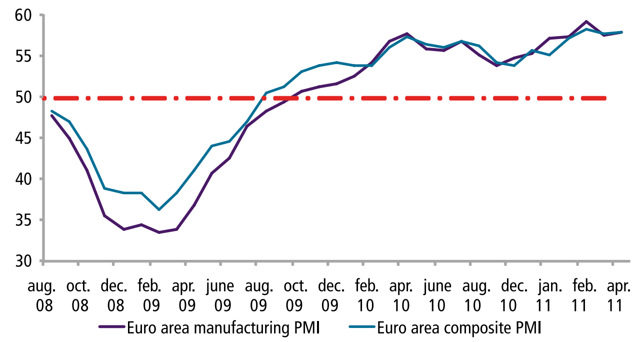
The new prospects of OECD at end May 2011 predict upward revisions of GDP for most advanced countries in 2011 and 2012 compared to the prospects of last November. Thus, growth in 2011 would reach 2.6 percent in the United States and 2 percent in the euro area, with a GDP increase of 2.2 percent in France, 3.4 percent in Germany, 1.1 percent in Italy and 0.9 percent in Spain. In emerging countries of Asia, GDP would increase in 2011 by 9 percent in China and by 8.5 percent in India, while in Latin American countries, it is expected to reach 4.1 percent, particularly in Brazil.

As for the latest forecasts of the European Commission of May 2011, they are in line with those of the IMF, posting continued improvement of GDP in most advanced countries in 2011 at varying rates. Based on these factors, the aggregate output gap of Morocco's main partner countries is expected to post significantly positive values only as of the second quarter of 2012.

3.1.3 Labor market

Difficulties on the labor market persist at the international level, particularly in

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



Sources: Dtatstream

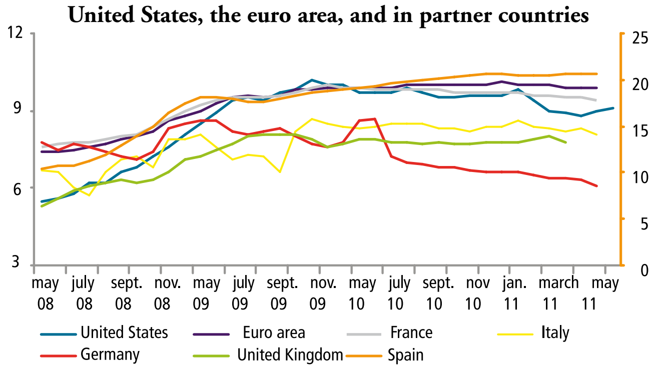
Table 3.3: Change in unemployment rate in the United States, the euro aera and the partner countries

	2009	2010	M2 2011	M3 2011	M4 2011
United States	9.3	9.6	8.9	8.8	9.0
Euro area*	9.4	10	9.9	9.9	9.9
France	9.5	9.8	9.5	9.5	9.4
Italy	7.8	8.5	8.2	8.3	9.1
Germany	7.5	6.9	6.4	6.3	6.1
Spain	18	20.1	20.6	20.7	20.7
United Kingdom	7.6	7.9	7.6	n.a	n.a

(*) Harmonized indexes

Sources: IMF, Eurostat, BAM forecasts for Morocco and IMF forecasts for other countries

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



Source: Eurostat

advanced countries, which continue to face high unemployment rates. In May 2011, unemployment rate in the United States rose to 9.1 percent after 9 percent in April. In the euro area, such rate stabilized at 9.9 percent in April, particularly with its record high of 20.7 percent in Spain, 9.4 percent in France, 8.1 in Italy and 6.1 in Germany.

Moreover, according to forecasts of several international organizations, unemployment rate is expected to remain high in 2011 in advanced countries before posting a slight decline by 2012.

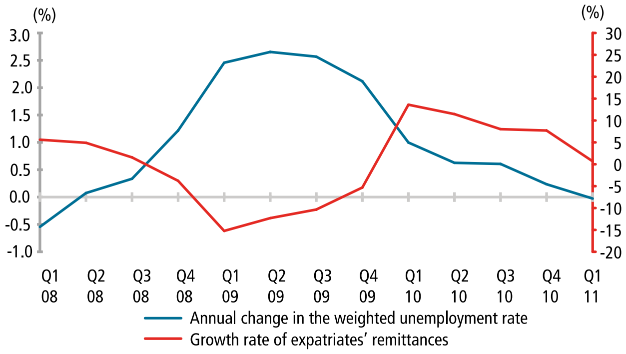
According to the latest projections issued by the IMF, unemployment rate in the United States is set to reach 8.6 percent and 7.8 percent respectively in 2011 and 2012, and such rate would stand in the euro area at 9.9 percent and 9.6 percent in 2011 and 2012 respectively. As for the European Commission, its latest forecasts of May predict an unemployment rate of 8.7 percent in 2011 in the United States and 10 percent in the euro area.

For partner countries, the IMF and the European Commission expect an unemployment rate much higher in 2011 and 2012 than its pre-crisis level in France, Spain, Italy and the UK. However, the labor market in Germany is expected to post a decline in unemployment at levels close to, or even lower than, the pre-crisis ones, in case the recovery continues at its current pace.

3.2 Commodity prices and inflation

Due to the rising dollar and declining demand, commodity prices were generally downward-oriented in May, breaking with the trend observed for several months. Regarding inflation, it continued its upward trend throughout April, due in particular to the continued dissemination of the prior increase of basic food product prices.

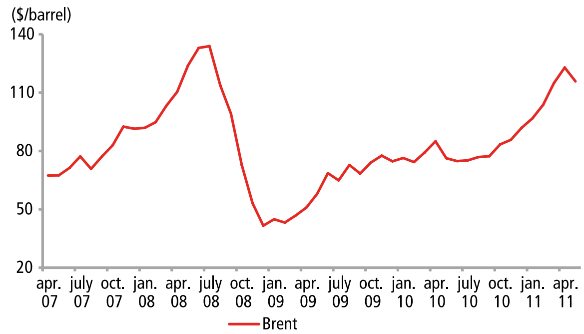
Chart 3.15: YoY change in main partner countries' weighted unemployment rate and expatriates' remittances* growth rate



* *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, and BAM calculations

Chart 3.16: World price of brent oil in dollar



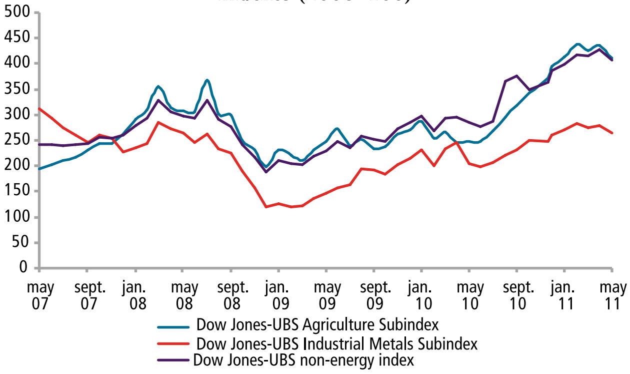
Source: Datastream

Table 3.4: Futures of oil (Brent in U.S. $) and natural gas (in pence) prices

	Q2:11	Q3:11	Q4:11	Q1:12	2011	2012	2013
Oil	116.21	111.41	110.47	109.72	110.91	108.25	104.58
Natural gas	9.60	10.04	11.62	11.33	10.15	11.01	11.33

Source: Bloomberg

Chart 3.17: Change in the DJ-UBS non-energy commodity indexes (2006=100)



Source: Datastream

3.2.1 Energy commodity prices

During May, oil prices were down 5 percent from one month to another, while settling at a level of 115 dollars per barrel, with an increase of 50 percent year on year. The price of Brent lost 12 dollars in the first five days of the month, affected by the rising dollar and international market conditions characterized by low demand and abundant supply.

The persistence of high prices, combined with the positive growth outlook in advanced countries, involved an upward revision of world demand forecast by the International Energy Agency, which is expected to reach 89.2 mb/d, up 1.3 mb/d compared to the previous year. On the other hand, OPEC has not changed its demand forecast and expects effects to be offset between the phases of rising and falling prices. The Organization has also expected a stable supply in the Middle East, a production increase in the Sultanate of Oman, following the implementation of the Harweel EOR Project intended to offset the declining production in Syria and Yemen.

As for prospects, the IMF estimated that oil prices would reach 107.16 dollars in April 2011 and 108 dollar per barrel in 2012, as against 89.50 dollars in 2011 and 89.75 dollars in 2012 according to January outlook. On the futures market, the price of Brent would amount to 110.9 dollars for 2011 and 108.25 dollars for 2012.

The price of coal increased by 22.9 percent year on year, due to the strong demand from China and Japan, as well as the impact of supply shortages following the floods that affected the Colombian and Australian mines.

3.2.2 Non-energy commodity prices

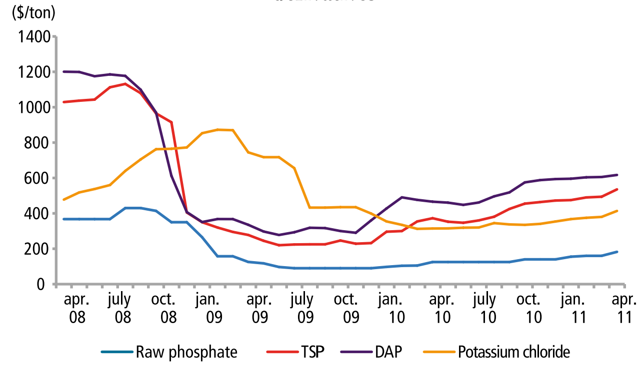
Prices of non-energy commodities dropped in May, following several months of increase as demonstrated by

Table 3.5: Futures prices of wheat, corn and sugar

	Q2:11	Q3:11	Q4:11	Q1:12	2011	2012	2013
Wheat(cents/bu)	784.6	851.4	897.8	921.7	830.3	929.2	934.1
Corn (cents/bu)	746.1	713.8	668.2	678	699.7	648.5	603
Sugar (11cents/bl)	23.1	22	22.3	22.2	24.4	22.1	21.3

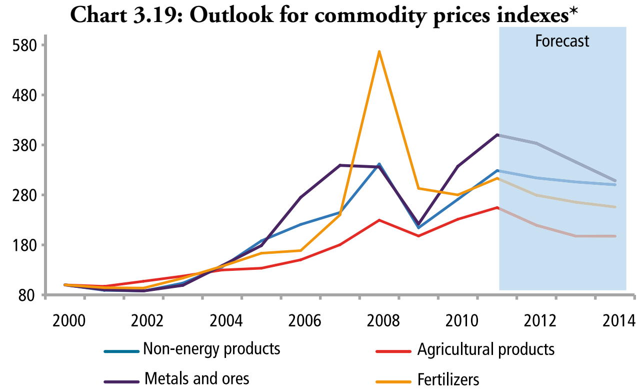
Source : Bloomberg

Chart 3.18: Change in the world prices of phosphate and its derivatives



(*) Updated on July 11, 2010
Source: World Bank

Chart 3.19: Outlook for commodity prices indexes*



(*) Updated on July 11, 2010
Source: World Bank

Table 3.6: Recent trend in world inflation, YoY

	Apr. 2010	Feb. 2011	March 2011	Apr. 2011	Forecast 2011	Forecast 2012
United States	2.2	2.1	2.7	3.2	2.2	1.6
Euro area*	1.5	2.4	2.7	2.8	2.3	1.7
Germany	1	2.2	2.3	2.7	2.2	1.5
France	1.9	1.8	2.2	2.2	2.1	1.7
Spain	1.6	3.4	3.3	3.5	2.6	1.5
Italy	1.6	2.1	2.8	2.9	2	2.1
Japan	-1.1	0.0	n.a	n.a	1.8	1.5
China	2.8	4.9	5.4	5.3	5	2.5

(*) Harmonized indexes
Sources : IMF, Eurostat, BAM forecasts for Morocco and IMF forecasts for other countries

the decline of Dow Jones- UBS index by 4.9 percent at a monthly rate, reflecting both the fall of Dow Jones- UBS agricultural products1 and that of base metals2 by 5.7 percent and 5.6 percent respectively.

This change is due to the strong dollar and the uncertainty surrounding supply. In addition, the slight slowdown in growth in both the United States and emerging countries was accompanied by a decline in base metals import, resulting in the drop of steel prices by 11.9 percent, 9.1 percent for zinc and by 6.1 percent for copper month on month. As for agricultural products market, cotton prices fell by 16 percent due to the lower demand from the textile industry, while sugar was down by 10 percent owing to the impact of the exceptional crop on supply in Thailand.

Phosphates and derivatives continued their increase during May due to the strong demand. Although raw phosphate prices were maintained at 182.5 dollars per ton for the second consecutive month, they increased by 46 percent year on year. On the other hand, the price of potassium chloride and TSP posted monthly increases of 16.7 percent and 2.2 percent, that is an annual increase of 73 percent and 55 percent respectively, while the price of DAP was down by 1.1 percent from one month to another, with a 32 percent increase year on year.

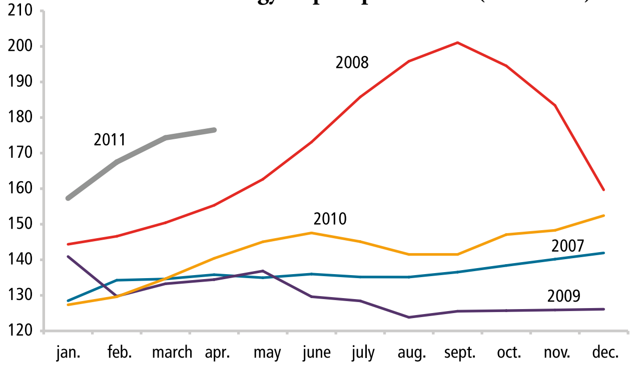
3.2.3 World Inflation

Inflation rose in all countries in April following the rising cost of energy and food commodities. In the United States, inflation reached 3.2 percent against 2.7 percent in March, driven primarily by an increase of 3.2 percent in the energy price index. In the euro area, inflation scored 2.8 percent driven by increased transport price index (5.9 percent), housing (5 percent) and alcoholic beverages and tobacco (3.4 percent). Concerning the main partners, CPI rose by 3.5 percent in

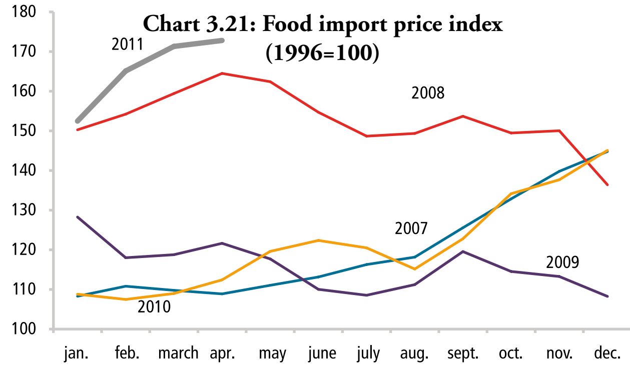
1 The DJ-UBS of agricultural products consists of wheat, corn, soy, sugar, cotton, coffee, and soybean oil.

2 The DJ-UBS of base metals includes aluminium, copper, zinc, and nickel.

Chart 3.20: Non-energy import price index (1996=100)

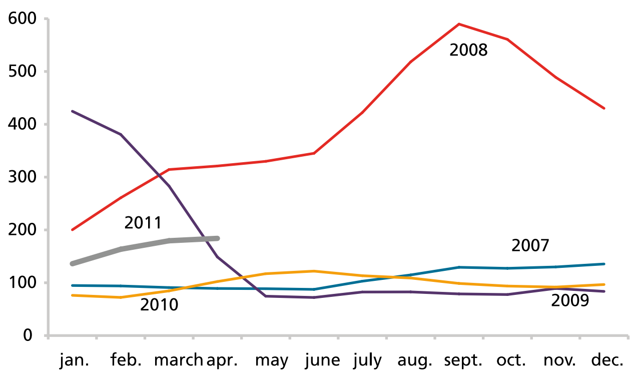


Sources: Foreign Exchange Office, and BAM calculations



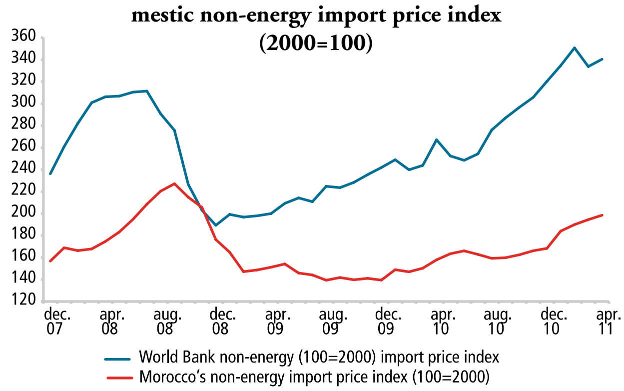
Sources: Foreign Exchange Office, and BAM calculations

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



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.23: Change in world commodity price index and domestic non-energy import price index (2000=100)



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

Spain, 2.9 percent in Italy, 2.7 percent in Germany and 2.2 percent in France. In China inflation slightly fell from one month to another, but remains high at 5.3 percent in April and 5.1 percent over the first four months of the year, due to direct and indirect effects of commodity price fluctuations.

As for the short-term outlook, the IMF expects that the upward trend of commodity prices would weaken by 2012, hence inducing a general moderation of inflation. The latter should stand in 2011 at 2.2 percent and 6.9 percent respectively in advanced as well as in emerging and developing countries, before going back in 2012 to 1.7 percent and 5.3 percent respectively. By country, inflation would amount in the United States and the euro area to 2.2 percent and 2.3 percent in 2011 and to 1.6 percent and 1.7 percent in 2012 respectively. However, this rate would fall, in China and India respectively, from 5 percent and 7.5 percent in 2011 to 2.5 percent and 6.9 percent in 2012.

percent one month earlier, mainly owing to the 2.3 percent increase in the average unit import price of plastics and 3.3 percent in that of paper and cardboard.

Year on year, non-energy products IPI recorded an increase of 25.7 percent in April. Mining products IPI rose by 80 percent, owing chiefly to the significant increase in the unit import price of sulfur. On the other hand, food products IPI showed a rise of 53.7 percent ascribed mainly to an increase of 96 percent of the unit import price of wheat and 41.5 percent of that of corn. Concurrently, IPI of semi-finished products recorded an increase of 23.8 percent following in particular a growth of 27.3 percent of the unit import price of wires and bars.

Given the upward trend of world commodity prices recorded in the past quarters, inflationary pressures resulting from import prices are expected to trend up over the coming quarters. However, the commodity price index outlook for 2012-2014 suggests a moderation in inflationary pressures.

3.3 Morocco's import unit price index

According to recent data available, non-energy import prices index (IPI) recorded, in April 2011, a monthly increase of 1.3 percent instead of 4 percent posted in March. The import price index of mining products posted an increase of 2.5 percent from one month to the next, against 10 percent a month earlier, mainly due to a 2.2 percent increase in the average unit import price of crude sulfur.

At the same time, food products IPI posted an increase of 0.8 percent instead of 3.8 percent recorded in March. This was mainly due to the 2.4 percent rise in the average unit import price of wheat, mitigated by a slight decrease in corn and sugar prices. IPI of food and mining products clearly reflect price trends on world markets.

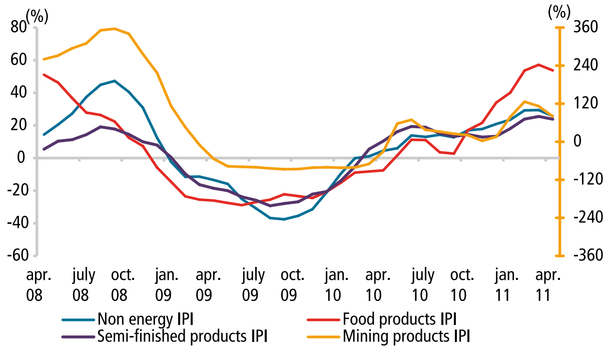
Similarly, semi-finished products IPI increased by 3 percent instead of 5.8

Table 3.7: Change in import price index

	Monthly variation in %			Yearly variation in %		
	feb. 11	march 11	apr. 11	feb. 11	march 11	apr. 11
Non energy IPI	6.5	4.0	1.3	29.2	29.4	25.7
Food IPI	8.3	3.8	0.8	53.6	57.2	53.7
Semi-finished products IPI	5.3	5.8	3	23.9	25.5	23.8
Mining IPI	20.1	10.0	2.5	126.3	112.2	80.0

Indexes calculated on the basis of unit prices in Dirhams.

Chart 3.24: YoY change in import price index



Sources: Foreign exchange office and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

The most recent data available at end-April 2011 show the continued slowdown in M3 growth which stood at 4.1 percent, year on year, in April 2011 instead of 4.3 percent in the first quarter and 5.4 percent in the fourth quarter of 2010. This mainly reflects a slowing growth of time deposits and a decrease of money market UCITS. Under these conditions, money surplus in real terms remained at negative levels since the second quarter of 2010. Credit continued to develop at a pace closer to the one recorded since the beginning of the year, amounting to 6.8 percent in April instead of 6.4 percent in the first quarter of 2011. As for borrowing rates, the results of the survey conducted by Bank Al-Maghrib with banks for the first quarter of 2011 indicate a decline in the weighted average interest rate of credit, mainly due to the drop in rates on cash advances and real-estate loans. As to the effective exchange rate of the dirham, it remained almost unchanged in nominal terms form one quarter to another. In real terms, it depreciated by 1 percent following the favorable trend of the inflation differential. Concerning the real-estate price index, it grew by 5 percent from 1.2 percent in the previous quarter, reflecting the rise in prices of all goods categories. Combined with M3 forecasts and bank credit for the coming quarters, recent developments indicate, on the whole, the absence of inflationary pressures generated by monetary conditions.

4.1 Monetary conditions

4.1.1 Interest rates

In a context characterized by a central forecast which remains in line with the price stability objective and a slight upward trend in the balance of risks, Bank Al-Maghrib Board, at its last meeting on 29 March 2011, decided to keep the rate unchanged at 3.25 percent. Under such conditions, the interbank rate stood at 3.28 percent on average between April and May 2011; that is a decrease of one basis point compared to the first quarter.

Concurrently, rates on short, medium, or long-term Treasury bills posted slight declines in April 2011, after recording diverging changes during the first quarter. The same trend profile was observed in the secondary market, both for short-term yields and those of medium and long-term bills.

With regard to deposit rates, the weighted average rate of 6-month and 12-month deposits, after posting stabilizing between the fourth quarter of 2010 and the first quarter of 2011, fell by 13 basis points in April. This trend reflects the lower rate applied to 12-month deposits, while rates on 6-month deposits remained almost stable.

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

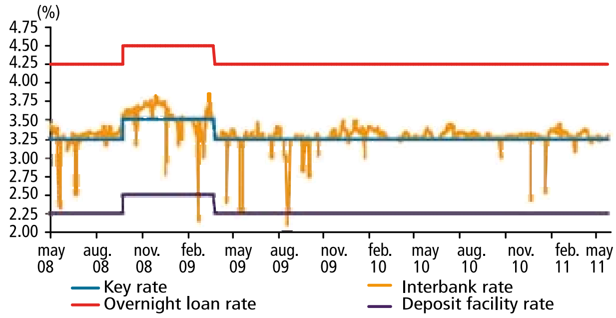


Table 4.1: Change in Treasury bond yields on the primary market

	2009	2010					2011
	Q4	Q1	Q2	Q3	Q4	Q1	apr. 2011
13 weeks	3.25	3.44	3.39	-	3.29	3.31	3.29
26 weeks	3.28	3.56	3.45	3.41	3.33	-	-
52 weeks	3.37	3.62	3.55	3.49	3.48	3.46	-
2 years	3.57	3.73	3.69	3.68	3.62	3.63	3.60
5 years	3.74	3.95	3.90	3.90	3.85	3.85	3.83
10 years	-	4.20	4.19	4.17	4.15	4.13	4.12
15 years	-	4.32	4.35	-	4.34	4.32	4.32

Concerning borrowing rates, the results of the survey conducted by Bank Al-Maghrib among banks for the first quarter of 2011 indicate a drop of 9 basis points in the weighted average rate of bank credit, down to 6.12 percent. This change reflects particularly a drop in cash advances and real-estate loans' rates and, to a lesser extent, consumer loans rates. However, equipment loans rates reported a new increase.

Chart 4.2: Change in maturity structure of TB interest rates

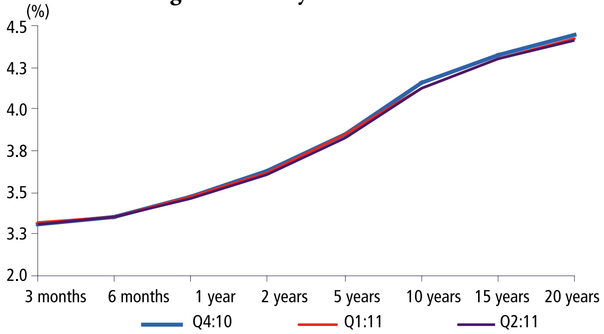


Table 4.2: Rates on time deposits

	2009	2010				2011	
	Q4	Q1	Q2	Q3	Q4	Q1	apr.2011
6 months	3.24	3.28	3.32	3.32	3.33	3.28	3.29
12 months	3.69	3.65	3.64	3.71	3.77	3.79	3.64
Weighted average	3.54	3.48	3.48	3.59	3.60	3.60	3.47

Box 4.1: Liquidity and monetary policy implementation

During the first quarter of 2011, bank liquidity shortage[1] deepened considerably, up from 5.4 billion dirhams at the end of Q4 - 2010 to 15.6 billion on 31 March 2011, owing to the restrictive impact of banks' liquidity autonomous factors (excluding Treasury transactions on the money market) estimated at about 8.1 billion dirhams.

Transactions in foreign assets led to a liquidity injection of 6.6 billion dirhams due to the difference between sales of foreign banknotes, totaling 6.2 billion dirhams, and the purchases of foreign currency by commercial banks amounting to 12.8 billion dirhams.

Similarly, the rise in currency in circulation reached 1.3 billion dirhams due to the outflows recorded mainly throughout February amounting to 970 million dirhams.

However, Treasury transactions (excluding money market investments) were the result of liquidity injection of 589 million dirhams, because of domestic debt repayments in favor of the banking system (16.8 billion dirhams), payment of wages (13 billion dirhams), payment of subsidization expenses (13 billion dirhams) and pensions (2.4 billion dirhams). These transactions were partially offset by banks subscriptions in the auctions of Treasury bills (24.4 billion dirhams) and collection of tax revenues (20 billion dirhams).

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

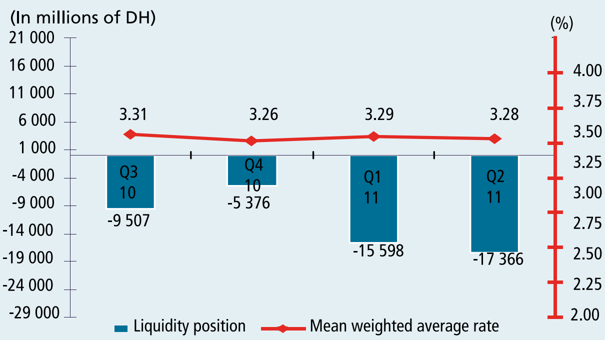
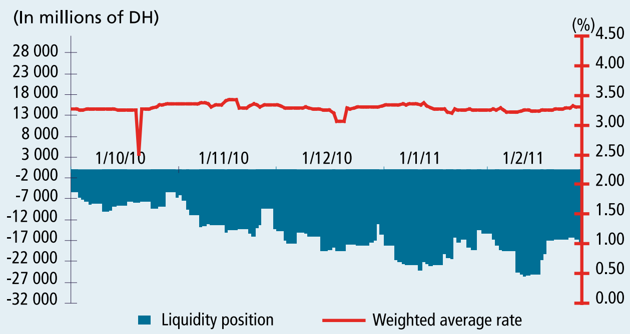


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



1 Liquidity position = banks' balance – reserve requirements +/- intervention of BAM +/- Treasury intervention on the money market.

During the second quarter of 2011[2], banks liquidity average shortage slightly deepened by 1.8 billion dirhams, mainly due to the highly restrictive impact of autonomous factors (-7.2 billion dirhams), which was partially offset by the decision of Bank Al-Maghrib Board to exclude passbooks from the calculation base of monetary reserves (+4.7 billion dirhams).

Chart B 4.1.3: Change in reserve requirements

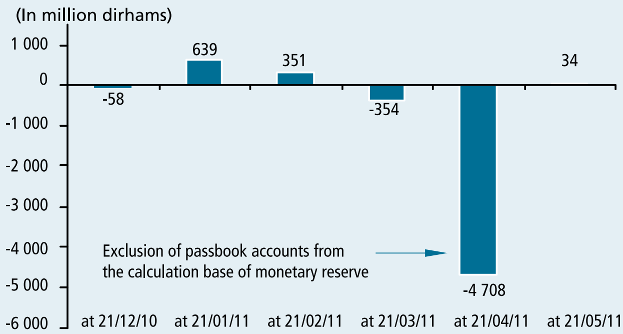
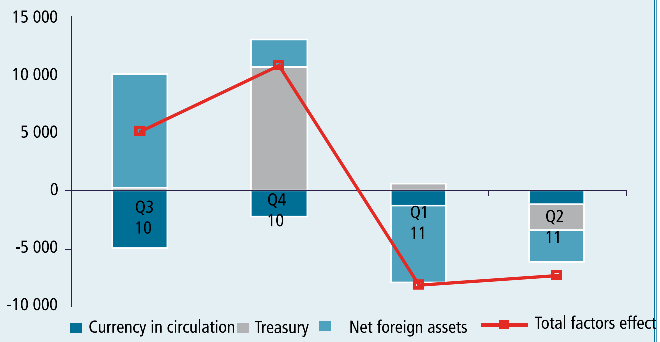


Chart B 4.1.4: Change in liquidity factors' effect



Transactions in foreign assets led to a liquidity injection of 2.6 billion dirhams due to the difference between foreign currency purchases by commercial banks amounting to 6.8 billion dirhams, and sales of foreign banknotes totaling 4.1 billion dirhams.

Similarly, Treasury transactions have negatively impacted the bank liquidity amounting to 2.3 billion dirhams, due to banks subscriptions in Treasury bills auctions (9.9 billion dirhams), collection of tax revenues of the first CT-2011 downpayment (13 billion dirhams), partially offset by the repayment of domestic debt in favor of the banking system (13.4 billion dirhams) and subsidization expenses payment (6.4 billion dirhams). The increased of currency in circulation of coins and notes reached 1.1 billion dirhams.

During this period, the Treasury transactions on the money market has had a net expansionary effect of 2 billion dirhams on bank liquidity and covered a daily average outstanding amount of 3 billion dirhams as against 1.5 billion dirhams in the previous quarter.

In order to overcome the bank liquidity shortage, averaging 20 billion dirhams over this quarter, BAM has intervened through the 7-day advances with an average daily amount of 17.5 billion dirhams against average injections of 11.2 billion dirhams in the previous quarter.

During the second quarter of 2011, the weighted average rate stood at 3.28 percent, down one basis point from the previous quarter. In addition, WAR volatility decreased by 4 basis points as against the level recorded during the first quarter of 2001 to settle at 6 basis points.

Chart B 4.1.5: BAM interventions on the money market

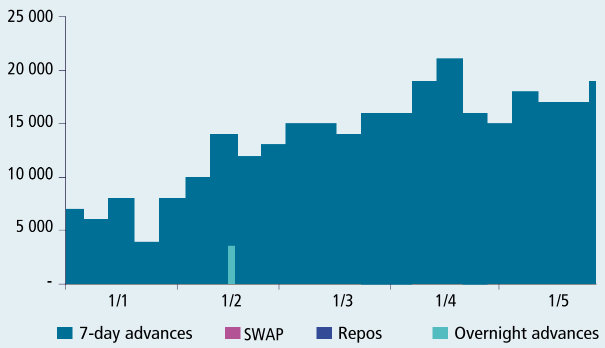
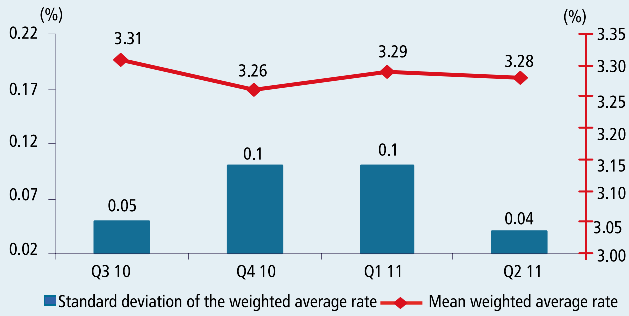


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



2 Second quarter of the year 2011 includes only the period from 1 April to 27 May 2011.

4.1.2 Money, credit and liquid investments

M3 growth

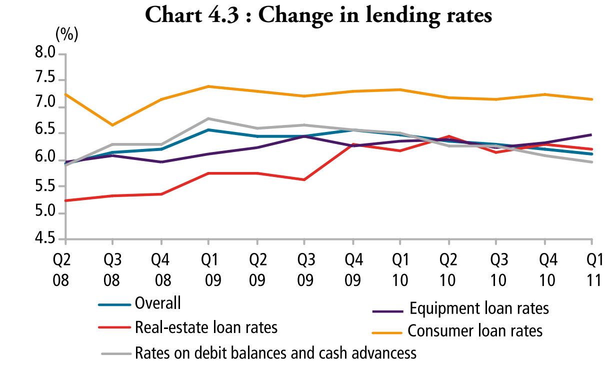
The annual growth of M3 aggregate continued to slow down in April 2011, dropping to 4.1 percent from 4.3 percent in the previous quarter and 5.4 percent in the last quarter of 2010. As a result, money surplus has remained at a negative level, hence confirming the absence of monetary inflationary pressures in the medium term.

This trend reflects the negative impact of non-monetary liabilities and the slowing growth of net foreign assets increase, which offset the positive effect of accelerating growth rates of claims on the economy and net claims on the central government.

The analysis of the main components of money supply shows diverging trends between the first quarter and April 2011. Money market UCITS were down by nearly 15 percent, contributing to the slowdown of M3. Time deposits recorded a drop in their year-on-year growth rates to 3.8 percent in April from 5.2 percent in the first quarter of the year. In contrast, notes and coins growth rate as well as bank money increased respectively by 9.8 percent and 4.5 percent in April, instead of 7.7 percent and 4.3 percent in Q1-2011. As for demand deposits, their annual growth rate increased from 7.2 percent to 7.5 percent, driven mainly by savings accounts with banks, as the latter have increased by 7.8 percent in April, after 7.4 percent recorded last quarter.

By type of depositors, the structure of deposits shows a slight acceleration in the annual growth of demand accounts, of both private non-financial corporations and households. Conversely, the slowdown in growth of time deposits is mainly due to the continuing decline

Chart 4.3 : Change in lending rates



Source: BAM monthly survey among banks

Chart 4.4: Change in interbank rate and lending rates

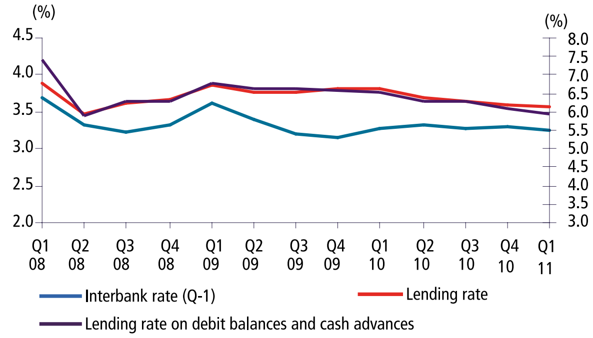


Chart 4.5: YoY M3 growth and its trend

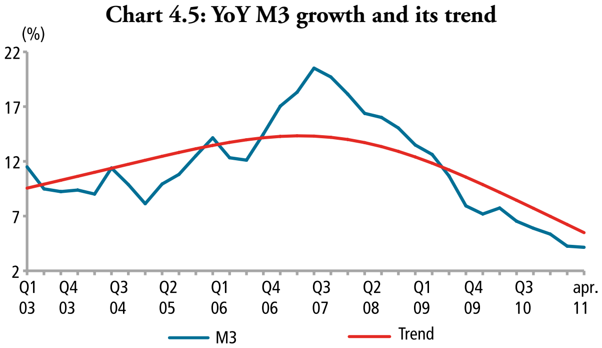
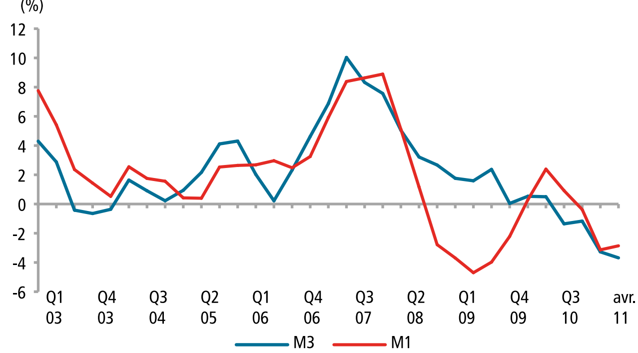


Chart 4.6: Money gap (in percentage of M3 and M1 balance outstanding amount in real terms)



of financial units' deposits both on a monthly as well as on an annual basis.

Bank loans

The latest available data show that bank credit continued to grow at an annual rate close to that recorded since the beginning of the year, estimated at 6.8 percent in April after posting 6.4 percent on average in the first quarter of 2011.

Analysis by economic unit indicates that the recent increase in credit has mostly concerned facilities granted to private non-financial corporations, up 15.4 percent in April from 13.3 percent in first quarter of 2011, contributing by 7 percentage points to total credit growth as against 5.9 points in the previous quarter. In contrast, the annual growth rate of loans allocated to households fell from 6.3 percent in the first quarter to 3.9 in April. Their contribution to growth of bank loans was limited to 1.3 percentage points instead of 2.2 points.

By economic purpose, credit growth reflects diverging trends of its main categories. Cash advances recorded an annual increase of 9.7 percent in April instead of 7 percent in the previous quarter, continuing their upward trend since the fourth quarter of 2010. This development is mainly due to the increase in loans granted to fuel distribution companies and cereal importers. However, equipment and consumption loans slowed down once again, as their year on year growth rate was stood at 11.8 percent and 6.2 percent, respectively, in April, against an average of 13.6 percent and 7.4 percent during the first three months of 2011. As to real-estate loans, which went up by 9.2 percent year-on-year, their pace remained almost unchanged compared to the previous quarter. This quasi-stagnation covers an annual increase in housing loans, from 12.3 percent in

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

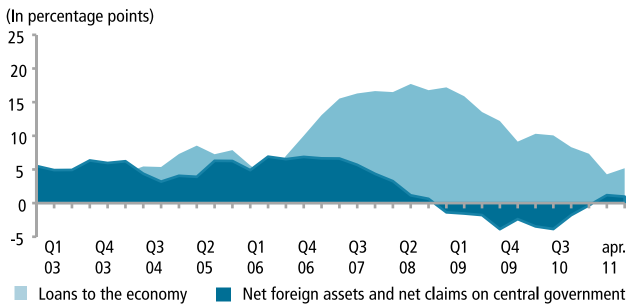


Chart 4.8: YoY change in the major M3 components

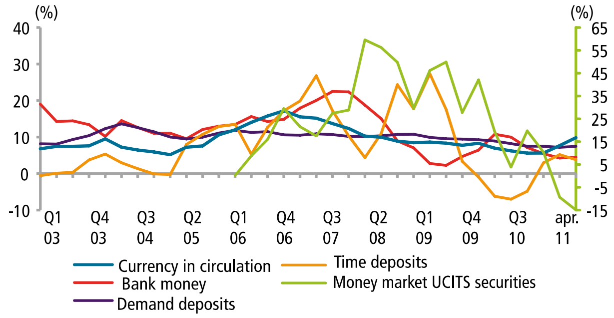


Chart 4.9: Institutional sectors' contribution to total deposits' growth

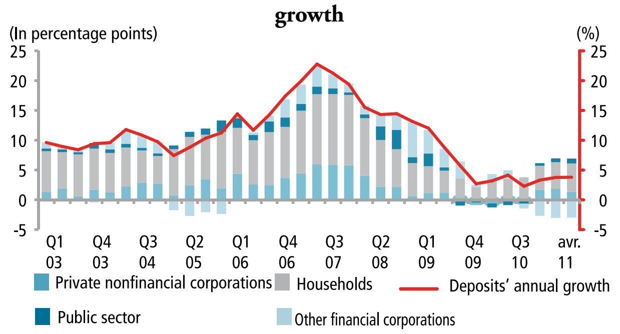
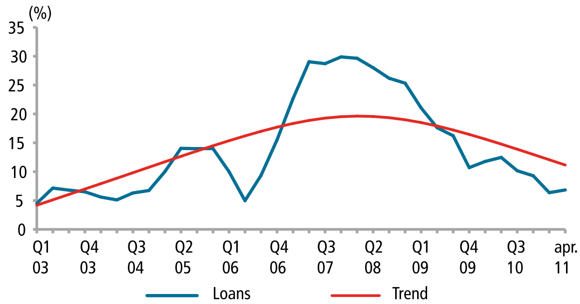


Chart 4.10: YoY growth and trend of bank loans



the first quarter of 2011 to 11.7 percent in April, and a slight acceleration of loans to real estate developers, from 2.2 percent to 3.8 percent. As to miscellaneous claims on customers, they showed a further decline of 5.7 percent in April. In turn, non-performing loans stood at a level similar to that recorded during the same period of the previous year.

Other sources of money creation

After posting a slight improvement during the last two quarters, net foreign assets recorded the same level in April as the one posted during the same period of the previous year, the rise in net foreign assets of Bank Al-Maghrib was offset by the decline in those of other depository institutions. Changes in foreign exchange reserves reflect a worsening in trade deficit by 22.1 percent at the end of the first four months, following a rise of imports greater than that of exports, as well as a new improvement in tourism receipts and Moroccan expatriates' remittances, up 3.9 percent and 2.1 percent respectively.

With regard to net claims on the central government, despite their 3.8 percent monthly decrease in April, they rose by 4.4 percent, year on year, as against 2.2 percent a quarter earlier. This increase primarily reflects the continuing resort of the central government to other depository institutions.

Liquid investments

In April 2011, the annual growth rate of liquid investments slowed down again to stand at 14.1 percent after 15.5 percent recorded in the previous quarter.

The development of liquid investments primarily reflects the deceleration of the growth rate of equity and diversified UCITS, coupled with the slowdown

Chart 4.11: Contribution of institutional sectors to credit growth

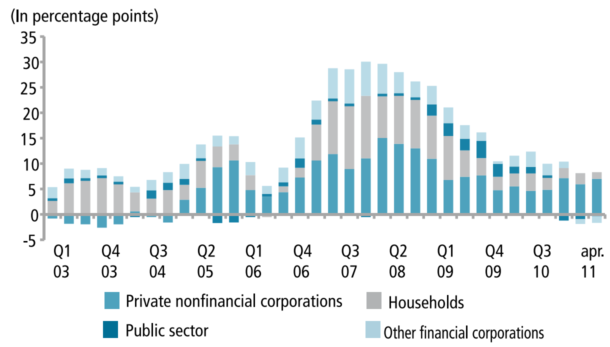


Chart 4.12: YoY growth of major bank loan categories

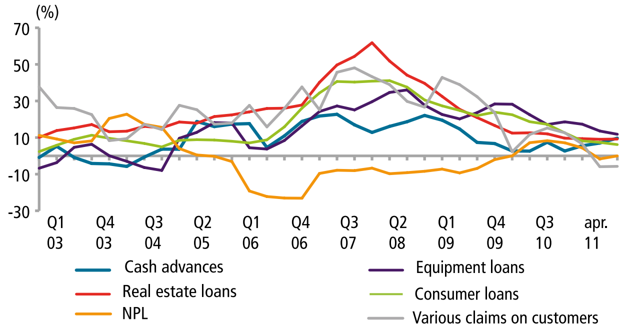


Chart 4.13: Contribution of the various loan categories to bank credit growth

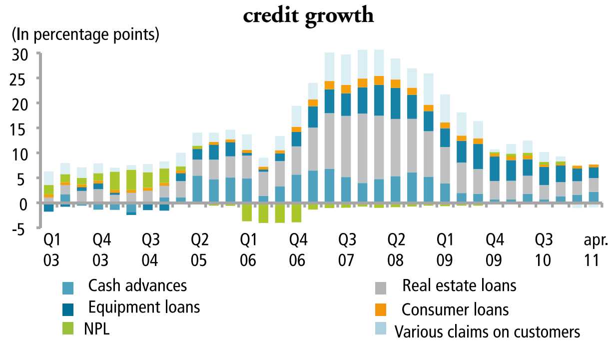
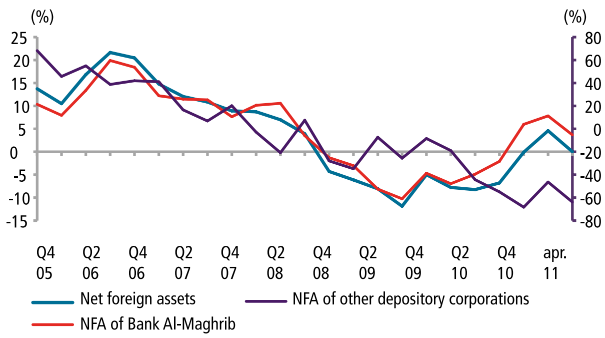


Chart 4.14: Annual growth of net foreign assets



in the performance of Casablanca Stock Exchange prices. Following a monthly decline of 13.4 percent in April, the annual growth rate of LI3 aggregate was limited to 6.8 percent instead of 31.3 percent over the first three months of 2011. Similarly, the annual growth rate of assets included in LI1 aggregate edged down from 19.2 percent in the first quarter to 11.9 percent in April, mainly as a result of the low demand for negotiable Treasury bills. As for UCITS bond securities, listed in the LI2 aggregate, they continue to grow at a robust pace of 21.1 percent, mainly due to the appreciation of their value, itself related to the decline in yields on the secondary market of Treasury bills.

Exchange rates

During the first quarter of 2011, and compared to the previous quarter, the dirham appreciated 0.53 percent against the dollar. However, it depreciated 0.11 percent and 0.84 percent against the euro and the pound sterling respectively.

Compared to the previous quarter, the May and April averages of the national currency dropped by 0.89 percent against the euro, and increased by 4.36 percent and 2.28 percent against the dollar and the pound sterling respectively.

The dirham's nominal effective exchange rate, based on bilateral exchange rates with Morocco's main trading partners and competitors, remained practically unchanged in the first quarter of 2011. In real terms, the national currency depreciated by 1 percent from one quarter to another, owing to a positive inflation differential.

4.2. Asset prices

4.2.1 Real estate assets

At the end of the first quarter of 2011, real-estate price index (REPI)1 shows a

1 The REPI index was jointly developed by Bank Al Margrib 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 quarterly since 15 March 2010 on the websites of both institutions: www.bkam.ma and www.ancfcc.gov.ma.

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

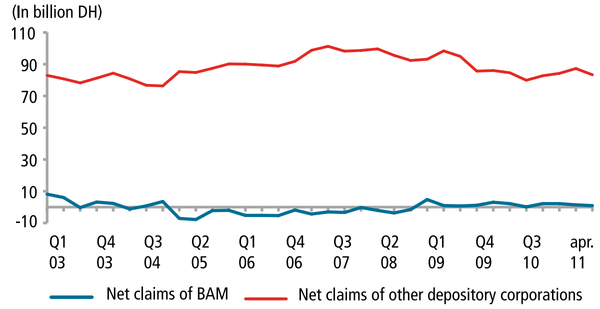


Chart 4.16: YoY change of liquid investments and time deposits

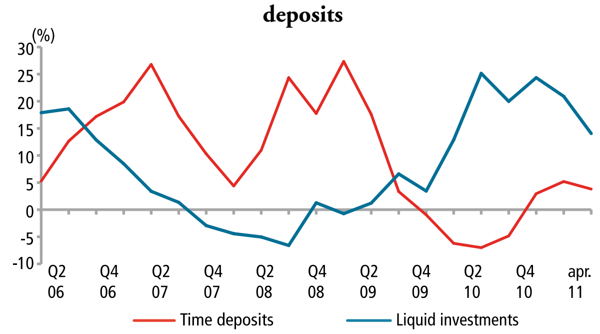


Chart 4.17: Change in LI1 and LI2 aggregates

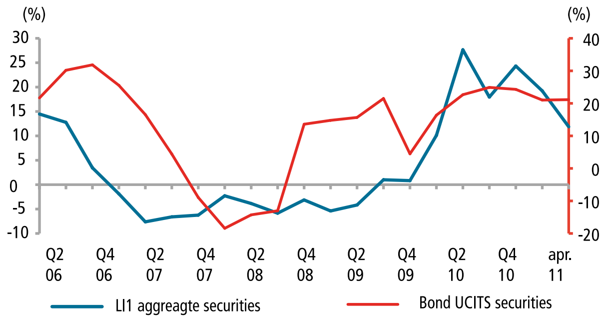
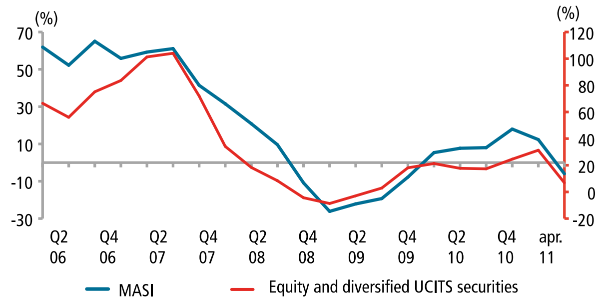


Chart 4.18: YoY growth of LI3 and MASI



quarterly increase of 1.2 percent against a 1.1 percent drop a quarter earlier. Year on year, this growth is more significant as the REPI grew by 5 percent from 1.2 percent in the previous quarter, due to the increase in prices of all goods categories. Prices of apartments and villas jumped 6.7 percent and 7.7 percent respectively, while those of homes remained almost stable year on year.

In addition, sales of residential property as registered at the Land Registry Office, compiled 35 days after the end of the first quarter 2011, dropped once again to settle at 12,619 transactions instead of 13,354 in the fourth quarter of 2010. This drop reflects the decline in sales of all categories.

At the same time, housing loans, amounting to 125.7 billion dirham, grew at an annual rate similar to that of the previous quarter, that is 12.3 percent. The real- estate stock market index, in turn, depreciated by 10.3 percent.

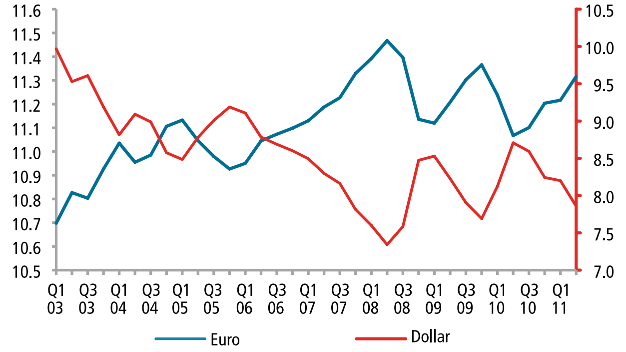
4.2.2 Share prices

After the rise recorded in the last quarter of 2010, MASI edged down 3.8 percent in the first quarter of 2011 and 5.1 percent in April. Also, its underperformance posted since the beginning of the year stood at 8.7 percent, instead of an increase by 18 percent over the same period of the previous year. The same trend pattern was posted by the real estate index, which fell by 5 percent in the first quarter of 2011 and 8.4 in April.

Concurrently, market capitalization shrank by 3.8 percent from a quarter to another, to stand at 557.1 billion dirham in the first quarter of 2011. This trend continued in April, as market capitalization edged down to 529.7 billion dirham.

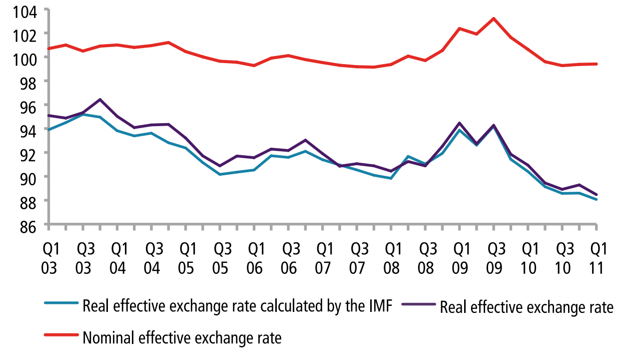
Similarly, the Price Earnings Ratio of Casablanca stock market declined from 19.1 to 16.6, from one quarter to another,

Chart 4.19: Exchange rate of the dirham



**Observation of the second quarter of 2011 corresponds to the arithmetic average of data from April 1 to May 25, 2011*

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



Source: IMF and BAM calculations

Chart 4.21: Real estate price index (REPI)

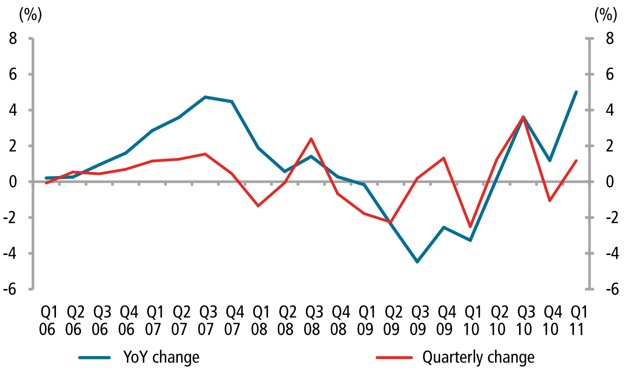
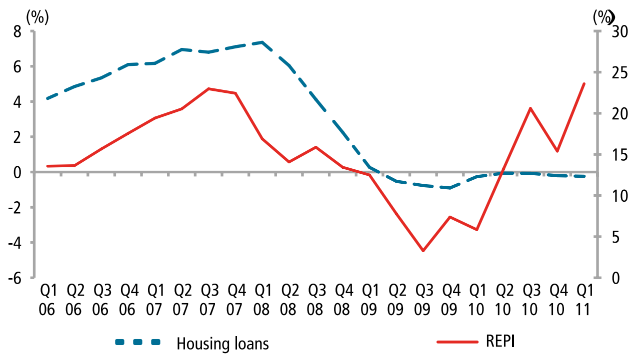


Chart 4.22: YoY change in the REPI and housing loans*



** Housing loans do not include loans to real estate developers* reaching 17.3 in April. It remains relatively high compared to other markets of similar size. At the same time, the Price to Book Ratio[1], amounting to 3.8 at the end of April, is still among the highest compared to other markets.

The volume of transactions stood at 47.72[2] billion dirhams in the first quarter of 2011, down 24.9 billion. It amounted to 3.2 billion at the end of April.

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

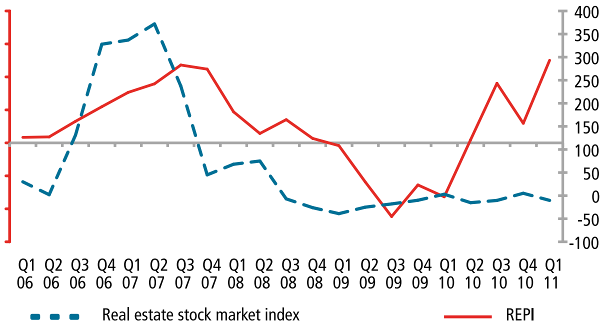
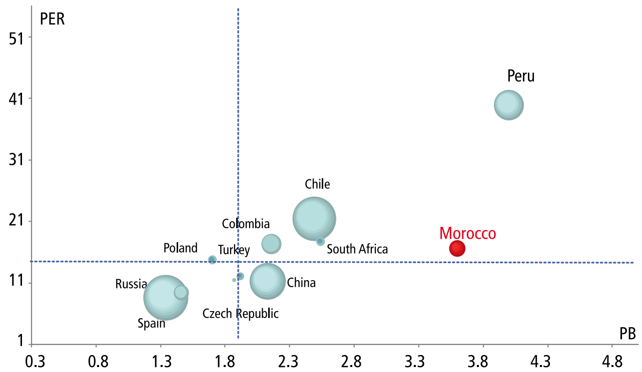


Table 4.3: Equity market's PER

PER	Q1 : 10	Q2 : 10	Q3 : 10	Q4 :10	Q1 :11
Argentina	17.5	12.9	11.1	12.7	13.4
Brazil	16.4	14.9	14.7	14.8	14.2
Mexico	17.1	13.5	14.3	15.7	15.3
Turkey	11	12.6	11.5	13.5	12.8
Morocco	**16.9**	**18.1**	**17.7**	**19.1**	**16.6**

Sources: Datastream and CFG

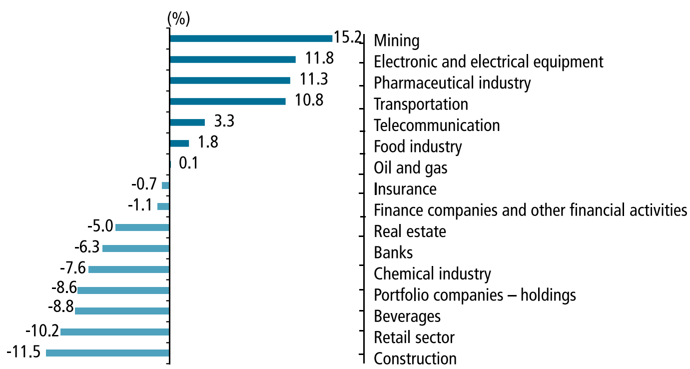
Chart 4.24: Equity market's PER in Morocco and in some emerging countries (*) at the end of March 2011



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

Sources: Datastream, CFG, and BAM calculations

Chart 4.25: Quarterly change in sectoral indexes



Source: Casablanca stock exchange

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

2 As of 3 January 2011, to align its practices with international standards, Casablanca Stock Exchange changed the publication of the volumes of transactions, which are published on a unidirectional basis (purchase) instead of a bidirectional basis (purchase and sale).

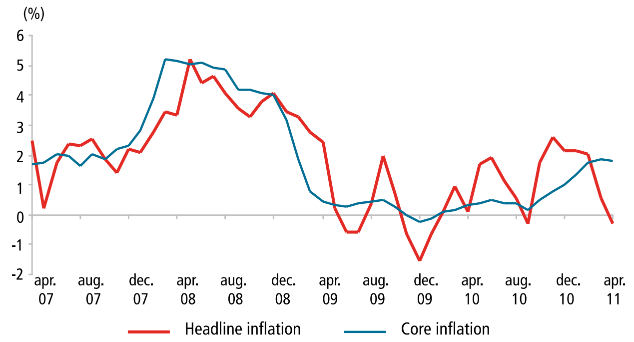
5. RECENT INFLATION TRENDS

Data of the first quarter and of April 2011 show trends generally concurring with the forecast published in the last Monetary Policy Report. Consumer price index recorded a slowdown followed by a decline, despite an international context marked by rising inflationary pressures, owing to the increase in commodity prices. After reaching 2.0 percent in February and 0.6 percent in March, year-on-year, inflation fell to -0.3 percent in April, averaging 1.6 percent in the first quarter and 1.1 percent in the first four months of 2011. Core inflation, which reflects the basic trend in prices, did not significantly change from one month to another, standing at 1.8 percent in April after 1.9 in March, as its average over the first four months of the year amounted to about 1.7 percent. Its absolute deviation in relation to headline inflation stood at 2.1 points in April, due to the rapid decline in prices of certain fresh foods. The core inflation trend reflects an upward move in inflation of tradable goods (CPIXT), owing to international developments, as well as slower pace of price growth of non-tradable goods (CPIXNT), reflecting moderation in inflationary pressures at the domestic level. The price index of tradable goods included in CPIXT rose by 2.2 percent in April from 2.1 percent in March, while non-tradable inflation (CPIXNT) slowed down from 1.6 percent to 1.4 percent. Besides their impacts on tradable goods' prices, which remained relatively low until then, tension on world commodity prices are particularly significant regarding industrial producer prices, which grew by 15.2 percent in April 2011, year on year, after 15.1 in March and 14.0 percent in February 2011. From one month to another, the growth rate of producer prices, however, declined from 2.9 percent in March to 1.3 percent in April. Overall, the spread of producer prices' increases to consumer prices is expected to affect non-energy components in particular, as a result of the continued freezing of the indexation mechanism of oil pump prices.

5.1 Inflation trends

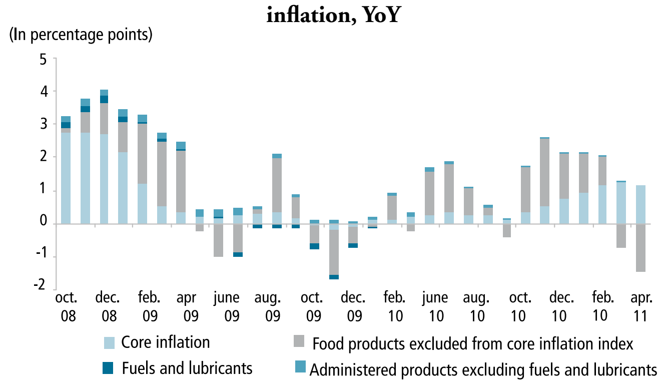
Despite the exacerbation of price pressures at the international level, mainly due to the rise in commodity prices, changes in consumer prices at the national level remain generally moderate. The absence of significant pressure of domestic demand, combined with the mitigating effect exerted by the subsidization mechanism, maintained headline inflation at 1.1 percent on average over the first four months of 2011, against 0.9 percent throughout 2010. In the very short term, one-time supply shocks cause considerable fluctuations in the prices of some fresh food products, but they essentially impact the volatility of headline inflation without significantly affecting its long-term average. After fluctuating around 2 percent between October 2010 and February 2011, inflation, measured by the annual change in the consumer price index (CPI), fell to 0.6 percent in March and -0.3 in April reflecting, to a large extent, the decline in prices of the component "volatile food products". The latter dropped by 5.1 percent in March and 10.2 percent in April after they rose by 6.4 percent in February. Fuel and lubricant prices did not

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

change, along with the continued freezing of the indexation mechanism that shields the national market from oil price shocks at the international level, while the rates of other administered goods edged up to 0.2 percent in April, reflecting price rises in "sugar" and "road passenger transport" of 1.2 percent and 0.4 percent respectively.

Excluding volatile food products and administered products, core inflation continues to grow almost steadily since its low point of December 2009 (-0.2 percent), with a slight slowdown from 1.9 in March to 1.8 percent in April. Its absolute deviation in relation to headline inflation expanded to 2.1 percentage points, up from only 0.3 points in last February. Such deviation, temporary by nature, is mainly due to the decline in prices of certain fresh food products, especially vegetables, which negatively contributed to inflation up to 1.7 percentage points on average in March and April 2011. Over the first four months of this year, core inflation averaged 1.7 percent instead of 0.1 percent a year earlier, keeping its upward trend observed since the beginning of the year. The detailed breakdown of CPIX basket indicates that this change was mainly due to rising prices of commodity included in the basket, especially cereal-based products by 2.4 percent and oils by 4.5 percent. Prices of other components showed different trends, with variations ranging from a decrease of 1.5 percent for "communication" component to an increase of 4.6 percent for "education".

5.2 Tradable and nontradable goods

Analysis of inflation momentum is also explained by breaking down the core inflation indicator into tradable (CIPX) and non-tradable goods (CIPXNT), whose weights in the general index basket amount respectively to 34.9 percent and 32.2 percent. Before November 2010, the inflation of tradable goods included in CIPX negatively and significantly contributed to headline inflation, owing mainly to weak foreign demand and world inflation, whereas prices

Table 5.1: Inflation and its components

	Monthly change (%)			YoY(%)		
	feb. 11	march 11	apr. 11	feb. 11	mars 11	avr. 11
Headline inflation	**0.8**	**-0.1**	**-1.1**	**2.0**	**0.6**	**-0.3**
Including:						
- Volatile food products excluded from core inflation	4.7	-1.2	-7.6	6.4	-5.1	-10.2
- 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	0.3	0.3	0.2
Core inflation	**0.2**	**0.0**	**0.0**	**1.7**	**1.9**	**1.8**
Including:						
- Food products	0.5	0.2	0.0	3.1	3.3	3.2
- Clothing and shoes	-0.1	-0.1	0.0	0.9	1.0	1.1
- Housing, water, gas, electricity and other fuels*	0.0	0.1	0.0	0.8	0.8	0.9
- Furniture, household appliances and common house maintenance	0.1	0.1	0.1	0.7	0.7	0.8
- Health*	0.2	0.0	-0.1	-0.5	-0.1	0.6
- Transportation*	-0.1	0.2	-0.3	-0.9	-0.4	-0.7
- Communication	0.0	0.0	0.0	-1.9	-1.9	-1.5
- Entertainment and culture	0.0	-0.1	0.0	-1.3	-1.2	-1.0
- Education	0.0	0.0	0.0	4.6	4.6	4.6
- Restaurants and hotels	0.3	0.2	0.0	1.8	1.8	1.1
- Miscellaneous goods and services	0.2	0.0	0.1	2.1	2.1	2.1

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

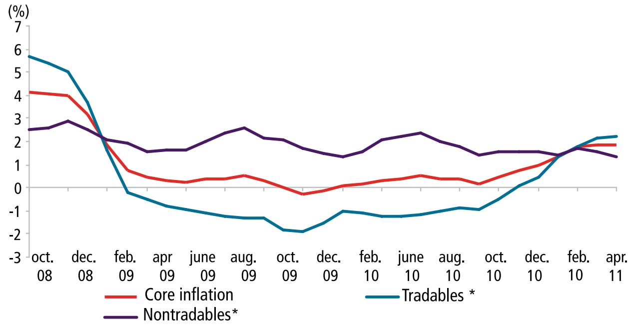
Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	Apr. 2009	July. 2009	Jan. 2010	Apr. 2010	Oct. 2010	Jan. 2011	Apr. 2011
Premium gasoline	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Diesel*	7.22	-	-	-	-	-	-
Diesel 350/50 *	7.50	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

of non-tradable goods included in CIPX edged up moderately. Thereafter, prices of tradable goods posted an increase due to the rising cost of basic food products, whereas the increase rate of nontradable price index excluding volatile and administered products, relevant to the assessment of domestic inflationary pressures, remained broadly stable. Most recently, in a context of growing inflation in the main partner countries, tradable goods price index rose by 2.2 percent in April, after increasing by 2.1 percent in March, contributing by 0.8 percentage point to headline inflation.

As for nontradable goods inflation, it fell to 1.4 percent form 1.6 percent in March, standing at 1.5 percent on average over the first four months of 2011, thus reflecting the absence of significant domestic inflationary pressures. By product, this recent change primarily reflects the slowdown in the price rise of fresh meat and of the item "Restaurants, coffees and similar establishments".

5.3 Goods and services

The breakdown of the CPI basket of goods and services indicates that the short-term momentum of inflation remains influenced, to a large extent, by changes in unprocessed goods prices. Year-on-year decline in consumer prices in April was triggered by the prices of unprocessed products, which fell by 2.4 percent in March and 5.6 percent in April 2011. This component's contribution to the drop in the general price index stood at 1.3 percentage points instead of 0.6 points a month earlier.

The intensifying decline of unprocessed goods' prices was partially offset by the accelerated rise in processed goods' prices, up by 1.9 percent in April from 1.5 percent on average over the first three months of the year. The contribution of processed goods to the change in the general index is estimated at 0.8 percentage points.

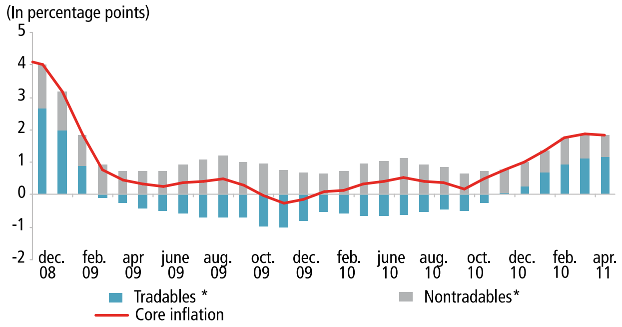
Table 5.3: Change in tradables* and nontradables* price indexes

	Monthly change (%)			YoY change (%)		
	feb. 11	march 11	apr. 11	feb. 11	march 11	apr. 11
Tradables	0.3	0.2	0.0	1.8	2.1	2.2
Nontradables	0.2	0.0	0.0	1.7	1.6	1.4

** Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

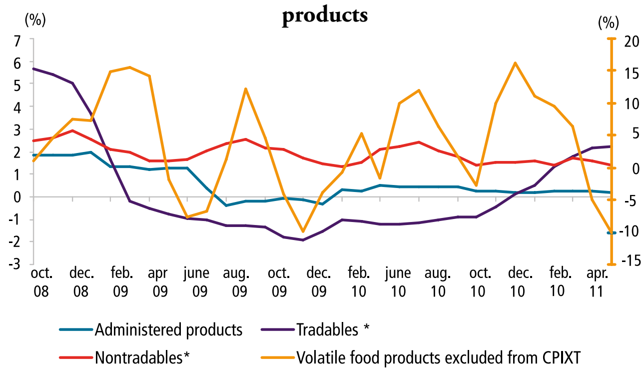
Chart 5.4: Contribution of tradables* and nontradables* to core inflation (YoY)



** 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	
	march 11	apr.11	march 11	apr.11
Products excluded from core inflation index	-0.2	-1.1	-0.7	-1.4
Including:				
Administered products	0.0	0.0	0.0	0.0
Volatile food products	-0.2	-1.0	-0.7	-1.4
Tradables*	0.1	0.0	0.7	0.8
Nontradables*	0.0	0.0	0.5	0.4

** Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

Service prices grew at a rate almost identical to the one recorded in the previous two months, amounting to 1 percent, hence contributing to inflation by 0.3 percentage points.

5.4 Industrial producer price index

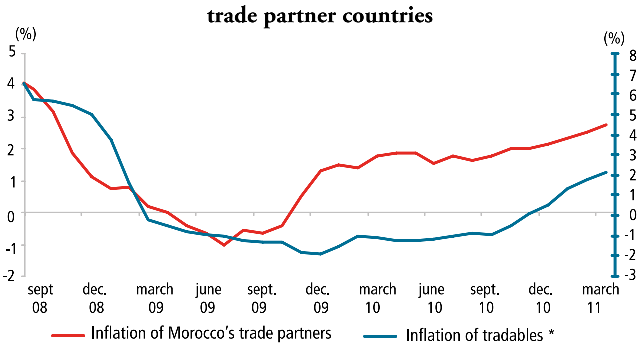
The latest available data on industrial producer price index, which highlights the continued rise in production costs anticipated by business operators, concur with the results of the business survey conducted by Bank Al-Maghrib in April. Industrial producer price index, calculated on the basis of ex-factory price excluding taxes and subsidies, posted a monthly increase of 1.3 percent in April, a less significant rate than 2.9 percent recorded in March, which reflects the continued transmission of the hiking world oil and non-energy commodity prices.

The month-on-month slowdown is attributed to the prices of "coking and refining" industry, whose growth rate fell from 8.7 percent in March to 3.7 percent in April. Its contribution to the change in the price index of the manufacturing industry is estimated at 1.2 percentage points.

Without taking into consideration the branch "coking and refining", the monthly increase in producer prices index was limited to 0.1 percent, reflecting respective increases of 0.4 percent, 0.5 percent and 0.8 percent at the sectors "chemical industry", "clothing and fur industry" and "metalworking", and the decline of 0.4 percent in the price index of the "food industry" sector.

On year-on-year basis, the overall producer price index increased by 15.2 percent and the index of the "coking and refining" sector by 34.5 percent, while that of other industrial sectors increased by 7.2 percent, reflecting particularly a 33.4 percent in the producer prices of "chemical industry". Despite the considerable increase in producer prices, its dissemination to

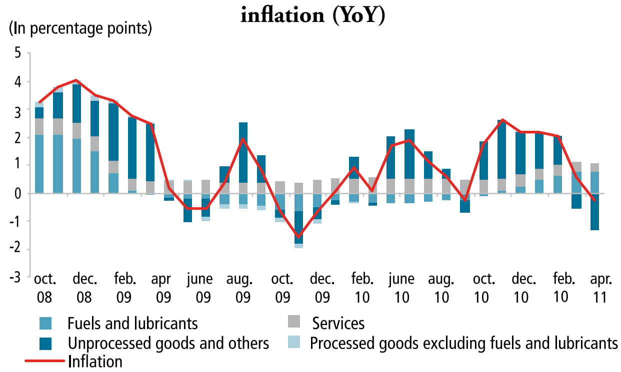
Chart 5.6: YoY change in inflation of tradables* and inflation in trade partner countries



** Excluding volatile food and administered products*

Sources: HCP, IFS, and BAM calculations

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



Sources: HCP, and BAM calculations

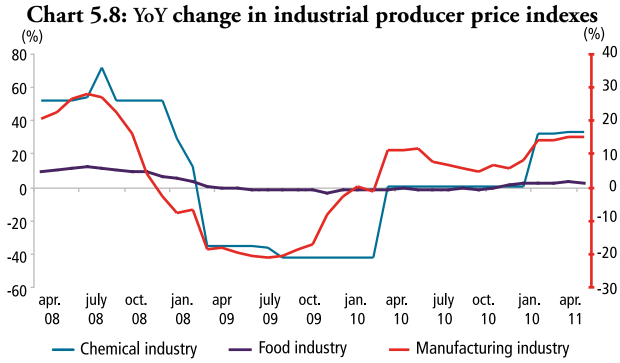
Table 5.5: Price indexes for goods and services

	Monthly change (%)			YoY change (%)		
	feb. 10	march 10	apr. 11	feb. 10	march 10	apr. 11
Processed goods*	0.2	0.2	0.0	1.5	1.8	1.9
Unprocessed goods and others	3.0	-0.7	-4.5	4.7	-2.4	-5.6
Services	0.1	0.0	0.0	1.1	1.1	1.0
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

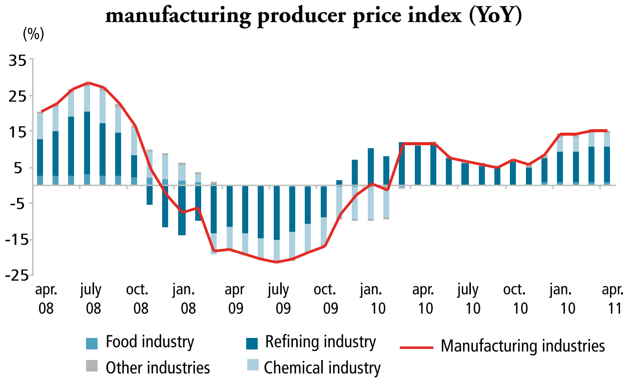
consumer prices remains relatively limited and concentrated in non-energy tradable goods due to the continued freezing of the indexation mechanism of fuel prices.

5.5 Inflation expectations

According to results of the business survey conducted by Bank Al-Maghrib in April 2011, industrial producer prices are expected to edge down, as shown by the decrease from 31 percent in March to 15 percent in April in the number of corporate managers having anticipated an increase, compared to a rise from 65 percent to 81 percent in the number of manufacturers having expected stagnation (See Chart 5.11).

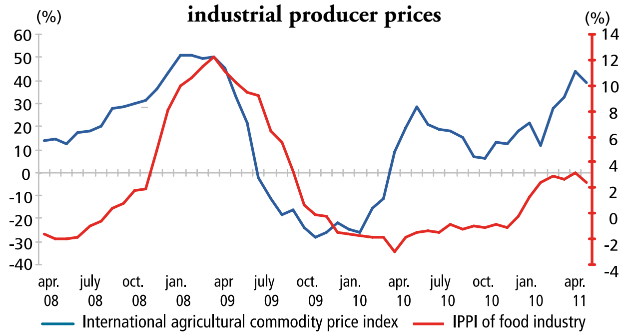
Concurrently, the results of the survey indicate that inflation expectations of corporate managers for the next three months did not experience any significant variation. The percentage of corporate managers who expect stagnation in inflation over the next three months stood at 64 percent, in line with the average 62 percent observed in the last three months. As for the percentage of operators who anticipated an increase, it dropped slightly from 33 percent to 30 percent over the same period (See Chart 5.12).

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



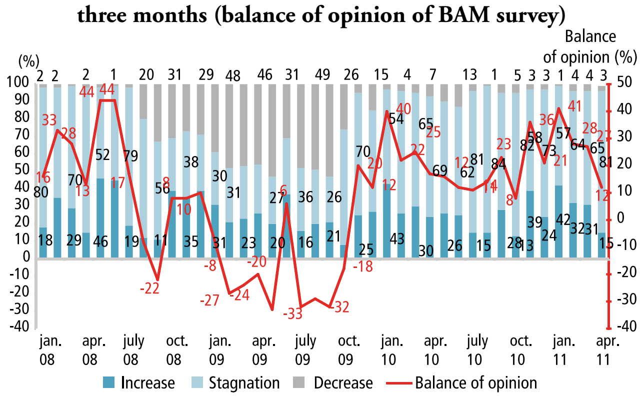
Sources: HCP, and BAM calculations

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



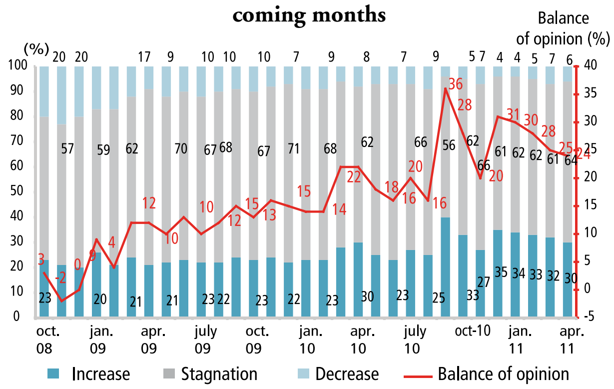
Sources: World Bank, HCP, and BAM calculations

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 risks associated thereto (balance of risks). The central forecast scenario therefore depends on the assumptions and trends envisaged for a series of variables affecting economic activity and inflation. Assuming the non-occurrence of the major risk factors identified, inflation over the coming six quarters remains in line with the price stability objective, with an average forecast of about 1.9 percent, almost similar to the average rate expected in the last Monetary Policy Report (2.1 percent). During 2011, inflation is projected to stand at around 1.4 percent instead of 2.1 percent. In 2012, the average inflation rate over the first three quarters is expected to reach 2.4 percent. Balance of risks of the present forecast is edging upward due to uncertainties surrounding both the future trend of commodity prices in international markets and the crop year 2010-2011.

6.1 Baseline scenario assumptions

6.1.1 International environment

Despite the end of the storage cycle and the gradual withdrawal of accommodative fiscal and monetary policies, the global economy continues to recover through the consolidation of private demand. However, activity continues to evolve at different rates. Growth remains moderate in advanced economies, despite some persisting differences between the latter, whereas it remains strong in emerging countries in spite of the increasingly worrying overheating signs.

In this regard, the euro area and the United States economies grew, in the first quarter of 2011, by 2.5 percent and 2.3 respectively. These achievements resulted from a favorable economic environment marked by a high level of corporate managers' confidence, increased momentum in trade and the rebound in financial markets, as shown by the significant decrease in risk aversion, the consolidation of equity markets and the shrinking of credit spreads.

However, besides these signs of progress, gray areas persist, generating still moderate growth rates that are insufficient to reduce unemployment, which reached record levels. These factors relate mainly to the soaring commodity prices recorded since 2010, the depression hanging over the real estate market, particularly in the United States, and the adjustment process of bank balance sheets owing to the improvement of prudential ratios, which dramatically worsened during the crisis.

As for growth prospects, the International Monetary Fund expects growth rates for the current year to stand respectively at 2.8 percent and 1.6 percent in the United States and the euro area, a slight shift from projections of January which forecasted 3 percent for the U.S. economy and 1.5 percent for the euro area. For the year 2012, projections were slightly revised upward. Hence, the United States is set to register a growth rate of 2.9 percent instead of 2.7 percent, and the euro area is expected to grow by 1.8 percent instead of 1.7 percent.

Risks hanging over the growth outlook in developed countries are still significant. Global financial stability remains fragile and could be impacted by the rapid changes in risk premiums. Also, in view of the doubts surrounding the ability of the European Financial Stability Fund to guarantee the solvency of countries in difficulty, apprehensions persist as to the spreading of sovereign vulnerabilities, of which some peripheral countries of the continent suffer, to the center of Europe. Moreover, a higher-than-expected surge in commodity prices constitutes a significant potential risk.

Nonetheless, these downward pressures are moderated by stabilized household savings rates and reduced concerns about job cuts, which suggests a growing demand for durable consumer goods. Also, given the satisfactory results posted by corporate balance sheets and the momentum of demand from emerging countries, a more sustained increase in investment remains possible.

Against these trends, and as part of the central scenario of the present MPR, we assume that weighted growth rates of our main trading partners (Germany, Spain, France and Italy) stand at about 1.5 percent in 2010 and 1.7 percent in 2012. Compared to those presented in the Monetary Policy Report of March, these assumptions have not undergone significant changes. It should be noted that this growth rate is calculated on the basis of an average weighted by respective shares of these countries in our foreign trade.

The inflation upward trend recorded in recent months was largely attributable to the surge in commodity prices. Overall, the factors causing this rise in inflation, which starts to show signs of mitigation, are structural in nature-triggered by a strong demand from emerging markets, cyclical – due to a stronger than expected demand during 2010, and exceptional– considering the impact of the last poor crop year and the geopolitical unrest facing some oil producing countries in the MENA region.

Against this backdrop, the ECB has slightly revised upward its inflation forecasts by anticipating, in its report of May, a rate in the euro area estimated at 2.4 percent in 2011 and 1.8 percent in 2012. Despite the unutilized capacity in OPEC countries, which are likely to stabilize production at an appropriate level, and the positive weather conditions promising for a good harvest, the risks weighing on the future inflation trend in the euro area remain driven upward.

These risks arise from higher-than-anticipated tensions on domestic prices in the euro area due to a more dynamic recovery, a greater than expected surge in commodity and oil prices, as a result of a stronger demand from emerging countries, together with the exacerbation of geopolitical instability facing some countries of the MENA region.

The baseline scenario for this forecast points to a Euribor rate of 1.52 percent for the second quarter of the current year. This rate is expected to rise gradually to average 1.93 percent in the second half of 2011. In 2012, Euribor rate of 2.26 percent is adopted for the first half of the year and 2.47 for the third quarter.

Finally, the recent mitigation in the trend of non-energy commodity prices- a mitigation that is expected to continue, given the improved weather conditions characterizing this crop year in the major producing countries- non-energy import price indicator, included in the forecasting models developed by Bank Al-Maghrib, has been slightly revised downward for this forecast compared to the trends announced in the last Monetary Policy Report. Similarly, the adopted baseline scenario includes a moderation of external inflationary pressures in 2012.

6.1.2 National environment

The overall outlook of the national economy for 2011 suggests its strong momentum. Agricultural and non-agricultural components of the value added are expected to post a more positive growth profile, owing to a good crop year, a stronger domestic demand and the gradual recovery in external demand addressed to Morocco.

The contribution of agricultural activity to the overall value added is expected to be positive compared to the previous year, benefiting from the rainfall accumulation and good distribution, the increase in grain sown areas and the use of important agricultural inputs. Estimations of Bank Al-Maghrib as to the 2011 agricultural production stand at about 80 million quintals, quite close to the estimates of the Ministry of Agriculture (86.7 million quintals). As for the crop year 2011-2012, and given the lack of visibility, our baseline scenario expects a production averaging 60 million quintals.

Nonagricultural activity momentum is mainly due to the changes in private domestic demand, which remains the key driver of national growth. On the one hand, final consumption is expected to benefit from the increase in wages of civil servants and minimum pension, the scheduled readjustment of the minimum wage, the improvement of agricultural production, which should support the purchasing power of rural households, and the increase of Moroccan expatriates' remittances. On the other hand, private investment is expected to show a more positive trend compared to the last two years in connection with a strong aggregate demand, as suggested by the increase in imports of capital goods. Finally, the aggregate demand of public administrations should remain substantial, despite the growing pressures on the budget programmed in the Finance Act.

Besides the momentum of domestic demand, foreign demand is projected to sustain national economic growth as demonstrated by the gradual recovery of exports. Overall, nonagricultural activity growth is expected to stabilize in 2011, and the growth rate is set to range between 4.5 percent and 5.5 percent.

Under these conditions, BAM's growth forecasts for 2011 were slightly revised upward with a growth rate ranging henceforth between 4.5 percent and 5.5 percent instead of the 4 percent - 5 percent range stated in the previous Monetary Policy Report.

Available data on the labor market for the first quarter of 2011 show a fall in national unemployment rate, which stood at 9.1 percent, down 0.9 percent from the first quarter of 2010. This trend covers both rural and urban areas. Urban unemployment rate fell by 1.4 percent; while it declined by merely 0.3 percent in rural areas. In addition, the labor market has witnessed the creation of 126,000 new jobs in urban areas and the loss of 23,000 jobs in rural areas. Employment posted different trends across sectors. The sectors of construction, the main generator of employment, and services created 151,000 and 55,000 new jobs respectively. The sectors of "agriculture, forests, and fishery" and "industry"(including craft industry) reported respective losses estimated at 60,000 and 33,000 jobs.

According to the quarterly survey of the economic conditions conducted by BAM, manufacturers predict, for the current quarter, a stagnation of the total workforce employed in textile and leather industries, a decrease in electrical and electronic industries and an increase in the other sectors. Moreover, a good crop year is expected to contribute to the improvement of job creation in the agricultural sector.

In addition, following the social dialogue, a 15 percent-increase in the minimum wage has been scheduled in two stages: 10 percent in July 2011 and 5 percent in July 2012. Under these circumstances, we keep as a baseline scenario a minimum wage of 11.70 dirhams per hour from the second to the fifth quarter of the forecast horizon and 12.24 dirhams per hour in the sixth.

Based on the latest developments in the oil market related partially to geopolitical tensions in North Africa and the Middle East that exacerbate uncertainty in the market, the IMF raised its projections in April of this year. The average price of a Brent barrel in 2011 is therefore set to stand at 107.16 dollars and 108 dollars in 2012. This change is in line with the futures market which projects the price of a Brent barrel to stand at around 110.9 dollars in 2011 and 108.25 dollars in 2012.

As a result of this upward trend in energy prices on world markets, subsidization costs are expected to increase. The Government has decided not to pass on this increase to the local prices of some subsidized goods, in order to preserve households' purchasing power. Under these circumstances, the central forecasting scenario assumes the diesel pump price to settle at 7.15 dirhams per liter.

6.2 Inflation outlook and balance of risks

Assuming the non-occurrence of the major risks stated above, the central forecast for the coming six quarters is projected to stand at 1.9 percent. This level, close to the average rate projected in the last Monetary Policy Report, which stood at 2.1 percent, is in line with the price stability objective. However, inflation forecast for 2011 indicates an average rate of 1.4 percent, lower than the 2.1 percent rate mentioned in the previous forecast.

This downward revision is mainly due to an exceptional slump of inflation in April, estimated at -1.1 percent, a record low since

1960. This trend is chiefly explained by an unanticipated decline of 16.5 percent in the prices of vegetables.

Inflation over the second quarter of 2011 is expected to reach nearly 0.5 percent instead of 2 percent projected in the preceding forecast. For the last two quarters of this year, inflation rates of around 1.6 percent and 1.7 percent are expected, instead of 2.3 percent and 2.2 percent reported in the preceding Monetary Policy Report. As for the first half of 2012, inflation is expected to average 2.5 percent instead of 2.2 percent. Finally, inflation rate for the third quarter of 2012 is projected to settle at 2.4 percent (See table 6.1).

These forecasts are made on the basis of assumptions deemed most probable. Nonetheless, many uncertainties -stemming from both the future trend in exogenous variables and forecasting models- might lower or increase the projected level of inflation. Analysis of the balance of risks shows a symmetrical forecasting range, which is represented in the form of a fan chart. It is a probabilistic estimation of the uncertainty areas surrounding the central forecast (See Chart 6.1).

The fan chart of this forecasting year suggests an upward asymmetry, involving a high probability of inflation level, higher than that of the central forecast. Such asymmetry stems from potential inflationary risks, associated with the uncertainties surrounding the development of the national and international economic situation.

At the international level, risks related to future fuel price developments may indirectly impact our import prices. Similarly, a stronger demand in connection with the consolidation of recovery in advanced countries and the momentum of growth in emerging economies could exacerbate pressures on commodity prices. At the national level, a better crop year than the one adopted in the baseline scenario is likely to improve the purchasing power of rural households and ultimately exert further pressure on demand.

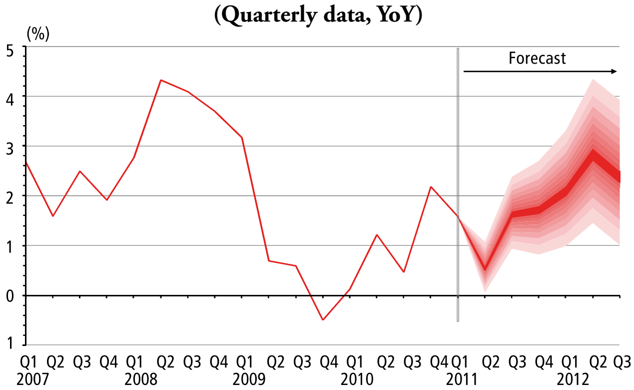
The occurrence of one or more of these risks may lead to a deviation in the level of inflation compared to the central forecast, with a value included (with a probability of 90 percent) in the forecast range shown in the fan chart.

Table 6.1: Inflation outlook for Q2 2011- Q3 2012

	2011			2012			Average	FH*
	Q2	Q3	Q4	Q1	Q2	Q3	2011	
Central forecast (%)	0.5	1.6	1.7	2.1	2.8	2.4	1.4	1.9

(Quarterly data, YoY)
**Forecast horizon*

Chart 6.1: Inflation forecast, Q2 2011- Q3 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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