بنك المغرب
BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 18 / 2011

Document prepared for
the Bank Board
March 29, 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, March 29, 2011

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, March 29, 2011.

2. The Board examined recent economic, monetary and financial trends, and inflation forecasts prepared by the Bank staff up to the second quarter of 2012.

3. The Board noted that the change in inflation was in line with the assessment made at its last meeting. Year-on-year headline inflation reached 2 percent in February, down from 2.2 percent in the fourth quarter of 2010 and January 2011. Meanwhile, core inflation, which reflects the underlying trend in prices, stood at 1.7 percent in February, from 1.4 percent in January. Reflecting higher global commodity prices, industrial producer prices rose 14.1 percent in January from 8.1 percent in December and 5.6 percent in November 2010.

4. Internationally, commodity prices continued to increase, and financial markets came under renewed pressure in conjunction with sovereign debt troubles, particularly in the euro area. At the same time, growth remained moderate in Morocco's major European partners, while emerging economies recorded significantly higher rates.

5. Despite this volatile context, the Moroccan economy continues to show resilience, as evidenced by the improvement in external demand and the further strengthening in domestic demand. Therefore, GDP would grow between 4 to 5 percent in 2011, and nonagricultural value added would increase more than 4 percent in the first quarter and expand between 4.5 to 5.5 percent for the full year 2011.

6. Under these circumstances, 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 during the coming quarters.

7. Analysis of monetary developments as at end February 2011 shows the continued slowdown in M3 growth, down to 4.3 percent year on year from 5.3 percent in the last quarter of 2010. Under these conditions, money gap remained negative, suggesting the absence of monetary pressure on prices. Bank credit grew 6.6 percent in February, up from 6 percent in January.

8. Based on all these elements, the central inflation forecast remains close to that outlined at the previous Board meeting. On average, headline inflation is projected to hover around 2.2 percent at the end of the forecast horizon (second quarter of 2012). Core inflation would also remain subdued, not exceeding 2 percent.

9. Under these circumstances where the central inflation forecast is 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.

10. The Board analyzed and approved the Bank’s accounts, the management report and the allocation of profits for fiscal 2010.

11. The Board also examined and approved the internal audit program for 2011.

OVERVIEW

In line with the analysis and forecasts published in the last Monetary Policy Report (MPR), inflation remained steady at 2.2 percent between the fourth quarter of 2010 and January 2011, against a backdrop of price pressures worldwide in response to higher oil and commodity prices. Core inflation continues to grow at a slow pace since February 2010 and reached 1.4 percent in January 2011, up from an average of 0.4 percent over the previous year. However, the impact of world commodity prices on industrial producer prices was stronger in January 2011, with a rise of 14.1 percent from 8.1 percent in December 2010.

Internationally, tensions persist in financial markets, fueled by fears about the extent of sovereign debt and the recent political developments in some Middle East and North African countries. Bond yields further increased in both the United States and the euro area, while stock market indexes in emerging countries, and to a lesser extent some advanced countries, declined, more markedly in the end of February 2011. In contrast, credit continued to rise in advanced economies, albeit at a still very moderate pace.

The pace of international activity remains geographically uneven. The strong momentum in emerging economies of Asia and Latin America continued to boost global recovery in the fourth quarter, when growth was low to moderate in most advanced countries. In this context marked by accelerated rise in commodity prices, inflation has increased in many advanced and emerging economies, nearing levels seen in 2008.

Nationally, in spite of recent developments, particularly the slow economic recovery in the main European partners, indicators of the balance-of-payments current account in January 2011 continued the improvement recorded in the last months of 2010. Exports grew 22.3 percent, with a 23.4 percent increase in exports excluding phosphates and derivatives, while travel receipts and remittances from Moroccan expatriates rose by 10.6 percent and 1.4 percent, respectively. At the same time, imports rose 26.3 percent, reflecting mainly an increase of 32.9 percent in energy imports. In response to the upward trend in domestic demand, nonagricultural activity would grow more than 4 percent in the first quarter and between 4.5 and 5.5 percent for the full year 2011. However, nonagricultural output gap, relevant to the assessment of inflationary pressures, would remain at levels that pose no risk to price stability. Altogether, GDP would expand by about 4.1 percent in the first quarter 2011 and within a range of 4 to 5 percent for the full year.

Data on monetary conditions to the end of January 2011 show the continued moderate growth in money supply and bank credit. Year-on-year increase in M3 was limited to 3.6 percent from 5.3 percent in the fourth quarter 2010, reflecting in particular the slowdown in demand deposits and lower securities of money market funds, thus keeping a negative money gap. At the same time, credit grew 5.5 percent, down from 9.3 percent in the fourth quarter of 2010. Concerning lending rates, BAM's survey among banks for the fourth quarter of 2010 shows a fall in the weighted average interest rate, driven primarily by lower rates on cash loans. As for property prices, the index calculated by the bank suggests a year-on-year decrease of 0.9 percent in the fourth quarter.

Based on all these elements, inflation in the next six quarters should remain broadly consistent with price stability. At the end of the forecast horizon, i.e. the second quarter of 2012, inflation is projected at 2.2 percent, but would average 2.1 percent over the same horizon. Compared to the previous forecast (MPR of December 2010), inflation projections for 2011 were only slightly revised from 2.3 percent to 2.1 percent. The balance of risks surrounding the central forecast remains tilted to the upside, mostly because of external factors, particularly the volatility of international commodity prices.

1. AGGREGATE SUPPLY AND DEMAND

National economic growth would range between 3 percent and 4 percent in 2010, covering a decline in agricultural value added and an increase in nonagricultural activity, on the back of the uptrend in mining and energy sectors and the strengthening of tertiary activities. Demand in 2010 saw an improvement in consumption, both of households and the general government, as well as an increase in gross fixed capital formation coupled with a downturn in inventories. Moreover, the goods and services imports coverage ratio rose to 74.3 percent from 70.7 percent a year earlier, owing to a faster growth of exports (+19.3 percent) compared to imports (+13.6 percent). This led to a positive contribution from external demand to domestic growth after three successive years of negative contribution. In 2011, the outlook remains broadly positive, as forecasts suggest stable performance of agricultural activities and a gradual improvement in nonagricultural activities, whose value added would grow between 4.5 and 5.5 percent. On the whole, GDP is projected to reach 4.1 percent in the first quarter 2011 and to grow between 4 and 5 percent in the full year.

1.1 Output

In 2010, the national economy saw a gradual recovery in nonagricultural activities, in response to the upward trend in mining and energy sectors and the strengthening of tertiary activities. In contrast, the agricultural sector recorded a decline of about 7 percent after a bumper crop in 2008-2009.

Nonagricultural activities would continue to improve in the first quarter of 2011, albeit with a slight slowdown, in conjunction with the dissipation of base effects. The latest economic indicators show that nonagricultural growth should be around 4.9 percent in the fourth quarter 2010, while agricultural value added would be down 7.4 percent, thus reducing GDP growth rate to a range between 3 and 4 percent, in line with predictions made earlier (see December 2010 MPR).

The current crop benefits from generally favorable weather conditions that caused a 9.1 percent increase in fall cereal plantings to 4.8 million hectares. According to data as at March 10, 2011, cumulative rainfall reached 324 mm, down 9 percent from its five-year average. Therefore, irrigation-dam filling rate would be at 74 percent. Under these circumstances, the bank projects a cereal production of nearly 80 million quintals (see Box 1.1).

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

Activity sectors, in%	2009				2010				2011
	QI	QII	QIII	QIV	QI	QII	QIII	QIV_E	QI_P
Agriculture	30.7	31.2	29.4	31.1	-8.6	-7.6	-8.4	-7.4	2.8
Nonagricultural VA	-2.2	0.1	0.9	5.4	6.1	4.9	4.7	4.9	4.4
Extractive industry	-46.8	-31.0	-21.9	14.0	107.9	46.9	21.7	8.6	-7.2
Processing industry	-2.0	-1.6	-0.7	2.7	1.4	1.1	2.7	3.4	3.5
Electricity and water	6.2	2.3	3.3	2.2	6.7	11.3	13.0	13.7	7.4
Construction	2.6	3.9	1.0	6.1	2.9	2.6	1.0	0.7	2.7
Trade	3.1	2.7	3.0	5.3	1.6	1.9	2.2	3.7	3.9
Hotels and restaurants	-5.8	-2.0	0.1	2.9	6.7	8.3	8.4	8.0	8.3
Transportation	1.5	2.6	2.3	4.9	7.6	5.6	6.9	7.1	7.2
Post and telecommunication	2.8	3.3	3.9	1.1	4.1	3.1	7.8	8.1	7.9
General government and social security	7.7	7.7	7.6	7.6	3.4	3.3	3.4	3.5	3.6
Other services*	3.5	3.7	3.5	4.0	4.3	4.9	4.8	4.9	5.0
Taxes on products net of subsidies	4.0	3.1	6.5	5.1	4.1	4.0	5.2	5.6	5.5
Nonagricultural GDP	-1.5	0.4	1.5	5.4	5.8	4.8	4.7	5.0	4.5
Gross domestic product	**2.2**	**4.2**	**4.9**	**8.6**	**3.9**	**3.0**	**3.0**	**3.1**	**4.1**

(*) 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

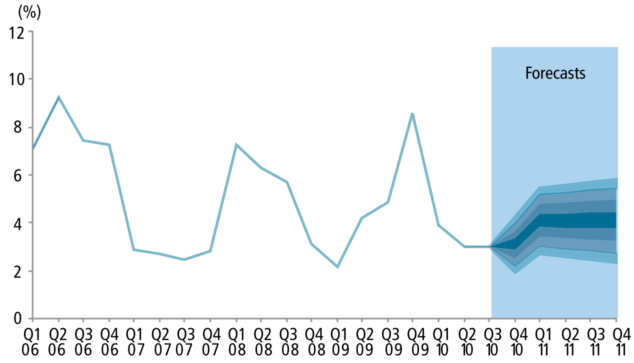
In the secondary sector, based on latest available data, the mining sector should maintain the momentum seen in recent quarters. It would however slow down, or even decline somewhat, in the first quarter 2011 due to the gradual dissipation of base effects.

The processing industry, which improved markedly in the third quarter 2010, is expected to strengthen further in the fourth quarter 2010 and the first quarter 2011. The results of Bank Al-Maghrib's business survey of January show that production was up in all industries, with the exception of the textile and leather sectors, and that orders and sales, both local and foreign, were also on the rise month on month. Regarding the outlook for activity, professionals expect an increase in production and sales locally and abroad.

Sales of the electricity-and-water sector rose 9.6 percent in the fourth quarter 2010, year on year, reflecting an increase by 8.3 percent and 14.4 percent in sales to the industrial sector and households, respectively. The net production of the National Electricity Office grew 10.8 percent, which has reduced electricity imports by 14.8 percent. Under these conditions, the sector's value added should follow the trend observed in the third quarter of 2010, before returning to a more moderate pace in the first quarter of 2011.

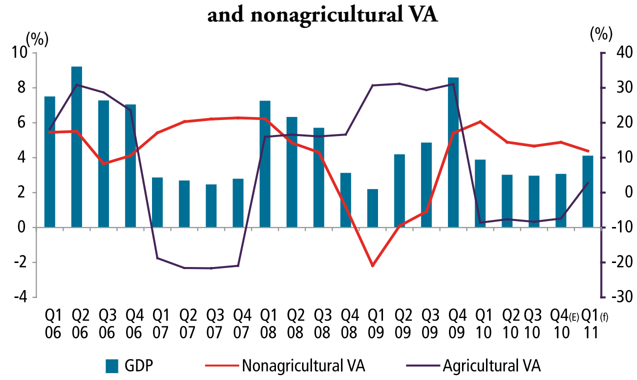
The construction sector in the fourth quarter 2010 would continue the slowdown seen in the first three quarters of the year, as evidenced by the 0.3 percent decline in cement sales that increased by a mere 0.4 percent over the whole of 2010. However, the measures undertaken as part of the Finance Act 2011 to promote low-income housing as well as the ongoing major infrastructure projects are expected to stimulate the sector's activity in the coming quarters.

Chart 1.1: Growth forecasts Q4 2010-Q4 2011*



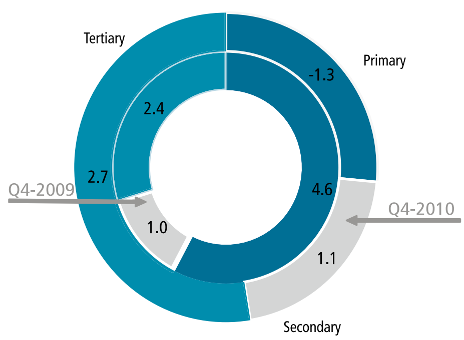
(*) Fan chart based on the standard deviation
Sources: HCP, and BAM forecasts and estimates

Chart 1.2: Quarterly change in the GDP and the agricultural and nonagricultural VA



Sources: HCP, and BAM forecasts

Chart 1.3: Contribution of the primary, secondary and tertiary sectors to overall VA growth, in percentage points



Sources: HCP, and BAM calculations and forecasts

Box 1.1: Cereal production forecast for 2011 on the basis of available data as at March 10, 2011

The early rainfall that marked the 2010-2011 crop year allowed the planting of fall cereals. The areas sown to 15 January indeed reached 4.8 million hectares, up 9 percent from the previous year.

Despite a rainfall deficit of 39 percent and 9 percent compared with the previous crop year and the average of the last five years, respectively, the current crop benefits from a better time distribution of rainfall.

As a result, the vegetation cover throughout the country was in a "good" situation as at end February, according to the Royal Center for Remote Sensing, except the Haouz, eastern and pre-Sahara areas. In some areas, the vegetation index is even around the maximum annual figure usually reached in March and April.

The cereal production forecasting framework developed by Bank Al-Maghrib makes it possible to regularly update cereal production forecasts using three tools: the econometric model, the similar crop method and the rainfall indicator-based method.

On the basis of weather data to March 10, 2011, the econometric model projects a grain production of 79 million quintals, including 39 million quintals of soft wheat, 17 million quintals of durum wheat and 22 million quintals of barley, up 27 percent, 16 percent and 2 percent, respectively, in comparison with the five-year averages.

The similar crop method, based on comparison of historical climate conditions, predicts a cereal harvest of 72 million quintals, of which 31 million quintals of soft wheat, 17 million quintals of durum wheat and 24 million quintals of barley.

According to the rainfall indicator-based method, national cereal production would be around 82 million quintals.

The average forecast of the three methods suggests approximately 78 million quintals, up 16 percent over the average of the previous five crop years and 6 percent from the previous season.

Chart B1.1.1: 10-day rainfall accumulation

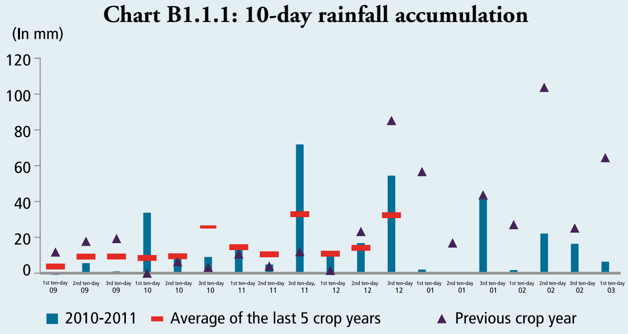


Chart B1.1.2: Number of days with precipitation

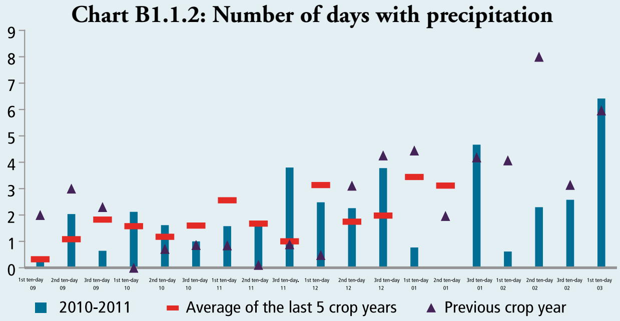


Chart B1.1.3: Rainfall deficit of the 2010-2011 crop year by weather station

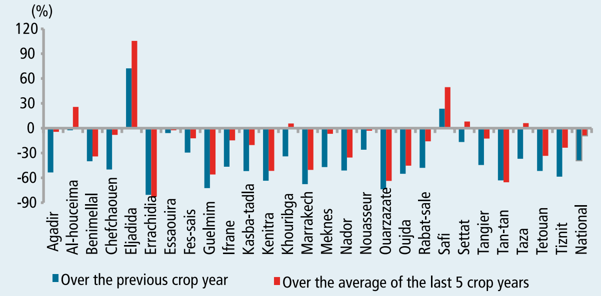
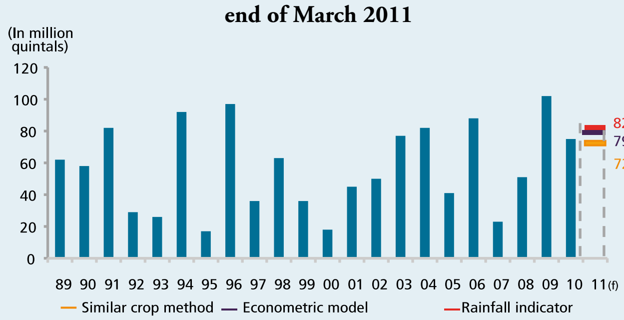


Chart B1.1.4: Trend and forecast of cereal production to the end of March 2011



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

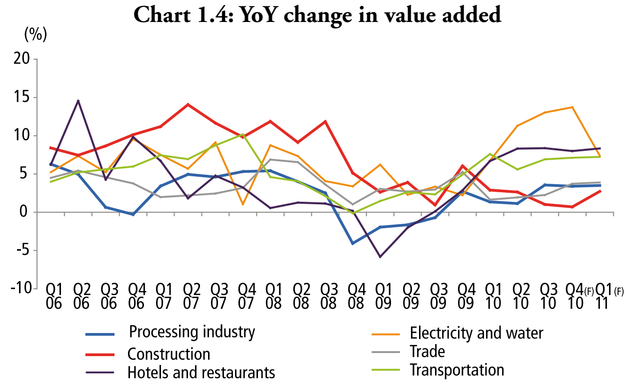
The pace of growth in the tertiary sector is projected to pick up over the coming quarters, with a contribution to economic growth estimated at 2.7 percentage points in the fourth quarter 2010 and 2.5 points in the first quarter 2011.

In the tourism sector, the year 2010 was marked by an increase of 11 percent in arrivals and a rise from 41 percent to 44 percent in the occupancy rate and of 6.4 percent in travel receipts. January 2011 data indicate that this uptrend continued, with a year-on-year growth in arrivals and overnight stays in classified hotels of 15 percent and 19 percent, respectively. Similarly, travel receipts amounted to 3.9 billion dirhams, up 10.6 percent. In this context, the "hotels and restaurants" subsector would keep momentum, with an increase in its value added estimated at 8.3 percent in the first quarter of 2011.

Closely linked to activity in other sectors, the trade sector would further capitalize on the uptrend in nonagricultural activities. Also, the value added of the transportation activity would be up 7.1 percent in the fourth quarter 2010 and 7.2 percent in the first quarter of 2011. The industry would have benefited from the good performance of the different transportation categories, particularly air traffic that grew by 15.1 percent at the end of 2010 and 15.3 percent in January 2011.

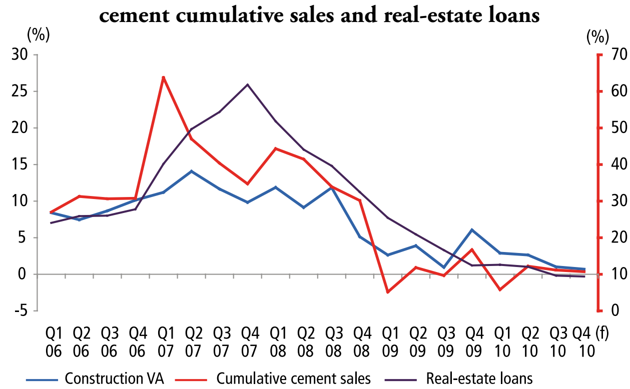
Overall, developments in the various sectors seem to underline the continued gradual improvement in nonagricultural activities during 2011, suggesting an increase of between 4.5 and 5.5 percent of their value added. Combined with the stable performance of agricultural activities, this trend should lead to a GDP growth of between 4 and 5 percent for the whole year.

Chart 1.4: YoY change in value added



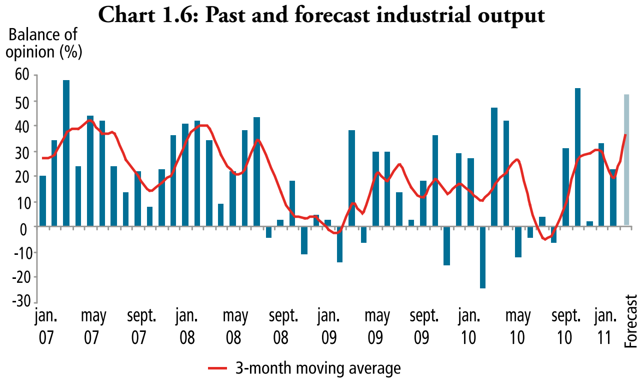
Sources: HCP, and BAM forecasts

Chart 1.5: YoY change in the construction sector's value added, cement cumulative sales and real-estate loans



Sources: APC, and BAM forecasts

Chart 1.6: Past and forecast industrial output



Source: BAM monthly business survey in the industry

1.2 Consumption

After a slowdown in 2009 due to the effects of the international economic crisis, estimates for 2010 and forecasts for 2011 indicate stronger household final consumption that should converge to the trend seen early 2000s.

Indeed, estimates made by the Bank staff show improvement in the determinants of household consumption, with a 5.8 percent increase in gross national disposable income per capita in 2011, up from 4.6 percent in 2010, reflecting the rise in nonagricultural activities and the gradual increase in expatriate remittances.

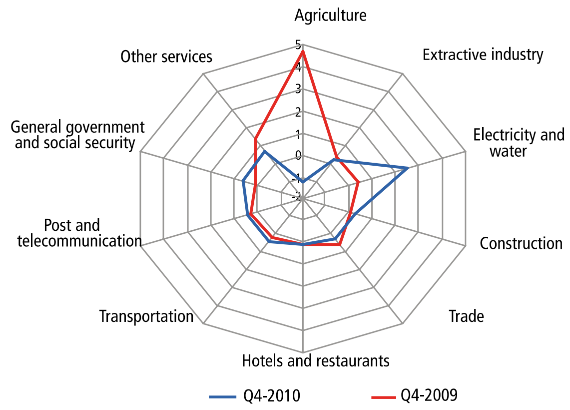
Analysis of available high-frequency indicators seems to confirm this momentum, showing an increase in January 2011 in travel revenues by 10.6 percent, transfers from Moroccans living abroad by 1.4 percent and loans to households by 8.2 percent. Other indicators also point to an improvement in household final consumption, particularly travel expenses that increased 9.3 percent in 2010 and 8.8 percent in January 2011, year on year. Similarly, the monthly business survey in the industry suggests higher local sales in food industries as well as in the textile and leather industries.

Moreover, the government decision to provide an additional 15 billion dirhams to cover subsidization costs, to a total of 32 billion dirhams, should limit the impact of higher commodity prices on households' purchasing power and therefore contribute to bolstering consumer spending in 2011.

1.3 Investment

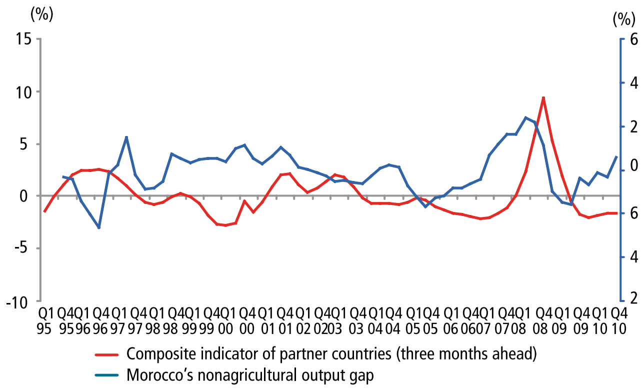
Investment in 2011 would see a more pronounced recovery in the GFCF, but also a decrease in inventories at current prices compared to the exceptionally high levels of 2008 and 2009.

Chart 1.7: Sectors' contribution to overall growth



Sources: HCP, and BAM forecasts and calculations

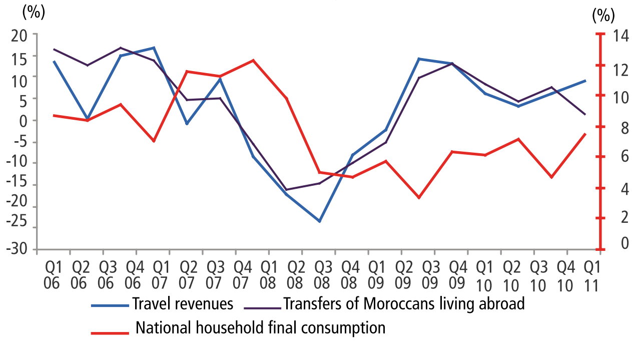
Chart 1.8: Weighted composite leading indicator of partner countries*



**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 1.9: YoY quarterly change in household final consumption, transfers of Moroccans living abroad and travel revenues



Sources: HCP, and BAM forecasts and calculations

Actually, investment in 2011 is expected to grow at a pace close to its long-term trend, following a slowdown in 2009 and 2010, in response to the renewed confidence of market participants, the better attractiveness of the national economy for FDI and the continued high public investment expenditure.

Investments of government enterprises and institutions would increase by 60 percent from the sector's average investment of the past five years, to a total 106 billion dirhams in 2011, mainly allocated to the sectors of phosphate, renewable energy and basic infrastructure.

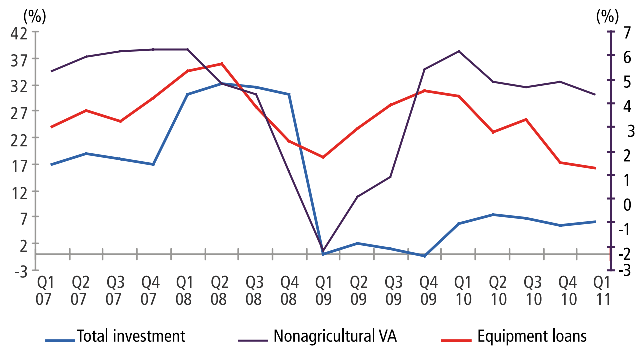
Similarly, investment by the private sector should be buoyant, reflecting stronger activity in key growth sectors, notably the construction industry, and the improvement in business climate. In this connection, Bank Al-Maghrib's business survey in the industrial sector for the fourth quarter 2010 shows that 47 percent of industrial managers consider the business climate to be "good", while 17 percent consider it "poor". New orders received were up, and inventory level is virtually normal. The same survey suggests that investments were up, with an opinion balance of 15 percent, and that 42 percent of professionals expect a further increase in investment while 47 percent predict stagnation.

With regard to central government, Treasury investment spending under the Finance Act 2011 should increase by nearly 4 percent, compared to estimates of investment achievements in 2010, to a total 48 billion dirhams.

1.4 Foreign trade

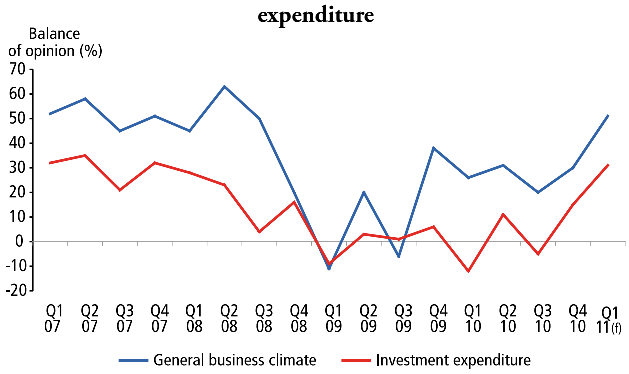
Foreign trade data to the end of January 2011 indicate the continued improvement in external demand for Morocco, as evidenced by the ongoing growth in exports. Trade deficit, however, worsened year on year, in conjunction with rising imports.

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



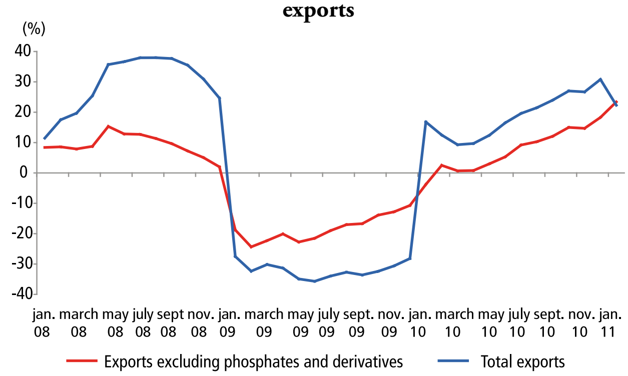
Sources: HCP, and BAM forecasts and calculations

Chart 1.11: Change in general business climate and investment expenditure



Source: BAM business survey in the industry

Chart 1.12: YoY change in total exports and non-phosphate exports



Source: Foreign Exchange Office

Indeed, trade balance to the end of January 2011 posted a deficit of 13.2 billion dirhams, up 30.5 percent over the same period of last year. This trend reflects a 26.3 percent increase in imports, higher than the 22.3 percent growth in exports. The coverage ratio was at 49.9 percent, down from 51.5 percent a year earlier.

The increase in exports was largely due to the 23.4 percent rise in non-phosphate exports. Indeed, shipments of wires and cables, electronic components, hosiery items and ready-made garments rose 83.3 percent, 49.3 percent, 30.9 percent and 7.5 percent respectively. On the opposite, exports of citrus fruit and seafood products declined 19.2 percent and 11 percent, respectively. Shipments of phosphates and derivatives recorded an annual increase of 18.8 percent, as sales of phosphates and natural and chemical fertilizers rose 25.6 percent and 56.1 percent, respectively, year on year. In contrast, exports of phosphoric acid fell at an annual rate of 9.7 percent.

On the imports side, the growth reflects higher purchases of all categories of goods. Indeed, the energy bill increased 32.9 percent, to 7 billion dirhams, and food imports rose 65.1 percent. The higher energy imports mostly results from the 25.8 percent rise in the average tonne price of imported crude oil. Meanwhile, the volume imported declined 17.5 percent. The average price per tonne rose to 5,635 dirhams, from 4,481 dirhams in the same period last year.

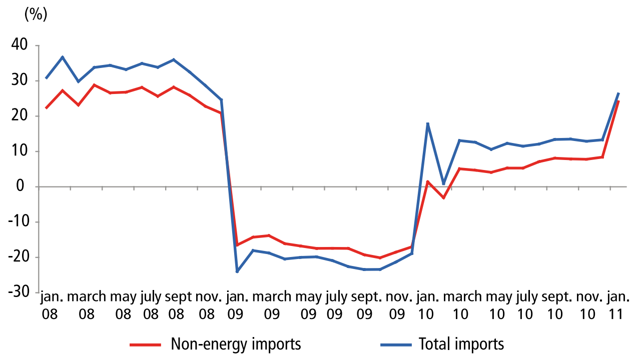
At the same time, the volume of purchases fell from 498 thousand tonnes to 410.8 thousand. Purchases of diesel and fuel oil as well as of petroleum gas and other types of fuel increased 107.1 percent and 77.5 percent, respectively. Non-energy imports grew 24.1 percent to 19.3 billion dirhams. Indeed, food imports rose 65.1 percent, reflecting the increase in purchases of wheat and sugar by 265.2 percent and 124.7 percent, respectively.

Table 1.2: YoY change in the trade balance, at the end of January 2011

(In millions of dirhams)	January 2010	January 2011*	Change Amount	Change %
Total exports	**10 706.5**	**13 097.6**	**+2 391.1**	**+22.3**
Phosphate and derivatives' exports	2 482.8	2 949.3	+466.5	+18.8
Exports excluding phosphates and derivatives	8 223.7	10 148.3	+1 924.6	+23.4
Electricity wires and cables	689.8	1 264.4	+574.6	+83.3
Electronic components	364.3	543.8	+179.5	+49.3
Hosiery items	494.5	647.5	+153.0	+30.9
Ready-made garments	1 445.0	1 552.8	+107.8	+7.5
Citrus fruit	603.8	487.9	-115.9	-19.2
Total imports	**20 794.9**	**26 262.3**	**+5 467.4**	**+26.3**
Energy imports	5 243.6	6 968.4	+1 724.8	+32.9
Non-energy imports	15 551.3	19 293.9	+3 742.6	+24.1
Semi-finished goods	4 296.7	5 321.4	+1 024.7	+23.8
Food products	2 025.1	3 343.7	+1 318.6	+65.1
Consumer goods	3 633.1	4 354.2	+721.1	+19.8
Capital goods	4 525.8	4 844.9	+319.1	+7.1
Trade deficit	**-10 088.4**	**-13 164.7**	**3 076.3**	**30.5**

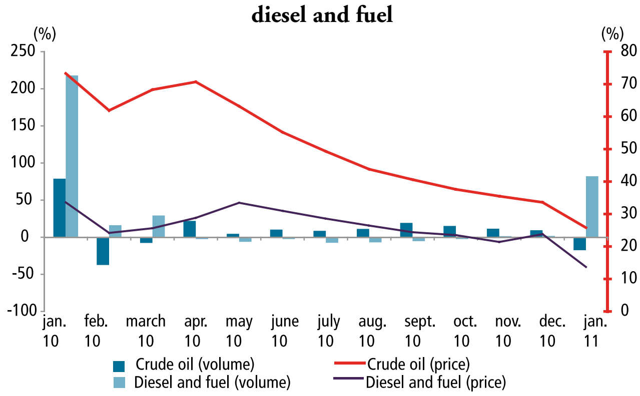
** Provisional data*
Source: Foreign Exchange Office

Chart 1.13: YoY change in total imports and non-energy imports



Source: Foreign Exchange Office

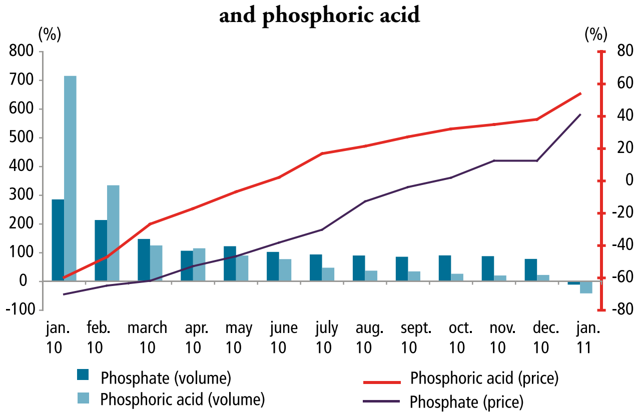
Chart 1.14: YoY change in the volume and price of crude oil, diesel and fuel



Source: Foreign Exchange Office

Imports of semi-finished products expanded 23.8 percent, mostly because of higher purchases of plastics and wires and cables, up 29 percent and 62.4 percent, respectively. Consumer goods imports also jumped 19.8 percent, due in particular to purchases of passenger cars and drugs, up 43.8 percent and 5 percent, respectively.

Chart 1.15 : YoY change in the volume and price of phosphate and phosphoric acid



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

Despite the continued strength of domestic demand and the gradual recovery in our major partner countries, Bank Al-Maghrib's estimates show that nonagricultural output gap did not reach levels which could pose a risk to prices. After being slightly positive on average during the second half of 2010, this indicator is expected to record a one-off decline to a slightly negative value in the first quarter of 2011. Capacity utilization rate in the industrial sector dropped somewhat, but remains above its historical average, according to data from Bank Al-Maghrib's January survey. National unemployment rate rose at a year-on-year rate of 0.2 percentage points in the fourth quarter of 2010, covering a slightly lower urban unemployment rate and an increase of 0.5 percentage points in rural jobless rate. Available data on private sector wages show a real-terms decline in the third quarter of 2010. Overall, analysis of the different developments suggests the absence of significant demand pressures on prices in the coming quarters.

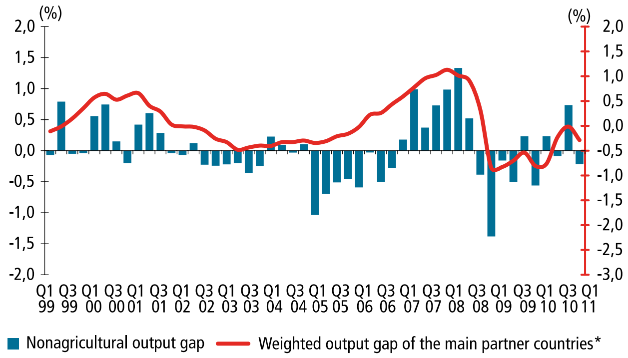
2.1 Pressures on output capacity

Nonagricultural output gap should be around zero in the first quarter of 2011, indicating the continued strong domestic demand and gradual recovery in key partner countries, but at a pace with no significant risks to price stability. Output gap of the major partner countries, which largely contributes to changes in Morocco's nonagricultural activity, should also be significantly positive as from the third quarter of 2011 if recovery-related risks do not materialize, including those related to higher commodity prices.

In line with these developments, Bank Al-Maghrib's monthly business survey in the industry for January shows a declining capacity utilization rate by a percentage point to 74 percent, which is still slightly above its historical average. This change mostly reflects the sharp fall in the capacity utilization rate of mechanical and metallurgical industries which dropped from 65 percent to 57 percent.

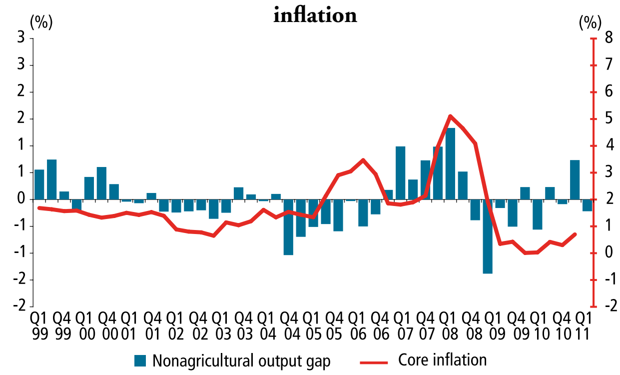
In other sectors, the capacity utilization rate declined slightly in the food industry to 75 percent, and stagnated at 79 percent in chemicals and related industries and at 83 percent in the electrical and electronics industry. In the textile and leather industry, much linked to economic conditions in partner countries, remained at 71 percent in January.

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.

Chart 2.2: YoY change nonagricultural output gap and core inflation



Sources: HCP, and BAM estimates

Apparent labor productivity in the nonagricultural sector grew 4 percent year on year in the fourth quarter of 2010, to about 115 points. Based on estimates of nonagricultural GDP, this trend probably reflects a lesser increase in urban employment than in nonagricultural GDP, as estimated by BAM.

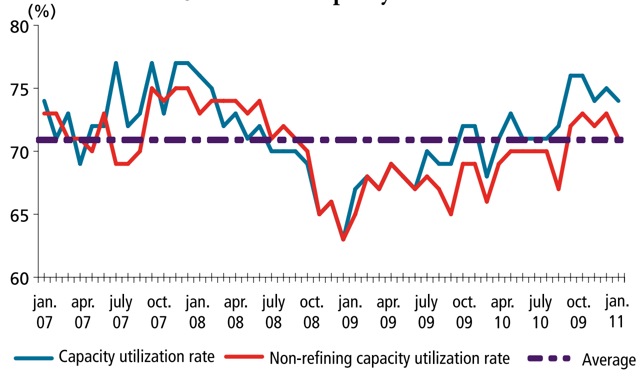
Meanwhile, the BAM business survey in the industrial sector points to a quarterly rise in the unit production cost (UPC), with an opinion balance of 52 percent. Corporate managers attribute this trend to higher prices for non-energy commodities with an opinion balance of 57 percent, and to a lesser extent to energy costs. At the sectoral level, beyond the cost of non-energy commodities which was the main source of higher UPC in all industries, financial costs and wage levels were the second source of this increase in the mechanical and metallurgical industry as well as the electrical and electronics industry. In other industries, energy costs were the second factor.

2.2 Pressures on labor market

At the end of the fourth quarter of 2010, labor force aged 15 and over reached 11,402,000 persons, up 1.4 percent over the same period of 2009, covering higher workforce in both urban and rural areas. However, the participation rate fell 0.2 percentage points to 49.1 percent, as the labor force aged 15 and over grew at a slower pace than the total population.

The employed population increased 1.3 percent to about 10.35 million people in the fourth quarter of 2010. At the same time, employment rate fell 0.2 percentage points to 44.6 percent due to smaller increase in the number of jobs compared to that of the population aged over fifteen years. By place of

Chart 2.3: Industrial capacity utilization rate

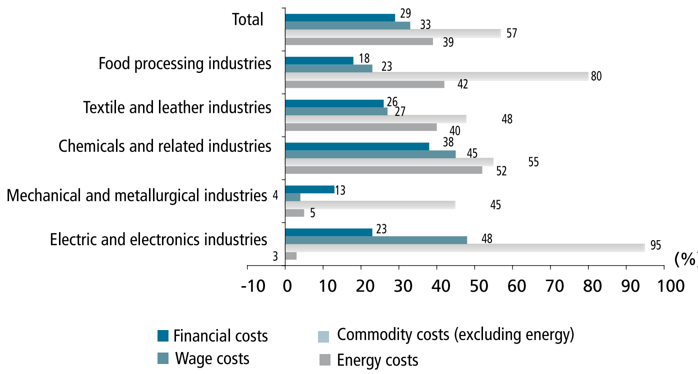


Source: BAM monthly business survey

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

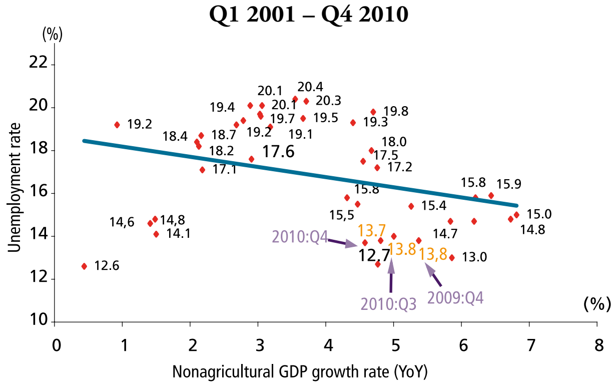
Sources : HCP, and BAM estimates

Chart 2.5: Change in components of unit production cost per sector (Balances of opinion in %, in Q4 of 2010)



Source: BAM monthly business survey

Chart 2.6: Nonagricultural growth and urban unemployment Q1 2001 – Q4 2010



residence, the employment rate declined both in urban and rural areas, amounting respectively to 37.4 percent and 55.2 percent.

Gainful jobs created in the fourth quarter of 2010 totaled 111,000, of which nearly 60 percent in cities. Unpaid employment grew by 10,000 jobs, despite the loss of 5,000 jobs in rural areas, resulting in a net creation of 121,000 employment positions, including 81,000 urban jobs and 40,000 rural jobs.

The major job-providing sectors were the construction sector with 35,000 new jobs, up 3.4 percent, agriculture with 29,000 jobs (0.7 percent), the industrial sector with 28,000 jobs (2.3 percent) and services with 28,000 jobs (0.7 percent). It should be noted that the construction and services sectors registered a marked deceleration in job creation compared to previous quarters. For the first quarter of 2011, corporate managers questioned in BAM's business survey expect industrial labor force to stagnate in all industries, except electrical and electronics industries, where it is predicted to increase.

Under these circumstances, total unemployment rate fell 0.2 percentage points to 9.2 percent in the fourth quarter of 2010. This change is attributable to a virtual stagnation of urban unemployment at 13.7 percent and a marked increase from 3.7 percent to 4.2 percent in rural areas. With the exception of the 25-34 year age group where unemployment rate edged down 0.1 percentage points, unemployment rate rose among the 15-24 age group (0.8 percentage points), 35-44 age group (0.4 percentage points) and the 45 and over age group (0.2 percentage points).

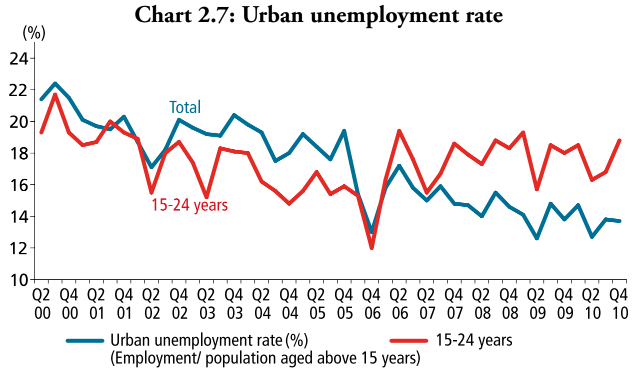
Regarding wage costs, recent estimates show that the unit labor cost (ULC) in the manufacturing sector in the fourth quarter of 2010 slightly decreased at a year-on-year

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

In million / in %	Q4 - 2009			Q4 - 2010		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (2)	5.92	5.31	11.24	6.01	5.38	11.4
Labor force participation rate (%) (3)	43.7	57.4	49.3	43.4	57.6	49.1
Employed labor force	5.1	5.12	10.22	5.18	5.16	10.35
Employment rate (%) (4)	37.7	55.3	44.8	37.4	55.2	44.6
Unemployment						
Unemployed labor force	818	198	1016	827	225	1052
Unemployment rate (in %) (5)	13.8	3.7	9	13.7	4.2	9.2
By degree						
. Non-graduates	7.6	2.2	4.2	7.9	2.6	4.6
. Graduates	18.6	11.7	17.2	18.2	11.2	16.7

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

Chart 2.7: Urban unemployment rate



Source: HCP

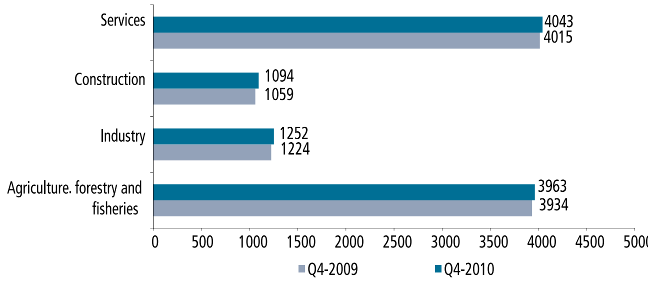
Chart 2.8: Change in unemployment structure by gender, age and degree

Source: HCP

rate of 0.4 percent. Compared with other countries, the Moroccan ULC declined less rapidly than in Hungary, Poland and South Korea, with a gap of 3.3 percent, 2.2 percent and 2 percent, respectively. However, it grew more positively than in the United Kingdom, Greece and Italy, where the rise was more or less substantial.

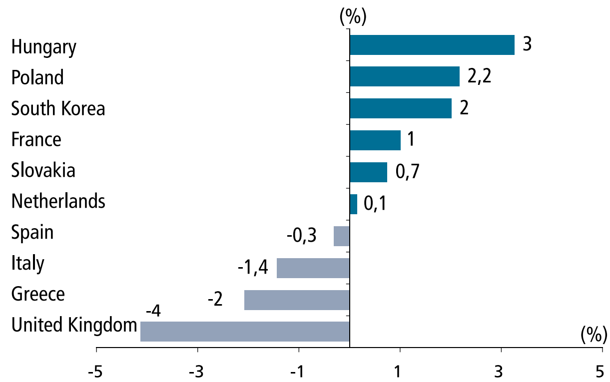
The quarterly average private sector wage index, calculated on the basis of the CNSS data, declined at a year-on-year rate of 4.4 percent and 6.7 percent in nominal and real terms, respectively. This trend results from a base effect associated with wage increases following the second rise in minimum wage put in place in 2009. Bank Al-Maghrib's business survey in the industrial sector points to higher wage costs in the fourth quarter of 2010, with a positive balance of opinion at 33 percent. This increase mainly involved electrical and electronics industries and chemicals and related industries, with a balance of opinion of 48 percent and 45 percent, respectively.

Chart 2.9: Employed labor force per sector (in thousands)



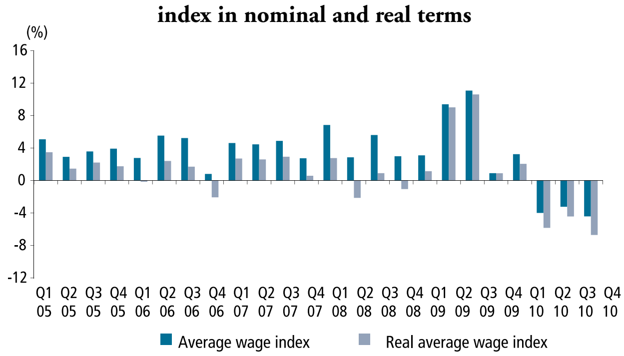
Source: HCP

Chart 2.10: 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

Chart 2.11: YoY change in the private sector's average wage index in nominal and real terms



Sources: CNSS, and BAM estimates

Chart 2.12: Quarterly change in real and nominal minimum wage

Sources: Labor Ministry, and BAM calculations

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

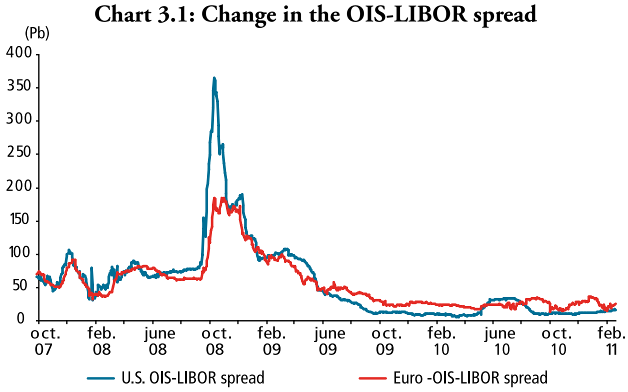
The international financial situation in the first two months of 2011 was marked by persistent worries, more pronounced in certain markets, over sovereign debt sustainability in peripheral eurozone countries and geo-political upheaval in some Middle East and North African countries. Bond markets remained under pressure, as European and U.S. government bond yields further increased. Moreover, stock market indexes in emerging countries, and to a lesser extent in advanced countries, registered losses which were more pronounced at the end of February 2011. Interbank rates in the advanced economies remained stable, while credit continued to grow at a very moderate pace both in the United States and the euro area.

The global economy continues to be characterized by a multi-speed recovery, as evidenced by the results of national accounts in the last quarter of 2010, as well as the latest high-frequency indicators in advanced countries. The strong momentum in Asian and Latin American emerging economies continued to boost global recovery in the fourth quarter, thus remaining the main driver of the international economy. However, growth rates in many advanced countries are still insufficient to improve income and reduce unemployment, while other advanced economies remained in recession throughout 2010. In the United States, figures show GDP grew 2.8 percent year on year, from 2.6 percent the previous quarter, while eurozone GDP rose 2 percent after 1.9 percent, mostly fueled by the performance of the German economy for the third consecutive quarter. In emerging markets, especially China, growth accelerated in the fourth quarter of 2010 to 9.8 percent, up from 9.6 percent the previous quarter. Short-term projections of the various international organizations suggest global growth would continue in 2011, though at a still uneven pace between advanced and emerging economies. The buoyancy of recovery, particularly in industrialized countries, remains surrounded by risks of higher commodity prices, widening fiscal imbalances and the financial turmoil that can ensue, as well as the still very high unemployment in these countries. Commodity prices rose sharply in February because of a more intense speculation, fueled by geopolitical problems in the MENA region and supply shortage of some foodstuffs. Following these developments and the emergence, in certain cases, of second-round effects in some emerging and advanced economies, inflation has broadly run above central bank targets.

3.1 3.1 Global financial conditions and economic activity

During the first two months of 2011, international financial conditions were under pressure in conjunction with the still troubled fiscal position of eurozone peripheral countries and the geopolitical turmoil in some Middle East and North African countries. Economically, most recent data show that recovery would continue in the fourth quarter of 2010 in most advanced and emerging economies, but at an uneven pace across regions.

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

3.1.1 Financial conditions

In February 2010, the major interbank rates in the United States and Europe remained unchanged from the previous month. Indeed, between January and February 2011, the 3-month dollar Libor and the 3-month Euribor stabilized at 0.3 percent and 1.1 percent, respectively. The 3-month dollar Libor-OIS spread[1] widened from 13.5 basis points to 15.6 basis points, while the 3-month euro Libor-OIS narrowed from 25.6 basis points to 22.1 basis points.

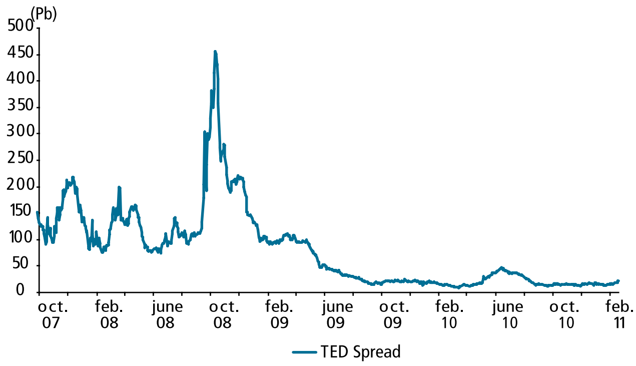
Bond markets registered a significant increase in U.S. long-term rates and a continued rise in those of euro area countries. Indeed, yields on 10-year U.S. Treasury bills went up to 3.60 percent in February 2011, from 3.36 percent the previous month. Between January and February 2011, yields on 10-year government bonds of eurozone peripheral countries rose on average from 6.82 percent to 7.12 percent in Spain, and from 8.57 percent to 8.68 percent in Ireland. Rates on German and French 10-year sovereign bonds also increased to 3.62 percent and 3.25 percent in February, as against 3.43 percent and 3.04 percent in January. On derivatives markets, CDS of eurozone peripheral countries declined in February, while those of emerging economies posted marked increase between January and February, ranging between 1.5 percent in China and 7 percent in Brazil.

Major stock market indexes in the advanced economies continued to appreciate in February 2011, increasing on average between a low of 1.2 percent for the FTSE100 to a maximum of 4 percent for the DAX30, month on month. However, in the last week of February these indexes recorded significant declines ranging from 2.6 percent for the Dow Jones to 4 percent for the DAX30, especially in connection with soaring oil prices. Similarly, equity markets in the emerging economies, impacted by the turmoil in some Middle East countries, reversed the trend that began in June 2010, as the MSCI EM[2] in February 2011 lost 3 percent from the previous month.

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

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

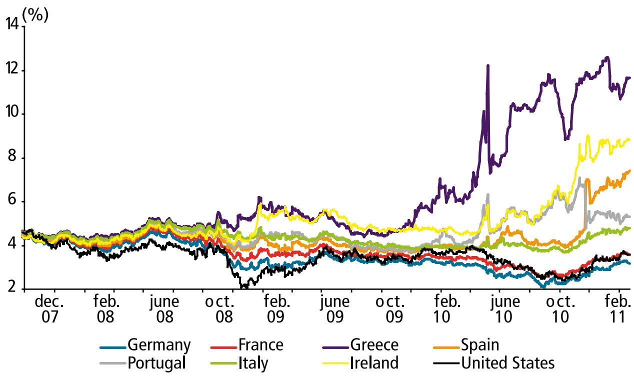
Chart 3.2: Change in the TED spread[1]



Source: Datastream

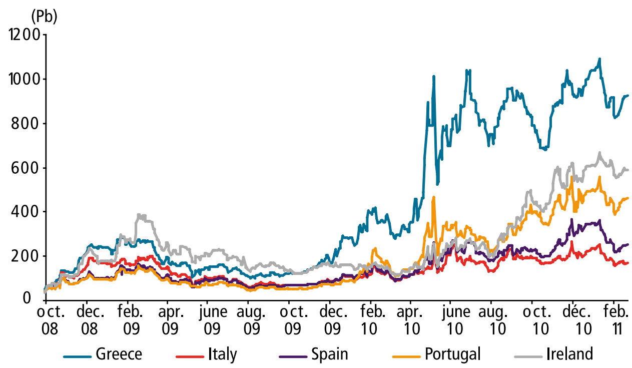
1 The TED spread represents a credit risk and corresponds to the interest rate gap between three-month U.S. Treasury bills and the three-month interbank rate in U.S. dollars.

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.

Moreover, the VIX[1] index, which tracks price volatility on stock markets, stabilized on average at 17.2 basis points from January to February 2011, but with a sharp increase from 16 to 22 basis points at the end of the last week of February.

Credit registered a monthly increase of 0.3 percent in January 2011 in the euro area and a decrease of 0.5 percent in February in the United States. On a year-on-year basis, it continued to trend upward, rising 2.4 percent in the euro area, owing to the momentum in loans to households, and 2.9 percent in the United States, driven by strong demand for commercial and industrial loans.

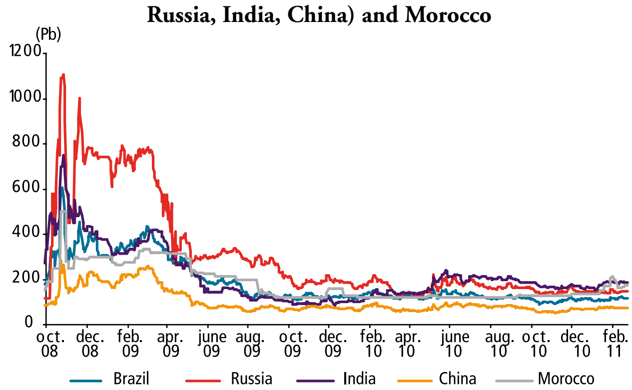
In international foreign exchange markets, the euro continued to appreciate against the dollar, in a context of expected rise of policy rates by the ECB before the Fed. Indeed, the euro gained 2 percent on average in February to $1.36, reaching a month's peak of $1.38 on February 24, 2011. It also appreciated 2 percent against the Japanese yen, but slightly depreciated 0.3 percent vis-à-vis the pound sterling. The renminbi rose 1.8 percent against the U.S. dollar on an end-of-month basis, suggesting a new drifting away from its dollar anchor, in a context of increasing inflationary pressures in China.

Concerning monetary policy decisions, major central banks in advanced economies, following their recent meetings, maintained the status quo. The ECB and the Bank of England kept policy rates unchanged at 1 percent, and the Fed maintained the target range for the federal funds rate at 0 to 0.25 percent. However, the ECB, for the second consecutive month, expressed concern about rising inflation pressures, auguring a likely upward revision of policy rates in the coming months.

3.1.2 Global economic activity

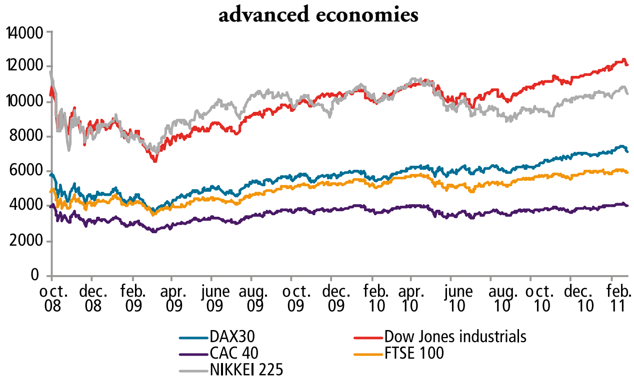
Latest data on the international economic situation point to continued recovery in the last quarter of 2010 in most developed and

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



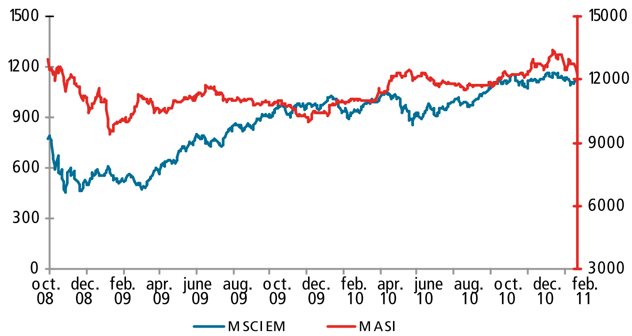
Source: Datastream

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



Source: Datastream

Chart 3.7: Change in the MSCI EM and MASI



Source: Datastream

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

emerging countries. Global economic outlook remains broadly positive, in the view of major international organizations, but with persistent risk factors mostly associated with higher commodity prices, financial turmoil fueled by fears about worsening fiscal imbalances, and the still very high unemployment rates in most advanced countries.

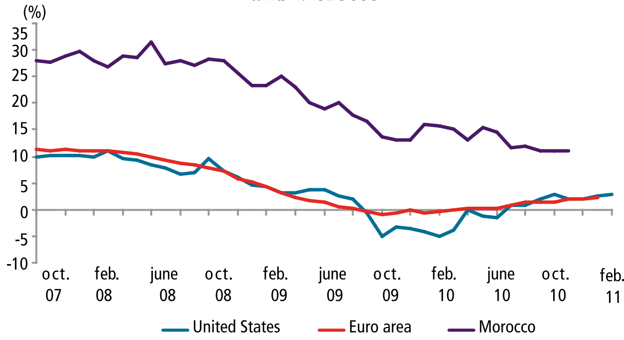
Recent figures of the U.S. Department of Commerce show that U.S. GDP in the fourth quarter of 2010 expanded at an annualized rate of 2.8 percent in the second estimate (below the 3.2 percent of the first estimate), up from 2.6 percent the previous quarter, in conjunction with improved household consumption and strong exports. On a year-on-year basis, U.S. GDP increased 2.7 percent, from 3.2 percent the previous quarter, ending the year on an average growth of 2.8 percent, after shrinking 2.6 percent in the year before.

In the euro area, growth remained unchanged at 0.3 percent quarter on quarter, up 2 percent year on year from 1.9 percent the previous quarter. This trend covers the acceleration in German growth to 4 percent, the improvement in Spain's GDP from 0.2 percent to 0.6 percent and Italy's from 1.2 percent to 1.3 percent, and the deceleration of French growth from 1.7 percent to 1.5 percent. Average annual GDP in the euro area increased 1.7 percent in 2010 after a decline of 4 percent a year earlier. In Japan, GDP in the fourth quarter 2010 shrank 0.3 percent quarter on quarter, after rising 0.8 percent the previous quarter, mostly because of slower household spending. Year on year, Japanese growth remained positive, as GDP was 4 percent higher than the rate seen in 2009.

In emerging Asia, particularly in China, GDP growth in the fourth quarter of 2010 rose to 9.8 percent year on year, from 9.6 percent the previous quarter, largely attributable to strong investment and exports.

Overall, the performance achieved by some advanced countries is still insufficient to reach pre-crisis GDP level, particularly in Japan and the euro area. Indeed, euro area's GDP remains dragged down by the negative performance of Italy and Spain, despite the momentum in the

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



Source: Datastream

Table 3.1: Global growth outlook

	Forecasts					
	World Bank*		OECD*		IMF*	
	2010	2011	2010	2012	2011	2012
Global GDP	-	-	-	-	4.4	4.5
United States	2.1	2.5	2.2	3.1	3.0	2.7
Euro area	1.5	1.8	1.7	2.0	1.5	1.7
Germany	2.2	1.9	2.5	2.2	2.2	2.0
France	1.6	1.9	1.6	2	1.6	1.8
Italy	0.8	1.4	1.3	1.6	1.0	1.3
Spain	-0.6	1.0	0.9	1.8	0.6	1.5
United Kingdom	1.0	1.8	1.7	2.0	2.0	2.3
China	-	-	9.7	9.7	9.6	9.5
India	-	-	8.2	8.5	8.4	8.0
Brazil	-	-	4.3	5.0	4.5	4.1
Russia	-	-	4.2	4.5	4.5	4.4

* *World Bank : forecasts of February 2011 and November 2010, IMF: January 2011; OECD: January 2010*

Sources: IMF, World Bank and OECD.

Table 3.2: YoY change in quarterly growth

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	-3.8	-4.1	-2.7	0.2	2.4	3.0	3.2	2.8
Euro area	-5.2	-4.9	-4.0	-2.0	0.8	2.0	1.9	2.0
France	-3.9	-3.1	-2.7	-0.5	1.2	1.6	1.7	1.5
Germany	-6.6	-5.5	-4.4	-2.0	2.1	3.9	3.9	4.0
Italy	-6.5	-6.2	-4.7	-2.8	0.5	1.3	1.2	1.3
Spain	-3.5	-4.4	-3.9	-3.0	-1.4	0.0	0.2	0.6
United Kingdom	-5.5	-6.0	-5.3	-2.8	-0.3	1.5	2,5	1.5
China	6.5	8.1	9.6	11.3	11.9	10.3	9.6	9.8

Sources: Eurostat, Datastream and U.S. Department of Commerce economy of Germany and, to a lesser extent, France. In the United States, GDP in the fourth quarter of 2010 increased to its pre-crisis level (i.e. first quarter of 2008), mainly owing to the improvement in domestic demand (see Chart 3.9).

High-frequency indicators suggest that economic activity in advanced countries would gain momentum in the first quarter of 2011.

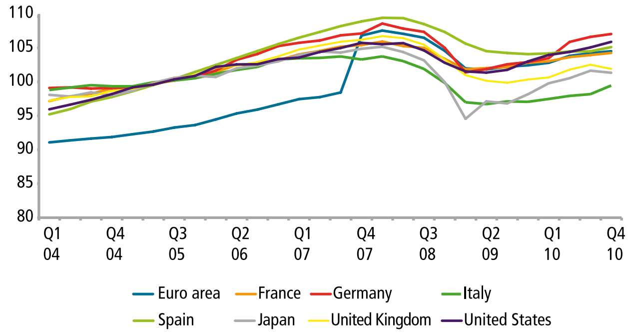
Actually, the U.S. manufacturing ISM index, which trended upward in 2010, reached 61.4 points in February 2011, up 1 percent month on month and 8.7 percent year on year. Also, the Conference Board Consumer Confidence Index, on the uptrend since last October, rose to 70.4 points in February, up 8.4 percent month on month and over 50 percent year on year. The eurozone manufacturing PMI stood at 59 points in February 2011, up from 57.3 the previous month, while the composite PMI rose 2.5 percent month on month and 8.8 percent year on year.

Concerning the labor market, unemployment in 2010 was elevated in most developed countries compared to 2009. In the United States, it was 9.6 percent, up from 9.3 percent in 2009, while in the euro area it increased to 10 percent from 9.4 percent a year ago. In all partner countries of Morocco, the unemployment rate in 2010 was higher than 2009, hitting a high of 20.1 percent in Spain after 18 percent in 2009.

More recent figures show that unemployment reached 9 percent in the United States in January 2011, down from 9.4 percent the previous month, and stabilized at 10 percent in the euro area in December 2010, reflecting in particular a rate of 9.7 percent in France, 6.6 percent in Germany, 8.6 percent in Italy and 20.2 percent in Spain.

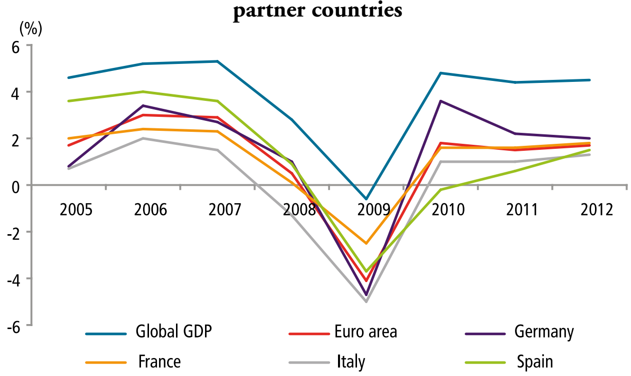
Latest short-term projections prepared by the IMF (January 2011) suggest that global GDP would grow by 4.4 percent and 4.5 percent in 2011 and 2012, respectively. In advanced countries and emerging and developing economies, growth should remain stable in 2011 and 2012, at 2.5 percent and 6.5 percent, respectively. By country, the IMF expects GDP to expand by 3 percent and 2.7 percent in 2011

Chart 3.9: Change in the real GDP index (2005=100) in the United States, the euro area, Japan and partner countries



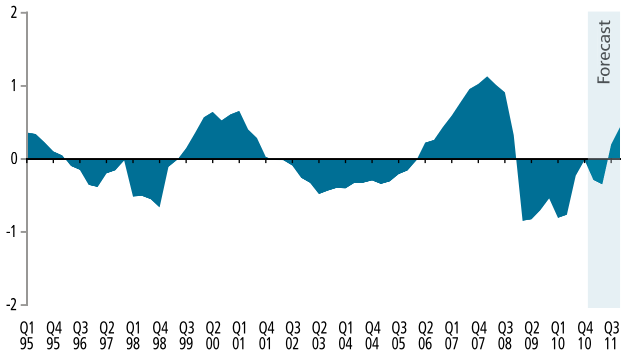
Source: IMF

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



Source: IMF

Chart 3.11: Output gap of the main partner countries



Sources: European Commission, and BAM calculations and 2012 in the United States, and 1.5 percent and 1.7 percent in the euro area. For the main partner countries, it projects 1.6 percent and 1.8 percent in France, 2.2 percent and 2 percent in Germany, 1 percent and 1.3 percent in Italy and 0.6 percent and 1.5 percent in Spain.

In China, GDP would increase by 9.6 percent and 9.5 percent in 2011 and 2012, whereas India's economy would grow by 8.4 percent and 8 percent.

The latest forecasts of the OECD and the European Commission are close to those of the IMF for 2011, showing further improvement of GDP in most developed countries, at varying speed depending on the magnitude of the expected impact of fiscal imbalances, fluctuations in commodity prices and arbitration between private spending and saving.

3.2 Commodity prices and inflation

Commodity prices surged in February, driven by supply uncertainties and the resulting increase in speculation. Inflation rose almost across the board, reflecting the previous increases in commodity prices and the emergence of second-round effects, particularly in emerging markets.

3.2.1 Energy commodity prices

The geopolitical turmoil in the Middle East and North Africa, coupled with strong demand and the effect of speculative movements, caused oil prices in February 2011 to rise 5.2 percent month on month and 37 percent year on year, hitting a record high since August 2008. The current trend in oil prices seems to be impacted by concerns about the future change in supply compared to that of demand, which the OPEC and the IEA expect to remain strong. Indeed, the OPEC considers that global demand in 2010 would have reached 86.34 mb/d and expects it to increase to 87.74 mb/d in 2011. The IEA anticipates demand to rise 1.5 percent in 2011 to 89.3 mb/d, after increasing by about 2.8 mb/d in 2010.

Under these conditions, the IMF predicts oil price to reach $89.5 a barrel on the whole of 2011, and then increase to $89.7 in 2012. However, these projections are likely to be revised upward in the next update, in case of persistent tensions

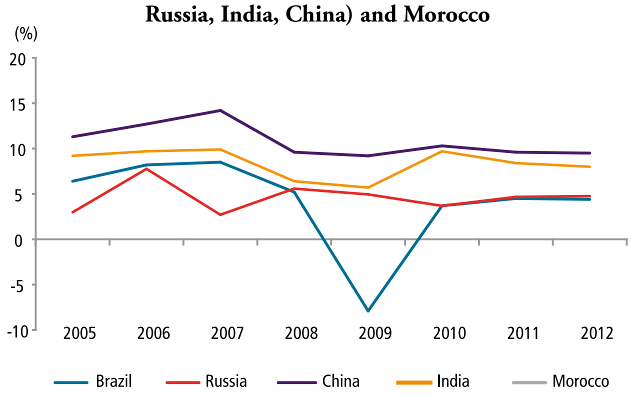
Table 3.3: Change in unemployment rate in the United States, the euro aera and the partner countries

	2008	2009	M10 2010	M11 2010	M12 2010
United States	5.8	9.3	9.6	9.8	9.4
Euro area	7.6	9.4	10.0	10.0	10.0
France	7.8	9.5	9.7	9.7	9.7
Italy	6.8	7.8	8.4	8.6	8.6
Spain	7.3	7.5	6.7	6.6	6.6
Germany	11.4	18	20.6	20.4	20.2
United Kingdom	5.7	7.6	7.8	7.8	7.8

(*) Harmonized indexes

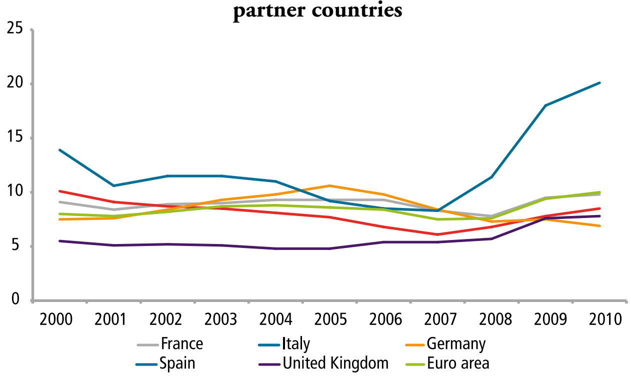
Sources: IMF, Eurostat, BAM forecasts for Morocco and IMF forecasts for other countries

Chart 3.12: GDP growth in the emerging countries (Brazil, Russia, India, China) and Morocco



Source: IMF

Chart 3.13: Change in unemployment rate in the euro aera and partner countries



in February. On the futures market, the price averages at $108.6 a barrel in 2011 and $107.9 in 2012.

Natural gas prices, although declining 4 percent month on month, remains up 49.5 percent year on year, supported by winter conditions and the rising industrial demand. On the futures market, the price of gas would reach 57.3 pence[1] a therm in 2011 and 61.8 pence in 2012. Moreover, coal price was affected by floods in Australia, third largest producer, rising in January 19.1 percent month on month and 40.2 percent year on year.

3.2.2 Non-energy commodity prices

Non-energy commodities continued to rise in February 2011, as the DJ-UBS Commodity Index increased at a monthly rate of 4.7 percent and a year-on-year rate of 55.2 percent, thus approaching the peak recorded in 2008.

By product category, the DJ-UBS Agriculture Index[2] rose at a monthly rate of 6.1 percent and an annual rate of 73.4 percent. This surge in prices is due to supply shortages that led to higher prices for cotton and wheat, up 154.7 percent and 95.8 percent year on year, respectively.

Similarly, the DJ-UBS industrial metals index[3] increased at a monthly rate of 4.8 percent and an annual rate of 55.2 percent, compared to February 2010, particularly in conjunction with the strong Chinese demand. Prices for nickel, copper and zinc, rose 11.1 percent, 4.2 percent and 4 percent, month on month, and 49.1 percent, 44.7 percent and 14.6 percent year on year, respectively.

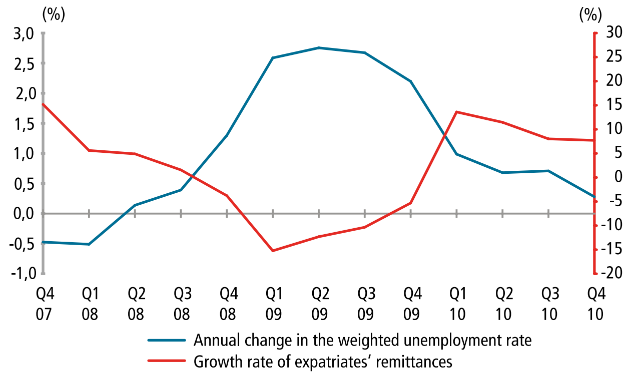
Prices of phosphate and derivatives continued to trend upward in January, as the price of crude phosphate appreciated 10.7 percent month on month and 58.7 percent year on year, to $155 dollars a tonne. Concerning fertilizers, although the price of TSP and DAP increased at a monthly rate lower than 1 percent and that of urea declined 2.3 percent, these prices increased sharply year on year, up 60.3 percent, 39.3 percent and 32.8 percent, respectively.

[1] The pound sterling is divided into 100 pence.

2 It consists of wheat, corn, soy, sugar, cotton, coffee, and soybean oil.

3 It includes aluminium, copper, zinc, and nickel.

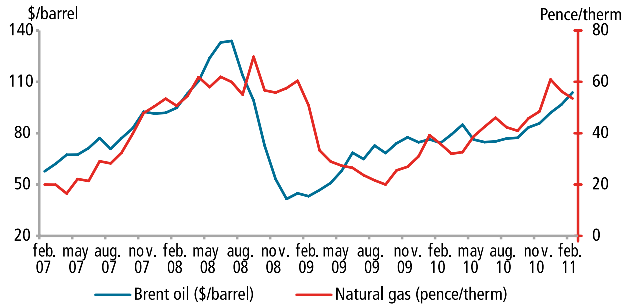
Chart 3.14: YoY change in main partner countries' weighted unemployment rate and expatriates' remittances*



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

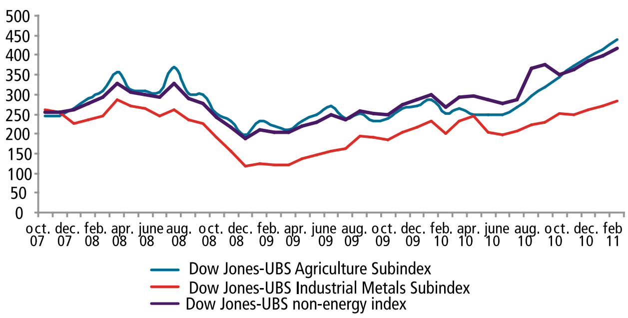
Sources: Datastream, and BAM calculations

Chart 3.15: World price of brent oil in dollar and natural gas in pence



Source: Datastream

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



Source: Datastream

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

	Q1:11	Q2:11	Q3:11	Q4:11	2011	2012	2013
Oil	100.54	110.64	110.23	109.73	108.6	107.99	105.7
Natural gas	54.59	54.27	56.16	64.32	57.33	61.88	63.84

Source: Bloomberg

3.2.3 Inflation in the world

Pressures on commodity prices resulted in higher consumer prices in January 2011. In the eurozone, inflation stood at 2.3 percent from 2.2 percent a month earlier, driven by energy products whose prices increased 12 percent year on year. In the major partner countries, inflation was up in Germany, at 2 percent from 1.9 percent in December. In Spain, besides the impact of rising commodity prices, inflation increased to 3 percent due to higher prices for some regulated products.

In contrast, inflation slightly declined in France and Italy in January 2011, falling to 1.9 percent instead of 2 percent and 2.1 percent, respectively. Euro area's annual inflation would have further increased to 2.4 percent in February 2011, according to Eurostat's flash estimate. In the United States, inflation accelerated to 1.4 percent in January, 75 percent of which is attributable to higher food and energy prices.

Altogether, the importance of supply factors in explaining the rise in inflation in advanced countries shows the change in underlying inflation which, for illustration, was limited In January 2011 to 1.1 percent in the euro area and 1 percent in the United States.

IMF short-term inflation projections expect inflation to stand at 1.6 percent in 2011 and 2012 in developed countries, while in emerging and developing countries it would rise to 6 percent in 2011 before declining to 4.8 percent in 2012. These predictions remain broadly in line with forecasts published by central banks, including those of France and Germany which expect their CPI to reach 1.5 percent and 1.7 percent, respectively, in 2011.

3.3 Morocco's import unit price index

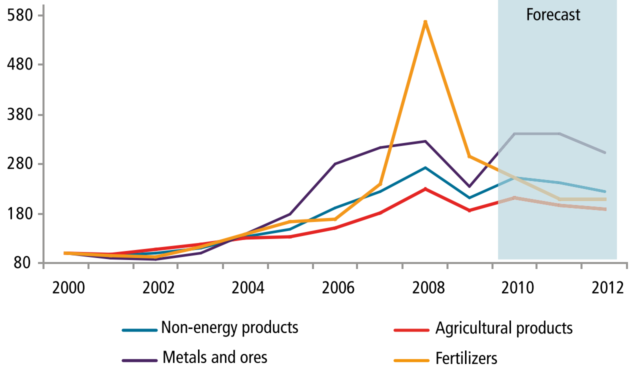
The latest available data show that the non-energy import price index (IPI) grew at a monthly rate of 0.2 percent in December, from 0.8 percent in November. In fact, the mining IPI recorded a month-on-month increase of 5.3 percent, compared with a 2.1 percent decline

Table 3.5: Futures prices of wheat, corn and sugar

	Q1:11	Q2:11	Q3:11	Q4:11	2011	2012	2013
Wheat(cents/bu)	831	871.6	912.06	930.26	886.55	883	837.43
Corn (cents/bu)	682.92	722.48	659.66	613.9	669.15	565.21	516.98
Sugar (11cents/bl)	30.32	26.39	24.3	23.59	26.11	51.65	20.06

Source : Bloomberg

Chart 3.17: Outlook for commodity prices*



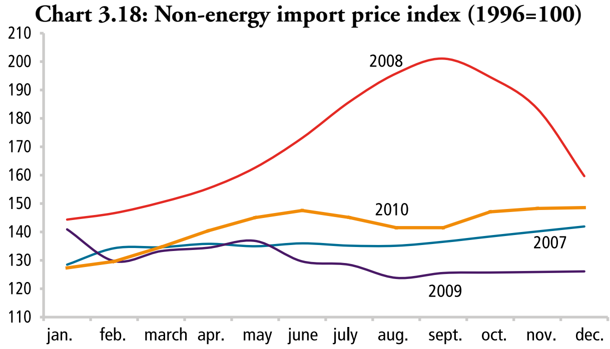
(*) Updated on July 11, 2010
Source: World Bank

Table6 3.6: Recent trend in world inflation, YoY

	jan. 2010	nov. 2010	dec. 2010	jan. 2011	Forecast 2011
United-States	-2.6	1.1	1.1	1.4	1.0
Euro area*	0.9	1.9	2.2	2 3	1.5
Germany	0.7	1.6	1.9	2.0	1.4
France	1.2	1.8	2.0	1.9	1.6
Spain	1.0	2.2	2.9	3	1.1
Italy	1.3	1.9	2.1	1.9	1.7
Japan	-1.2	0.1	0.0	0.0	-0.3
China	1.5	5.1	4.6	4.9	2.7

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

Chart 3.18: Non-energy import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations a month earlier, reflecting in particular the 13 percent rise in the average unit import price of crude sulfur.

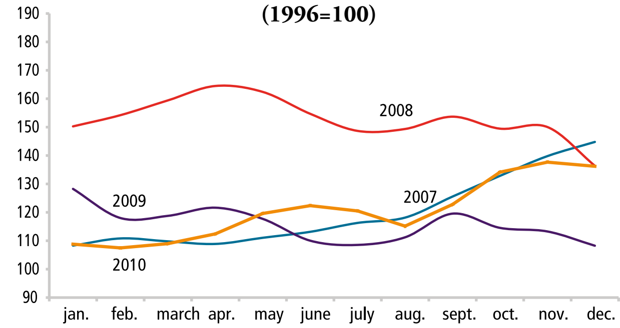
Meanwhile, the food IPI fell 1.1 percent, after rising 2.6 percent in November. This trend is due mainly to the 3.1 percent decrease in the average unit import price of wheat.

At the same time, the IPI of semi-finished goods declined at a monthly rate of 0.7 percent, as opposed to an increase of 0.4 percent a month earlier, mainly in association with a 0.6 percent decrease in the average unit import price of plastics.

On a year-on-year basis, the non-energy import price index was up 17.8 percent, the same level seen in November. The mining IPI increased 15.5 percent, mainly owing to the 10.7 percent rise in the unit import price of sulfur. Meanwhile, the IPI of semi-finished goods posted a rise of 13.3 percent, following the 9.5 percent growth in the unit import price of plastics. The food IPI was up 25.8 percent, mostly because of the rise in the unit import price of wheat and corn by 30 percent and 20.2 percent, respectively.

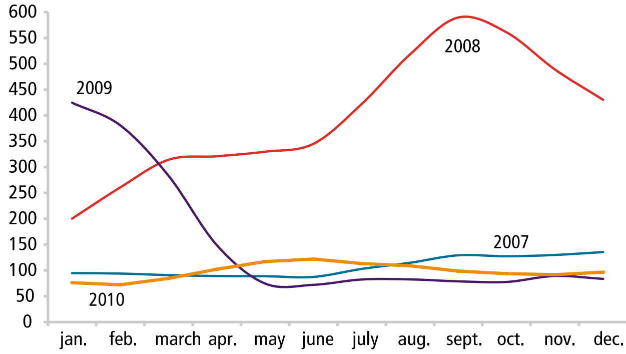
Given recent developments marked by the continued rise in world commodity prices, inflationary pressures from import prices could intensify in coming quarters, despite the moderate growth in non-energy import prices.

Chart 3.19: Food import price index (1996=100)



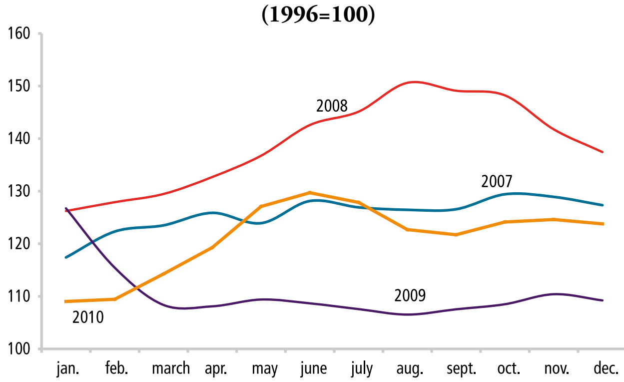
Sources: Foreign Exchange Office, and BAM calculations

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



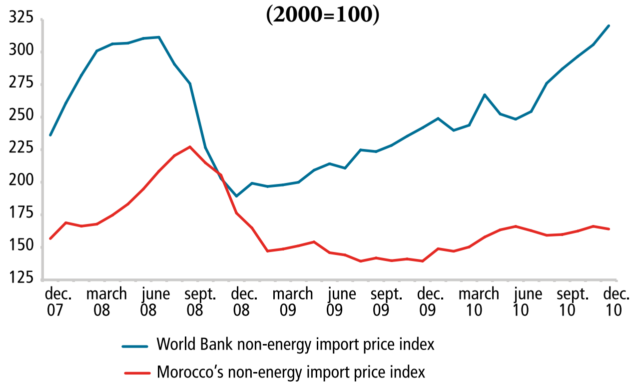
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.21: Semi-finished products' import price index (1996=100)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.22: Change in world commodity price index and domestic non-energy import price index (2000=100)



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

4. MONETARY CONDITIONS AND ASSET PRICES

The latest available data point to a continued moderation of money supply and bank credit growth. Accordingly, M3 aggregate annual growth rate was limited to 3.6 percent in January 2011, down from 5.3 percent in the fourth quarter of 2010, reflecting mainly a slowdown in bank money growth and a drop in money market UCITS. Under these circumstances, the money gap remained negative. At the same time, credit annual growth fell to 5.5 percent in January, from 9.3 percent in the fourth quarter of 2010 and 10.9 percent for 2010. As to lending rates, the findings of BAM survey with banks for the fourth quarter of 2010 show a decrease in loans' weighted average rate, mainly due to dropping cash advances rates. The effective exchange rate of the dirham remained virtually unchanged in nominal terms from a quarter to the next. Conversely, it rose 1.46 percent in real terms due to a slightly higher inflation rate in Morocco compared to the main partner and competitor countries. The real-estate price index in the fourth quarter dropped by 0.9 percent year on year. These developments suggest, overall, an absence of monetary domestic inflation pressure on the medium term.

4.1 monetary conditions

4.1.1 Interest rates

In a context where inflation forecast is in line with the objective of price stability and the balance of risks around this forecast is, overall, neutral, the Board decided, at its last meeting held on December 21, 2010, to keep the key rate unchanged at 3.25 percent. Hence, the overnight rate on the interbank monetary market stood, in average, at 3.31 percent between January and February 2011, up by 5 basis points compared to the last quarter.

Concurrently, short and mid-term Treasury bill rates, issued on the primary market, stood almost unchanged in January, after having dropped at the end of the fourth quarter of the previous year. The same trend was observed on the secondary market, both for short-term maturities as well as mid-term and long-term ones.

As to deposit rates, the weighted average rate of 6 and 12-month deposits, whose change reflects some stability between the third and fourth quarters of 2010, rose by 19 basis points in January 2011. This change reflects mainly the higher interest rates on 12-month deposits.

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

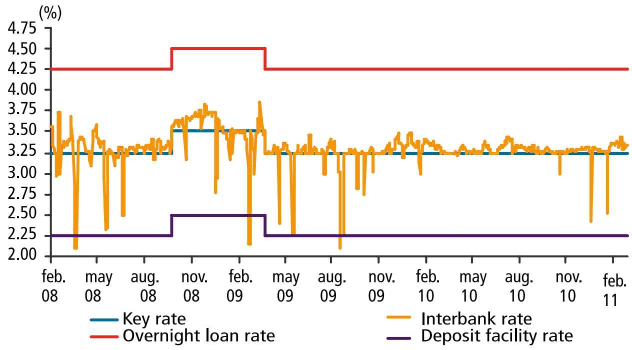


Table 4.1: Change in Treasury bond yields on the primary market

	2009		2010				
	Q3	Q4	Q1	Q2	Q3	Q4	january 2011
13 weeks	3.25	3.25	3.44	3.39	-	3.29	3.30
26 weeks	3.27	3.28	3.56	3.45	3.41	3.33	-
52 weeks	3.33	3.37	3.62	3.55	3.49	3.48	3.47
2 years	3.48	3.57	3.73	3.69	3.68	3.62	3.63
5 years	3.68	3.74	3.95	3.90	3.90	3.85	3.86
10 years	-	-	4.20	4.19	4.17	4.15	4.13
15 years	-	-	4.32	4.35	-	4.34	4.33

As to lending rates, the latest findings of BAM survey with banks for the fourth quarter of 2010 show a drop by 8 basis points in the weighted average rate of bank loans to stand at 6.21 percent. This change primarily resulted from a decline in rates on cash advances. In contrast, interest rates applied to real-estate loans as well as equipment and consumer loans registered an increase, after dropping in the preceding quarter.

Chart 4.2: Change in maturity structure of TB interest rates

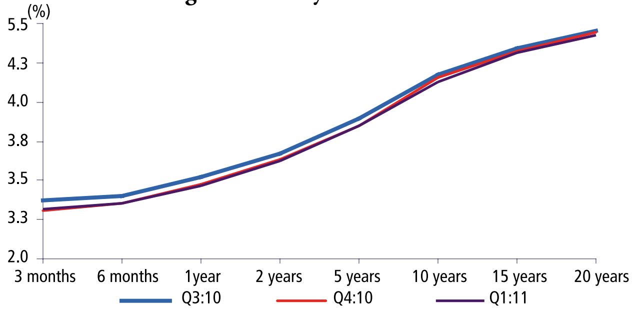


Table 4.2: Rates on time deposits

	2009		2010				
	Q3	Q4	Q1	Q2	Q3	Q4	jan.2011
6 months	3.31	3.24	3.28	3.32	3.32	3.33	3.32
12 months	3.68	3.69	3.65	3.64	3.71	3.77	4.01
Weighted average	3.55	3.54	3.48	3.48	3.59	3.60	3.79

Box 4.1: Liquidity and monetary policy implementation

During the fourth quarter of 2010, banks' liquidity shortage was absorbed, on the back of the expansive impact of banks' liquidity autonomous factors. As a consequence, banks' average liquidity shortage narrowed from 23.4 billion dirhams in the third quarter to 13.9 billion in the fourth quarter of 2010.

In fact, Treasury operations led to a liquidity injection of 12 billion dirhams, mostly attributable to reimbursement of domestic public debt to the banking sector (20.9 billion dirhams), and the increase in the Treasury's investments in the money market amounting to 1.4 billion dirhams, partly offset by banks' subscriptions to T- bills' auctions (18.2 billion dirhams).

Foreign assets operations led to a liquidity injection of 2.4 billion dirhams, due to the difference between foreign currency sales totaling 7.5 billion dirhams, and foreign currency purchases by commercial banks totaling 5.1 billion dirhams.

On the other hand, the rise in currency in circulation stood at 2.2 billion dirhams, due to the outflows registered during November (3.7 billion) on the occasion of Eid Al-Adha.

Altogether, autonomous factors exerted an expansive effect of 12.2 billion dirhams on banks' liquidity.

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

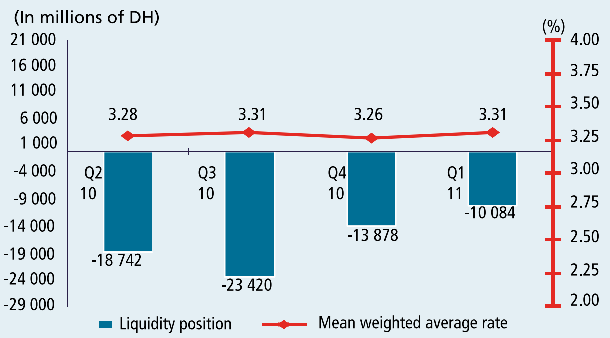
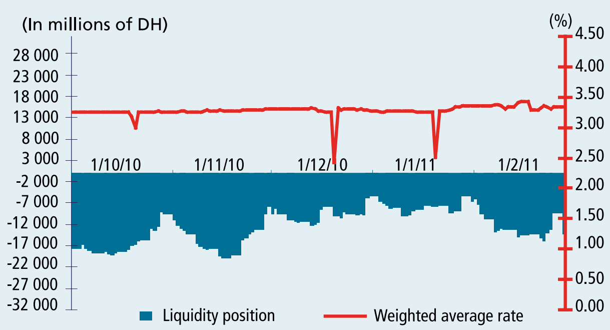


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



Despite the restrictive change in autonomous factors over the first quarter of 2011, banks' liquidity average shortage improved, from 13.9 billion in the fourth quarter 2010 to 10.1 billion over the first two months of 2011, owing to the accrued intervention of Bank Al-Maghrib in February so as to curb upside pressures on the weighted average rate throughout that month.

Chart B 4.1.3: Change in reserve requirements

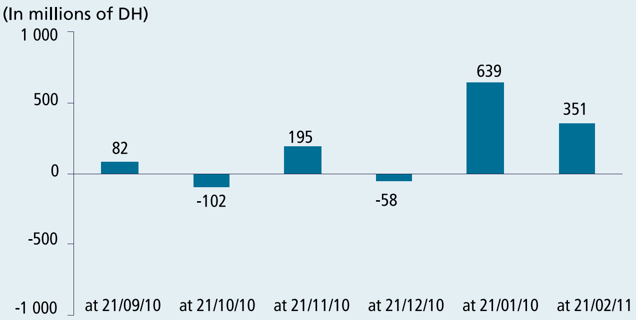
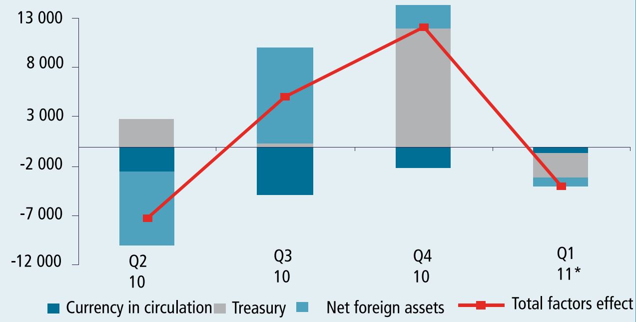


Chart B 4.1.4: Change in liquidity factors' effect



Treasury operations had a negative impact on banks' liquidity by 2.5 billion dirhams due mainly to banks' subscriptions to TB's auctions (20.5 billion dirhams), partly offset by the reimbursements of domestic debt to the banking system (9.5 billion dirhams) and the increase in the Treasury investments on the money market, amounting to 1.9 billion.

Foreign assets transactions led to a liquidity drain of 805 billion dirhams, primarily because of the difference between foreign currency purchases by commercial banks totalling 4.8 billion and sales of foreign banknotes which stood at 4 billion dirhams.

The rise in currency in circulation came to 678 million dirhams on the back of Eid-Al-Mawlid.

Overall, autonomous factors had a restrictive effect of 4 billion dirhams on banks' liquidity.

To ease banks' liquidity shortage, which averaged 10.1 billion dirhams during this quarter, Bank Al-Maghrib intervened exclusively through 7-day advances, providing an average daily amount of 9.3 billion dirhams. The central bank also provided liquidity through an overnight advance operation amounting to 3.6 billion.
During the first quarter of 2011, the mean weighted average rate stood at 3.31 percent, up 5 basis points compared with the previous quarter.
In addition, the volatility of the weighted average rate rose 2 basis points, from 0.10 percent to 0.12 percent, mainly as a result of the upward pressure on this rate during February, and whose average stood at 3.36 percent.

Chart B 4.1.5: BAM interventions on the money market

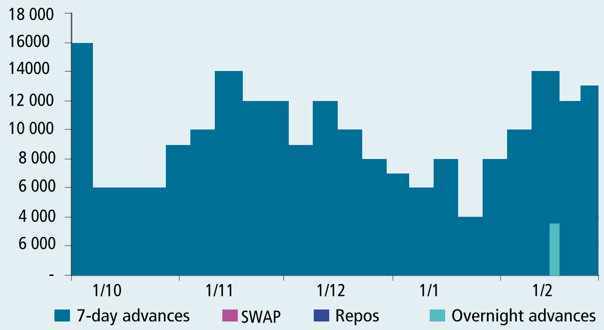
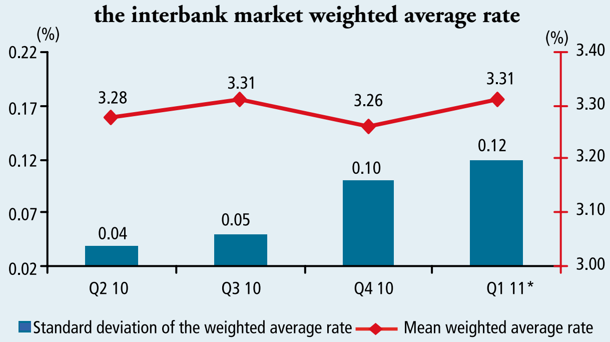


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



4.1.2 Money, credit and liquid investments

M3 growth

The slowdown in money creation continued at the beginning of 2011 and materialized in a money gap, showing consequently the absence of monetary inflationary pressures on the medium term.

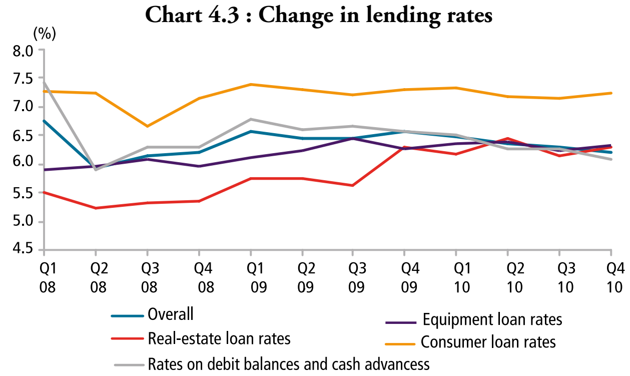
Accordingly, M3 annual rate dropped once again in January 2011, to 3.6 percent from 5.3 percent a quarter earlier and 6.5 percent on average during 2010. This drop is mainly attributable to the slowdown in loans given to the private sector, which led to a contraction of their contribution to M3. In contrast, the contribution of net foreign assets and claims on the Government increased to become positive in January.

The deceleration in money creation seems to be accompanied by portfolio switching movements toward time deposits and bond UCITS, as evidenced by the slowdown or stagnation of the growth of most liquid holdings and the decline in money market UCITS.

Annual growth of bank money dropped again, standing at 3.2 percent in January, from 5.5 percent a quarter earlier, on account of lower demand deposits with banks as well as with the Treasury. In turn, growth of currency in circulation and demand deposits remained unchanged overall at 6.3 percent and 7.1 percent respectively. Concurrently, money market UCITS, on a downward trend over the last quarter, dropped in January to stand at 8.7percent, a lower rate compared to last year. Conversely, time deposits maintained their gradual recovery, growing by 5 percent in January compared to 2.9 percent in the fourth quarter of 2010, on the back especially of their attractive yield.

Broken down by institutional sector, the

Chart 4.3 : Change in lending rates



Source: BAM monthly survey among banks

Chart 4.4: Change in interbank rate and lending rates

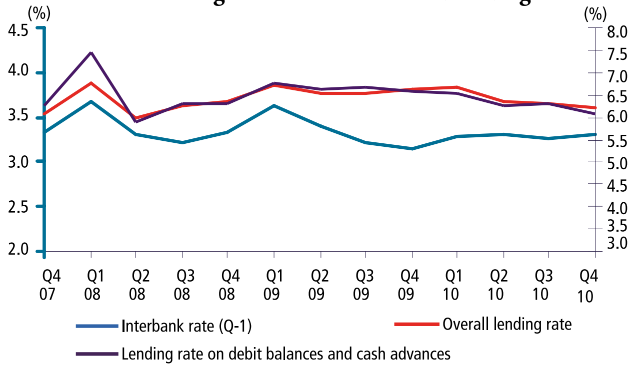


Chart 4.5: YoY M3 growth and its trend

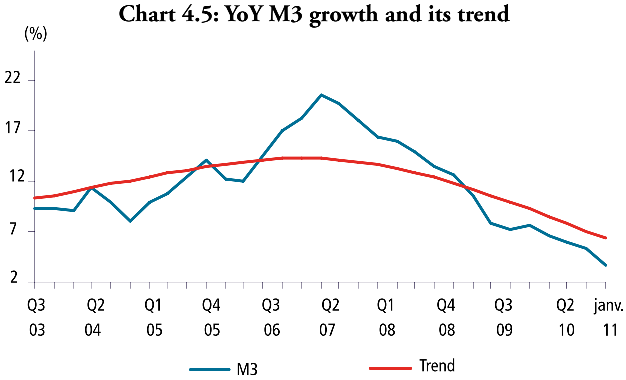
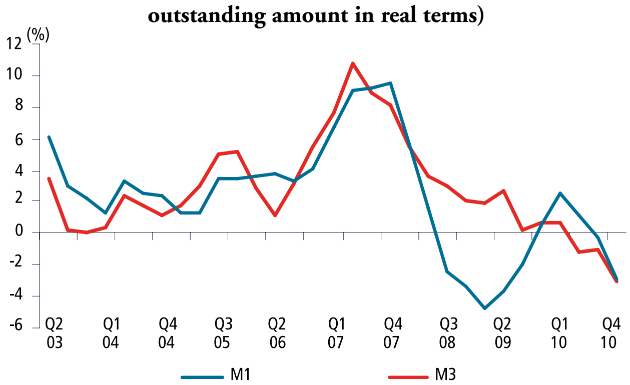


Chart 4.6: Money gap (in percentage of M3 and M1 balance outstanding amount in real terms)



observed dynamism of time deposits is imputable to the behavior of households, which give preference to this category of investments over demand deposits, and to a lesser degree, by the public sector. Private companies' demand and time deposits both registered a drop in January, year on year. Altogether, the growth of deposits included in the money supply was mainly driven by the positive contribution of households, while the contribution of other depositors remained less important overall, if not negative.

Credit

Most recent data on credit show the continued deceleration in bank loans' annual growth, falling to 5.5 percent in January 2011, from 9.3 percent in the fourth quarter of 2010 and 10.9 percent on average over the past year.

The analysis by economic unit indicates that the slowdown in credit is attributable to the deceleration in loans to private businesses as well as to the drop in loans to financial units. Indeed, the latter dropped 9.8 percent year-on-year in January, contributing negatively to bank credit growth. In turn, the annual growth of loans to nonfinancial private businesses fell to 12.4 percent in January from 16 percent in the fourth quarter of 2010. As a result, their contribution to aggregate credit growth was reduced to 5.5 percentage points, from 7.1 points over the preceding quarter. The annual growth of loans to households grew however by 8.2 percent in January from 5.7 percent in the last quarter of 2010, contributing 2.8 percentage points to the growth of aggregate credit compared to 2 points in the preceding quarter.

By category, the fall in credit growth is due to the drop in the miscellaneous loans to customers1 and non-performing loans

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

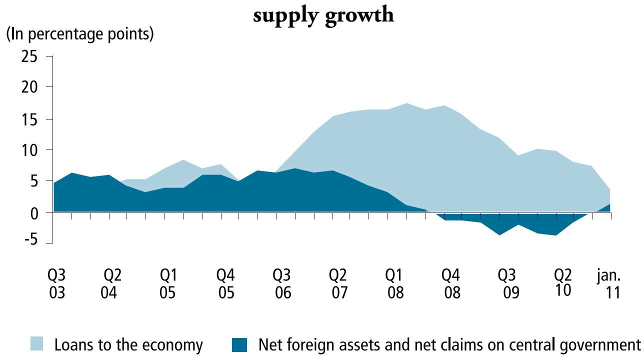


Chart 4.8: YoY change in the major M3 components

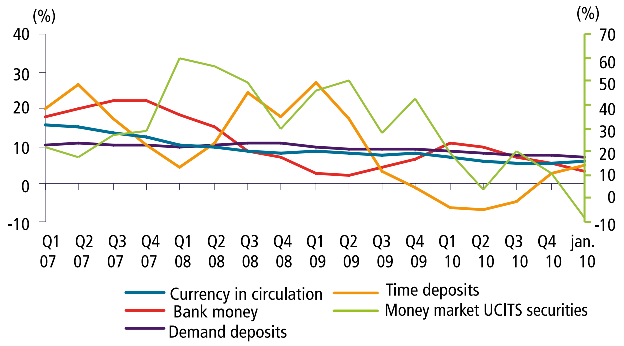


Chart 4.9: Nonfinancial sectors' contribution to total deposits' growth

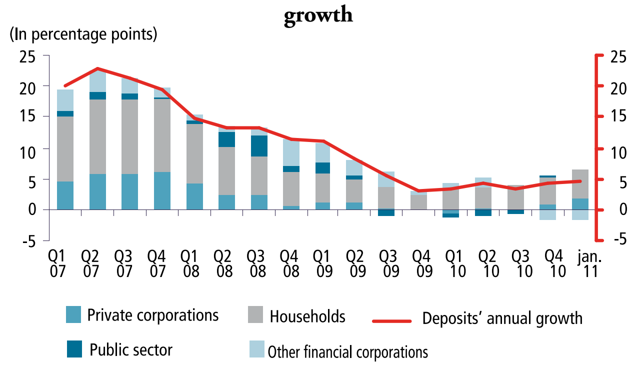
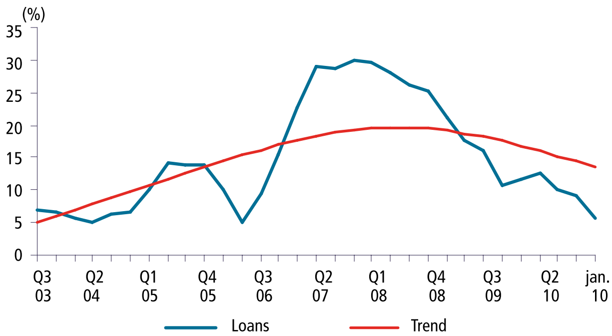


Chart 4.10: YoY growth and trend of bank loans



1 These are mainly financial transactions with other financial corporations.

and, to a lesser degree, to the slowdown in the annual growth of other loan categories. Indeed, miscellaneous loans to customers dropped by 10 percent in January, while increasing by 6.4 percent over the fourth quarter of 2010. Similarly, non-performing loans dropped 3.9 percent, compared to an increase by 4.3 percent three months earlier, due mainly to some debt write-offs and collection. At the same time, annual growth of cash advances, on a downward trend from one month to the next in January, and consumer loans, which nearly stagnated during the same period, stood respectively at 4.3 percent and 7.6 percent. Although the annual growth of equipment and real-estate loans fell respectively to 16.4 percent and 9.2 percent in early 2011, these two categories still bring the major contribution to bank credit growth.

Other sources of money creation

After several quarters of deceleration between 2008 and 2009, net external reserves gradually rebounded in 2010. Over the last quarter of the preceding year, they stood at a comparable level with the same period of last year, the increase in net external reserves with Bank Al-Maghrib being compensated by the drop in other depositary corporations. Their outstanding amount, in January 2011, rose by 6.7 percent year on year, reflecting an increase in travel receipts as well as a base effect related to the important drop registered a year earlier.

As to net claims on the central government, they rose slightly by 0.6 percent in January, year on year, following a 1.8 percent contraction in the preceding quarter, due mainly to the increasing borrowings of the central government from other depositary corporations.

Chart 4.11: Contribution of nonfinancial sectors to credit growth

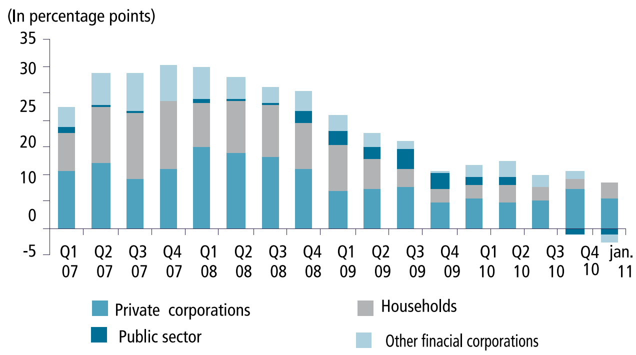


Chart 4.12: Annual growth of major bank loan categories

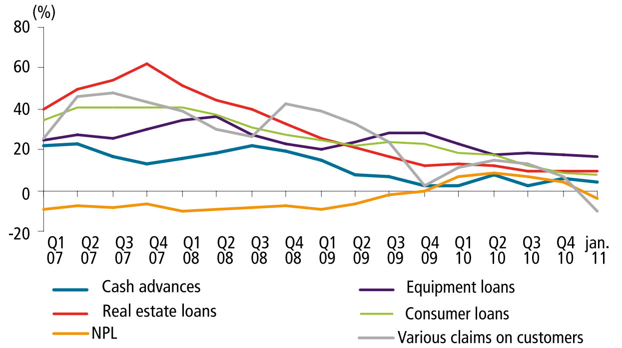


Chart 4.13: Contribution of the various loan categories to bank credit growth

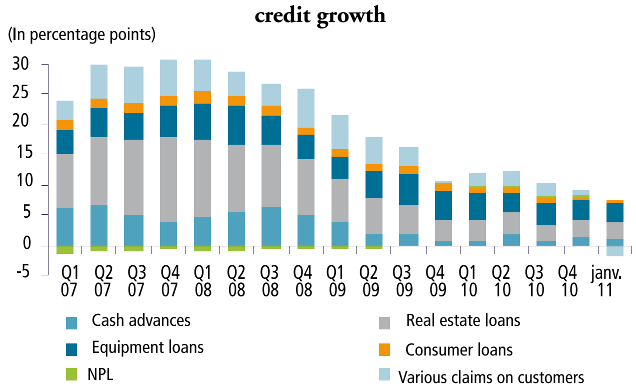
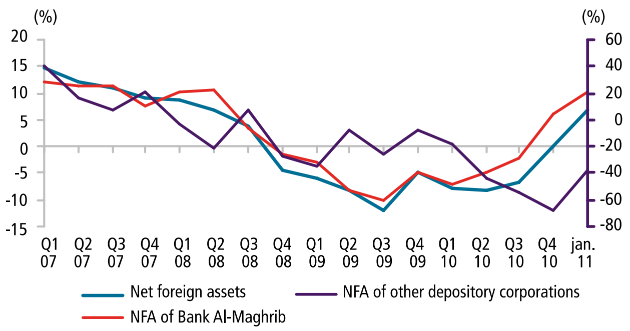


Chart 4.14: Annual growth of net foreign assets



Liquid investments

In January 2011, liquid investments annual growth slowed down to 22.2 percent from 24 percent in the last quarter of 2010.

This development is mainly attributable to the contraction in the annual growth of assets included in LI1 aggregate, particularly Negotiable Treasury Bills, falling from 21.5 percent in the fourth quarter of 2010 to 18.2 percent in January. As to equity and diversified UCITS, included in LI3 aggregate, they continued their upward trend, reflecting the dynamism of the Casablanca stock exchange market. On an annual comparison, their level grew by 25.5 percent in January, from 24.6 percent on average during the last three months of 2010. Similarly, bond UCITS, forming LI2 aggregate, rose by 27.6 percent year on year, owing to the joint effects of a slightly increasing demand as well as portfolio appreciation in relation with dropping interest rates.

Exchange rates

By the end of the last quarter of 2010 and compared with the previous quarter, the national currency went down by 0.92 percent against the euro. Conversely, it appreciated by 4.24 percent, on average, against the dollar and 2.22 percent against the pound sterling.

Between January and February 2011, the dirham almost stabilized against the euro and depreciated by 4.07 percent and 1.40 percent respectively against the dollar and the pound sterling.

The dirham's nominal effective exchange rate, based on bilateral exchange rates with regard to Morocco's major partners and competitors, remained almost stable in the fourth quarter of 2010. The appreciation was more significant in real terms, standing at 1.46 percent from a quarter to the next, considering the slightly unfavorable inflation differential.

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

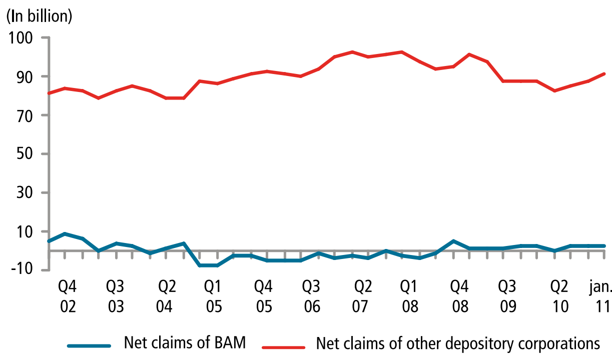


Chart 4.16: Annual change of liquid investments and time deposits

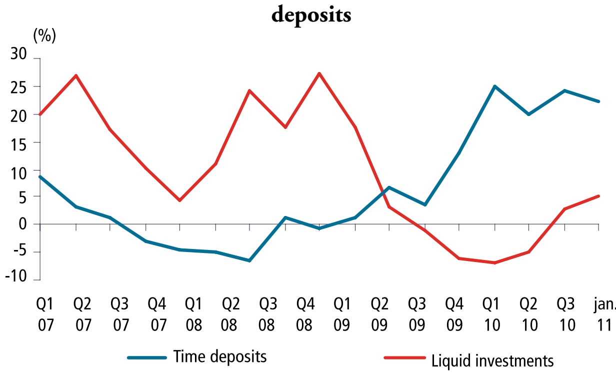


Chart 4.17: Change in LI1 and LI2 aggregates

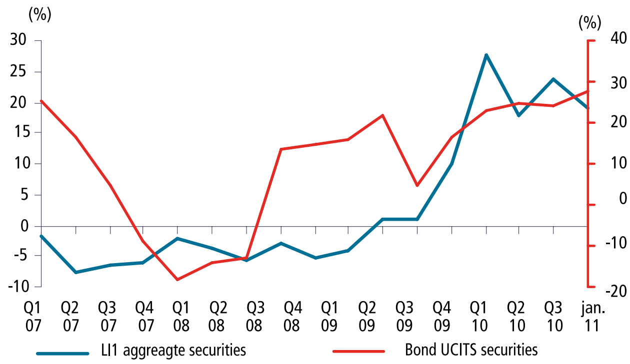
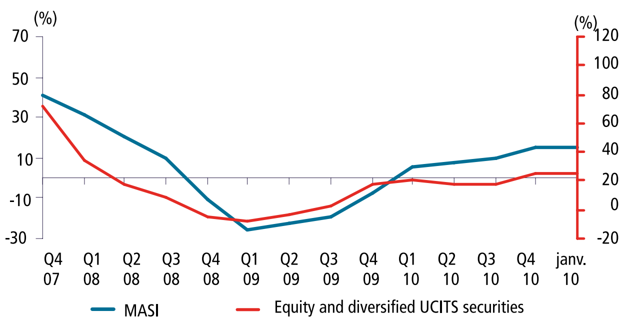


Chart 4.18: Annual growth of LI3 and MASI



4.2. Asset prices

4.2.1 Real estate assets

Real estate prices globally registered diverging trends from one year to the next. In Spain, real estate prices continued their downward trend which began two years ago, registering a drop by nearly 3.5 percent. On the other hand, they grew by 9.5 percent and 0.5 percent respectively in France and the United Kingdom, after an 8.4 percent and 3.3 percent increase in the preceding quarter.

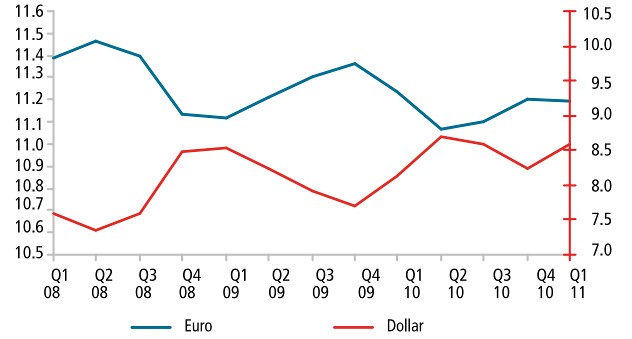
In Morocco, real estate price index1 results at the end of the last quarter of 2010 show a drop by 2 percent of real-estate prices compared to a 2.8 percent growth a quarter earlier. On a year-to-year basis, the index also dropped by 0.9 percent compared to a 2.6 percent rise during the preceding quarter.

The number of residential real estate sales registered at the ANCFCC, 35 days following the end of the fourth quarter, continued to edge down and stood at 11,240 transactions from 13,481 during the third quarter of 2010. This contraction is due to the decrease in sales of apartments and houses, while sales of villas registered an increase.

Concurrently, housing loans (See Chart 4.23) grew by 12.4 percent year on year, to stand at 122.5 billion dirhams in the third quarter of 2010. Moreover, the stock market real estate index (See Chart 4.24) registered a rise by 5 percent year on year.

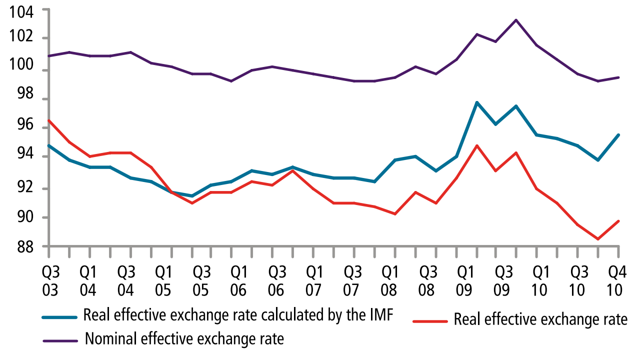
1 The real estate price index (REPI), jointly constructed by Bank Al-Maghrib and the Agence Nationale de la Conservation Foncière, du Cadastre et de la Cartographie (National Land Registry and Cartography Agency), has been published since March 15, 2010, on a quarterly basis, on the websites of both institutions: www.bkam.ma and www.ancfcc.gov.ma.

Chart 4.19: Exchange rate of the dirham



Observation of the firt quarter of 2011 corresponds to the arithmetic average of data from January 1 to February 25

Chart 4.20: Effective exchange rate (2000=100)



Source: IMF and BAM calculations

Chart 4.21: YoY change in the real estate price index in Spain, United Kingdom, France and Morocco

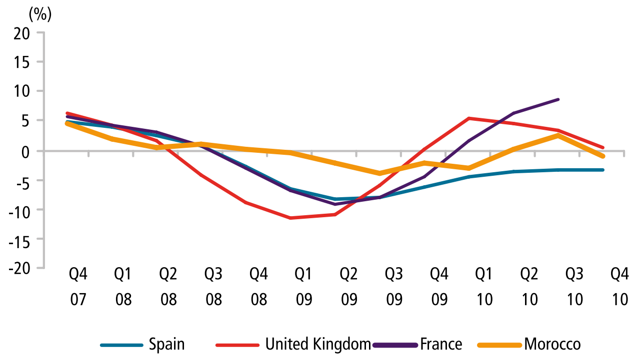
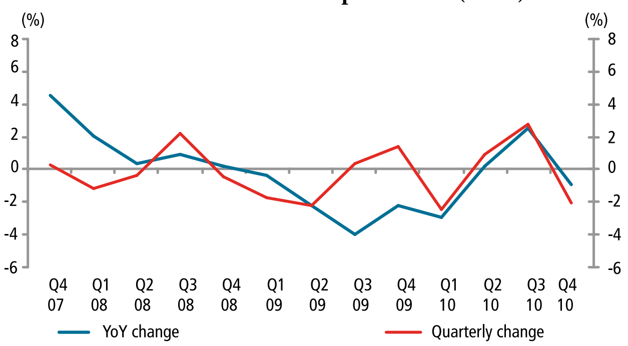


Chart 4.22: Real estate price index (REPI)



4.2.2 Share prices

Over the fourth quarter of 2010, the MASI index grew by 6.4 percent quarter on quarter, bringing its annual performance to 21.2 percent. The upward trend continued in February, appreciating by 1.7 percent, and bringing market performance to 1.2 percent since the beginning of the year. In turn, the real estate price index rose by nearly 2 percent, quarter on quarter, and 4.43 percent at the end of February.

PER1 of the Casablanca stock market rose quarter on quarter, from 17.7 to 19.1 to stand at 19 by end-February. Its level remained, however, relatively high compared to other markets of similar size.

In addition, the price-to-book ratio2, at 3.8 by end-February, is still at a high level compared to the other markets.

The volume of transactions increased by 10.6 percent to 72.5 billion dirhams, from 65.6 billion in the preceding quarter. It stood at nearly 4.3 billion at end-February.

Meanwhile, market capitalization rose by 7.6 percent to 579.02 billion dirhams. End-February data show that this trend continues, with the Casablanca stock market capitalization reaching 585.6 billion dirhams3.

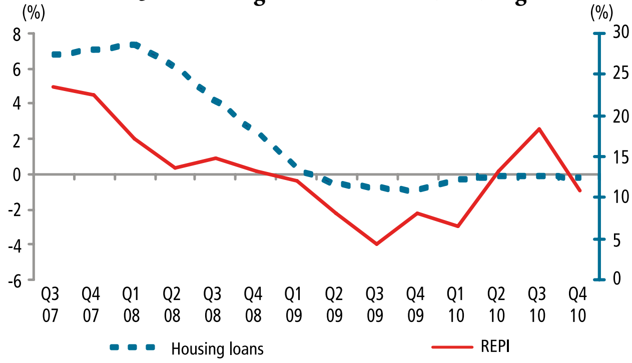
Sectoral indexes registered positive changes from one quarter to the next, ranging from 0.47 percent for the telecommunication sector to 29.2 percent

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

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

3 As of January 3, 2011, and to comply with the international standards, the Casablanca Stock Exchange has modified the transaction volumes disclosure. The latter are communicated based on only one side of the transaction (buying) instead of two-way (buying and selling).

Chart 4.23: YoY change in the REPI and housing loans*



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

Chart 4.24: YoY change in the REPI and the real estate stock market index

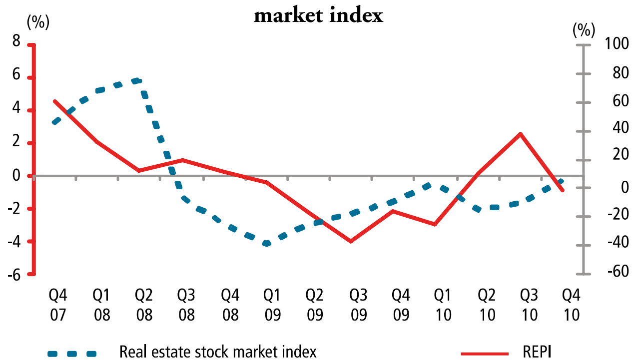


Chart 4.25: Stock market indexes

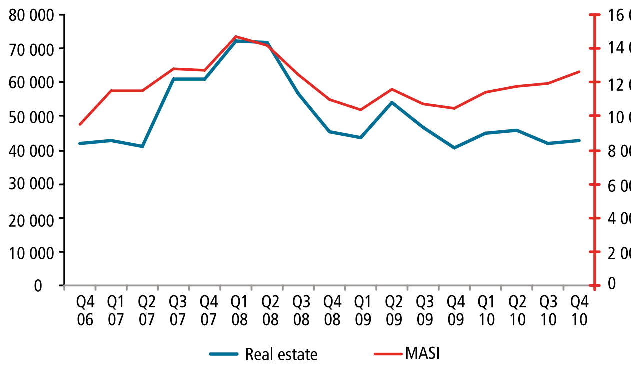


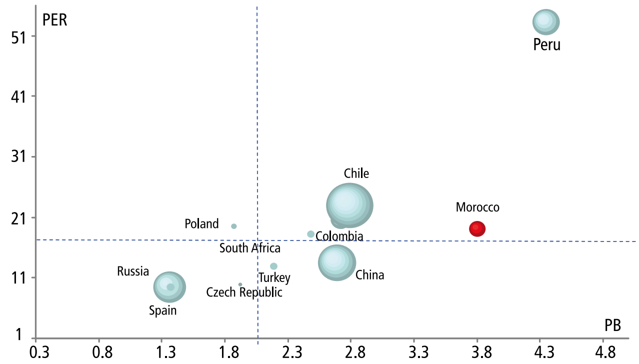
Table 4.3: Equity market's PER

PER	Q4 : 09	Q1 : 10	Q2 : 10	Q3 : 10	Q4 : 10
Argentina	15.7	17.5	9.5	10.9	12.4
Brazil	13.2	16.4	15.2	11.9	14
Mexico	19.8	17.1	13.8	14	15.7
Turkey	9.9	11	11.9	11.7	12.9
Morocco	**15.7**	**16.9**	**18.1**	**17.7**	**19.1**

Sources: Datastream and CFG

for the mining sector. On the other hand, the index of other sectors saw a decline, particularly for the chemistry and electronic and electrical equipment which depreciated respectively by 9.21 percent and 2.83 percent.

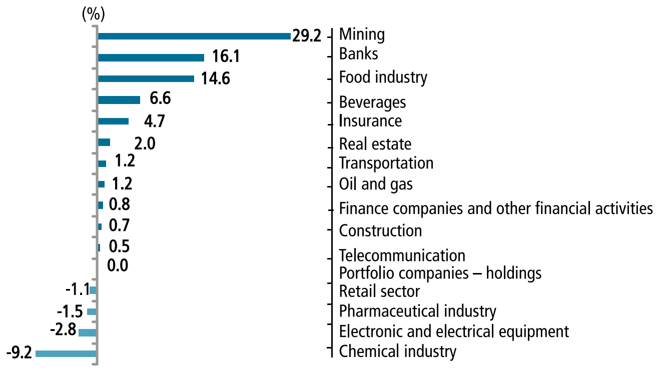
Chart 4.26: Equity market's PER in Morocco and in some emerging countries (*) at the end of December 2010



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

Sources: Datastream, CFG Gestion, and BAM calculations

Chart 4.27: Quarterly change in sectoral indexes



5. RECENT INFLATION TRENDS

In line with the analyses and forecasts included in the last Monetary Policy Report (MPR), inflation trend remains moderate, despite signs of pressures on consumer prices globally, following the surge in oil and commodity prices. Headline inflation, as calculated by the year-on-year change in the consumer price index (CPI), stood at 2.2 percent in December 2010 and January 2011, compared to 2.6 percent in November 2010. In turn, core inflation, reflecting the underlying trend of prices, continued to rise slowly since February 2010, while remaining at low levels not exceeding 1.4 percent in January 2011, after standing at 0.4 percent on average throughout last year. Core inflation change covers a moderately upward trend of tradable goods' prices (CPIXT) and some deceleration in nontradable goods (CPIXNT), excluding volatile food products and administered products. Reflecting in part the surge in basic products prices globally and the recent accelerating inflation in the main partner countries, the price index of tradable products included in the CPIXT rose by 1.3 percent in January from 0.5 percent in December, while nontradable goods inflation (CPIXNT) fell from 1.6 percent to 1.4 percent, owing to weak domestic inflationary pressures. In addition, the latest available data confirm the gradual and regular transmission of international commodity price hikes to industrial producer prices which grew by 14.1 percent in January 2011, year on year, from 8.1 percent and 5.6 percent respectively in December and November 2010.

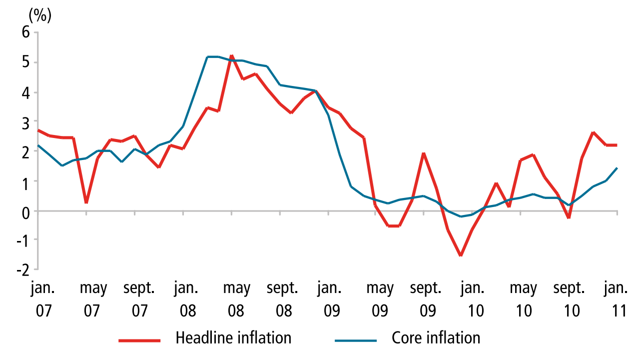
5.1 Inflation trends

Despite the recent surge in food and commodity prices and the ensuing signs of inflationary pressures in the main partner countries, the absence of significant pressures from domestic demand, coupled with the impact of the subsidization mechanism, maintained headline inflation close to 2 percent during the last months. In the very short term, supply factors make prices of some fresh foodstuffs fluctuate significantly, although their impact remains limited to headline inflation volatility without inducing any important change to its medium-term average.

Accordingly, after reaching 2.6 percent in November and 2.2 percent in December 2010, headline inflation, calculated by the annual change in the consumer price index (CPI) remained unchanged at 2.2 percent in January 2011. This trend covers a slowdown in the inflation of "volatile food products", on the one hand, a slight rise in core inflation, as prices of administered products saw no major change (See table 5.1), on the other. Throughout 2010, CPI grew by 0.9 percent from 1 percent in 2009.

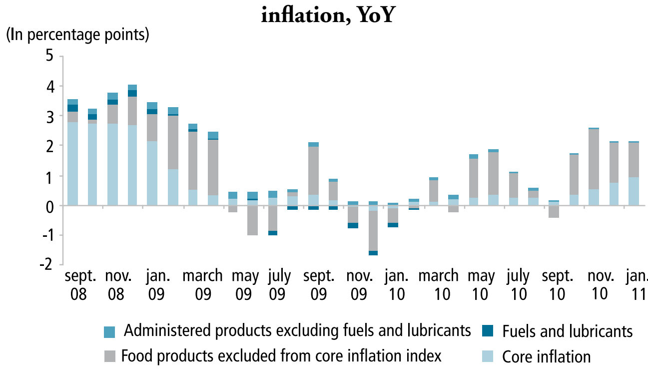
In addition to the slowdown in vegetable price rise, this trend is attributable to the drop in fish and citrus fruits prices, while fruits and poultry prices increased, albeit with no significant impact on the general level of consumer price.

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

Prices of administered products, excluding fuels and lubricants rose by 0.3 percent in January from 0.2 percent in December, in connection with the stabilizing prices of some products, especially tobacco, electricity and pharmaceutical products. In contrast, prices of fuels and lubricants saw no change, in the context of the continued freezing of the indexation mechanism which protects the domestic market from higher international oil prices.

Apart from the prices of volatile food products and administered products, core inflation (67 percent of the CPI basket) stood at 1.4 percent in January 2011, compared with 1 percent in December 2010 and 0.8 percent in November. Overall, recent data confirm the moderately upward trend of core inflation, following the floor level of -0.2 percent registered in December 2009. Its absolute deviation compared to headline inflation fell to 0.8 percentage point in January, from 1.2 points in December 2010. This core inflation level, which remains low overall from a historical perspective, in comparison with other emerging and developing countries, reflects the still moderate pressures of both domestic and foreign demand. The detailed breakdown of the CPIXT shows that the change in core inflation is attributable both to the slowdown in tradable goods' price rise as well as to the moderate rise of nontradable goods' prices for several months.

5.2 Tradable and nontradable goods

The scope of the transmission of global price developments and domestic-driven pressures is more noticeable when analyzing the breakdown of the CPI into a price index of tradable and nontradable goods, excluding volatile food products and administered products.

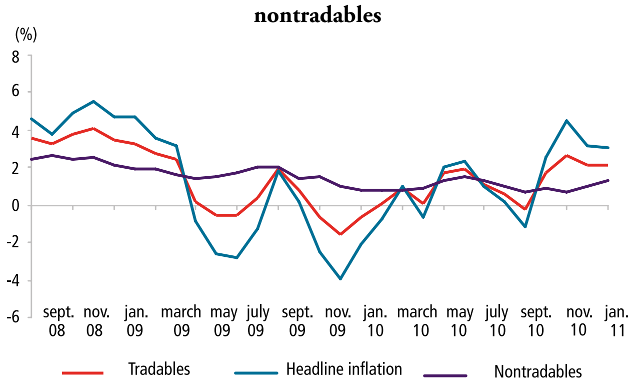
Against a background of higher staple food prices and accelerating inflation in the main trade partner countries, nontradable goods' inflation rose, year on year, by 1.3 percent in January 2011, from 0.5 percent in December 2010. While it fluctuated with

Table 5.1: Inflation and its components

	Monthly change (%)			YoY(%)		
	nov. 10	dec. 10	jan. 11	nov. 10	dec. 10	jan. 11
Headline inflation	**-0.7**	**-0.9**	**0.2**	**2.6**	**2.2**	**2.2**
Including: - Volatile food products excluded from core inflation	-5.5	-7.4	0.7	16.3	11.1	9.5
- Fuels and lubricants	0.0	0.0	0.0	0.0	0.0	0.0
- Administered goods excluding fuels and lubricants	01	0.0	0.0	0.2	0.2	0.3
Core inflation	**0.2**	**0.1**	**0.2**	**0.8**	**1.0**	**1.4**
Including: - Food products	0.4	0.3	0.3	0.6	1.1	2.1
- Clothing and shoes	0.3	0.2	0.4	0.7	0.8	1.0
- Housing, water, gas, electricity and other fuels*	0.4	0.0	0.1	0.7	0.8	0.8
- Furniture, household appliances and common house maintenance	0.0	0.0	0.3	0.7	0.8	0.6
- Health*	0.0	0.0	0.0	-0.3	-0.4	-0.5
- Transportation*	-0.3	-0.4	0.1	-0.1	-0.5	-0.4
- Communication	-1.4	0.0	0.0	-1.9	-1.9	-1.9
- Entertainment and culture	0.0	-0.1	-0.1	-1.3	-1.1	-1.2
- Education	0.0	0.0	0.0	4.6	4.6	4.6
- Restaurants and hotels	0.0	0.0	0.0	1.9	1.8	1.7
- Miscellaneous goods and services	0.1	0.3	0.1	2.1	2.2	2.1

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

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



Sources: HCP, and BAM calculations

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	feb. 09	nov. 09	dec 09	oct. 10	nov. 10	dec. 10	jan. 11
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/Tonne)	3074	3074	3074	3 678	3 678	3 678	3 678

(*) The Diesel 50PPM replaced the diesel 350 in February 2009 and the ordinary diesel in April 2009.

Source: Ministry of Energy and Mining

Box 5.1: Inflation trend in 2010

Despite the slight recovery in the global economy and oil and food commodity prices, headline inflation, measured by the rise in consumer price index (CPI), remained virtually unchanged at 0.9 percent in 2010. The relatively moderate inflation in our main partner countries and the absence of significant domestic and foreign demand-driven pressures contributed to a great extent to keeping headline inflation at a low level.

The moderation of headline inflation is confirmed by data relating to core inflation index (CII) which posted a weak growth during 2010. Accordingly, core inflation stood at 0.4 percent in 2010, from 0.7 percent in 2009, reflecting on the one hand a slowdown in the inflation of nontradables (CPIXNT) from 2.1 percent to 1.7 percent, and on the other hand, a drop by 0.8 percent in prices of tradables (CPIXT). This trend confirms the importance of changes in world commodity prices as a moderating factor of inflation in 2010 as well as the weakness of pressures from both domestic and foreign demand. While "volatile food products" accelerated from 3.1 percent to 5.1 percent, contributing 0.7 percentage points to headline inflation (from 0.4 in 2009).

The relatively moderate level of headline inflation is also attributable to administered products prices, which played a dominant role in reducing the impact of external shocks on consumer prices. In fact, prices of administered products, excluding fuels and lubricants, grew by 0.4 percent from 1 percent a year earlier, reflecting the ease in the price rise of some products like tobacco and electricity, as well as the drop in pharmaceutical products' prices. As to fuels and lubricants, their prices saw no fluctuation over the year, in line with the continued freezing of the indexation mechanism which preserves the domestic market from international oil shocks. Prices of "fuels and lubricants for tourism vehicles" even dropped by 0.7 percent from 1.7 percent owing to a base effect.

Table B5.1: Annual change in the major components of inflation

Groups of products	Weight in %	Annual change in %	
		2009	2010
Consumer price index, including:	**100**	**1.0**	**0.9**
Produits excluded from core inflation	32.9	1.7	2.1
Volatile food products	12.1	3.1	5.1
Fuels and lubricants	2.4	-1.7	-0.7
Administered goods excluding fuels and lubricants	18.4	1.0	0.4
Core inflation	**67.1**	**0.7**	**0.4**
Food products included in core inflation	26.1	-0.1	-0.6
Clothing and shoes	3.9	1.0	0.5
Housing, water, gas, electricity and other fuels(1)	7.0	1.6	0.8
Furniture, household appliances and common house maintenance	4.9	1.9	0.8
Health(1)	0.1	0.8	0.0
Transportation (1)	7.0	0.7	0.3
Communication	3.5	-4.5	-1.1
Entertainment and culture	2.2	-0.6	-0.7
Education	3.9	5.4	4.1
Restaurants and hotels	2.9	1.8	2.4
Miscellaneous goods and services	**5.5**	**2.0**	**1.7**

(1) Excluding administered goods

Sources: HCP, and BAM calculations

negative values between March 2009 and October 2010, mainly as a result of slower foreign demand and world inflation, the growth rate of tradable goods' prices became positive again in November 2010 and slightly improved in December and January 2011. This recent change is mainly attributed to the rise in the prices of some staple food, particularly cereals (1 percent compared to 0.3 percent), and oils (1.1 percent compared to -4.6 percent) in line with the recent changes in the unitary index of food import prices. It is also due to the slight drop in prices of some durable consumer goods, especially cars (-1.3 percent compared to -1.4 percent), which are still decreasing in Morocco, in connection with the favourable trend of the exchange rate and the moderate pressure of domestic demand in a competitive market.

On the other hand, nontradable goods' inflation fell from 1.6 percent to 1.4 percent, year on year, covering a slowdown in prices of fresh meat and of "Hairdressing and beauty salons". It should be noted that the inflation of nontradables, composed mainly of services, slightly fell below 2 percent as of August 2010, reflecting in part the second-round effects related to prior drops in the prices of tradables.

5.3 Goods and services

The breakdown of the CPI basket into goods and services shows that headline inflation remains influenced, to a great extent, by the price changes of unprocessed goods. As a matter of fact, prices of this category of goods, whose trend depends on the change in volatile food products, rose by 9.7 percent in November and 6.8 percent in December before falling to 5.9 percent in January 2011. This slowdown led to a contraction of their contribution to inflation, year on year, at 1.3 percentage point from 1.5 point a month earlier.

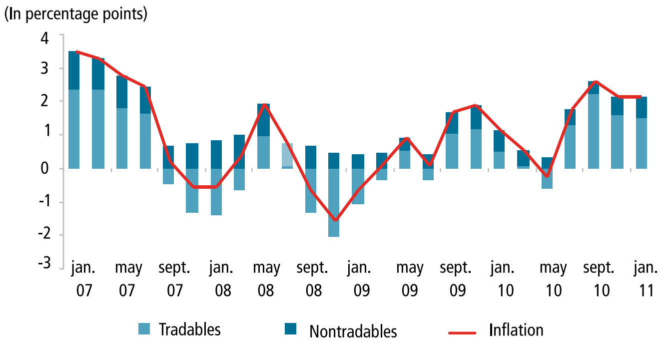
Prices of processed goods, excluding fuel and lubricants, increased markedly from 0.4 percent in December 2010 to 1.1

Table 5.3: Change in tradable and nontradable price indexes

	Monthly change (%)			YoY change (%)		
	nov. 10	dec. 10	jan. 11	nov. 10	dec. 10	jan. 11
Tradables	0.2	0.2	0.6	0.1	0.5	1.3
Nontradables	0.0	0.0	-0.2	1.5	1.6	1.4

Sources: HCP, and BAM calculations

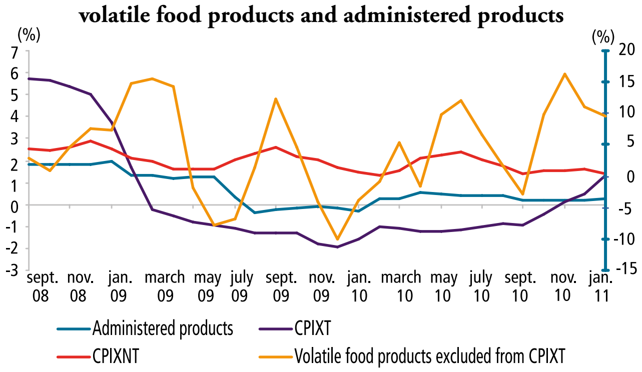
Chart 5.4: Contribution of tradables* and nontradables to core inflation (YoY)



* *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 tradable and nontradable prices to headline inflation

	Monthly contribution to inflation		YoY contribution to inflation	
	dec. 10	jan.11	dec. 10	jan.11
Products excluded from core inflation index Including:	-1.0	0.1	1.4	1.2
Administered products	0.0	0.0	0.0	0.1
Volatile food products	-1.0	0.1	1.4	1.2
Tradables	0.1	0.2	0.2	0.5
Nontradables	0.0	-0.1	0.5	0.4

* *Excluding volatile food and administered products*

Sources: HCP, and BAM calculations

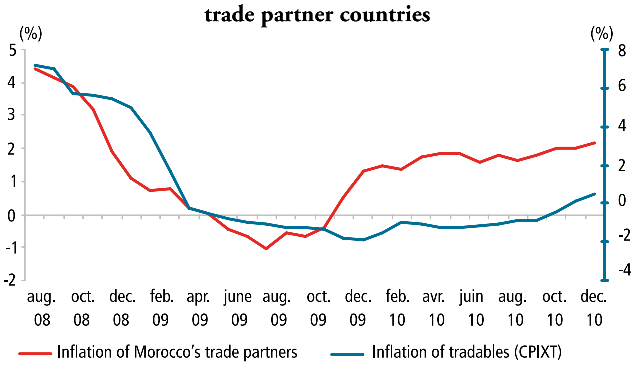
percent in January 2011. The contribution of this component to inflation became consequently more important, from 0.1 percentage point in November 2010 to 0.2 point in December and 0.5 point in January 2011. As to prices of services, they grew at an almost similar pace to the two preceding months, 1.2 percent, contributing therefore by 0.4 percentage points to inflation.

5.4 Industrial producer price index

January 2011 data relating to the index of industrial producer prices confirm the past anticipations of corporate managers, as published in BAM business survey, concerning the return to higher production costs. The industrial producer price index, calculated on the basis of ex-works prices excluding taxes and subsidies, registered a rise, month on month, by 5.6 percent between December 2010 and January 2011, mainly driven by the "Chemical industry" category, whose rise stood at 31.9 percent, following the stability registered over the preceding month. Its contribution to the change in the industrial producer price index averaged 3.7 percentage points. The monthly rise of the overall index is attributed, to a lesser degree, to prices of refining and coking, whose monthly pace fell to 6 percent in January 2011, from 6.5 percent a month earlier, bringing its contribution to the rise in the overall index to 1.9 percentage points in December 2010 and 1.8 points in January 2011. On an annual basis, the rise in industrial producer prices accelerated to stand at 14.1 percent in January 2011 from 8.1 percent in December 2010.

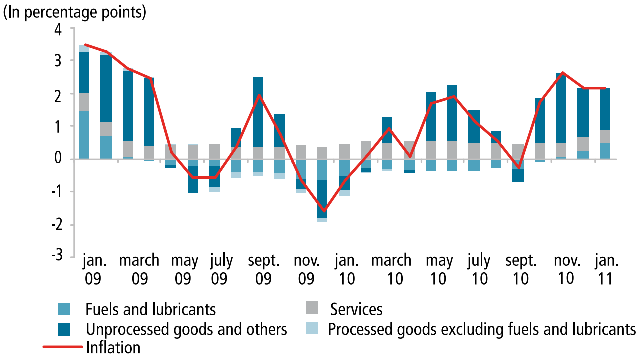
Excluding "Chemical industry" and "Coking and refining", the industrial producer price index posted no significant change, growing on a monthly basis by 0.1 percent in January 2011, following 0.4 percent a month earlier. This change reflects, in part, a rise by 2.1 percent in January 2011 in prices of " rubber and plastics industry", following a stagnation in December 2010,

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



Sources: HCP, IFS, and BAM calculations

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



Sources: HCP, and BAM calculations

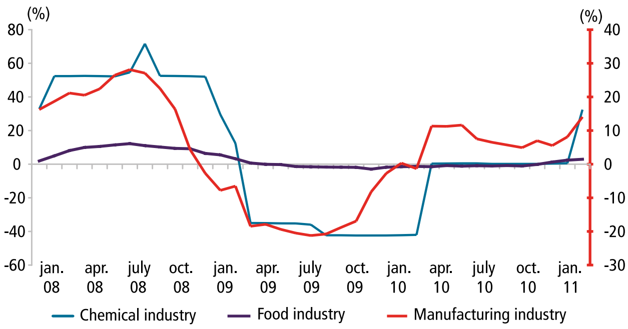
Table 5.5: Price indexes for goods and services

	Monthly change (%)			YoY change (%)		
	nov. 10	dec. 10	jan. 11	nov. 10	déc. 10	janv. 11
Processed goods*	0.1	0.2	0.4	0.2	0.4	1.1
Unprocessed goods and others	3.9	4.9	2.6	9.7	6.8	5.9
Services	0.0	0.5	0.2	1.3	1.3	1.2
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

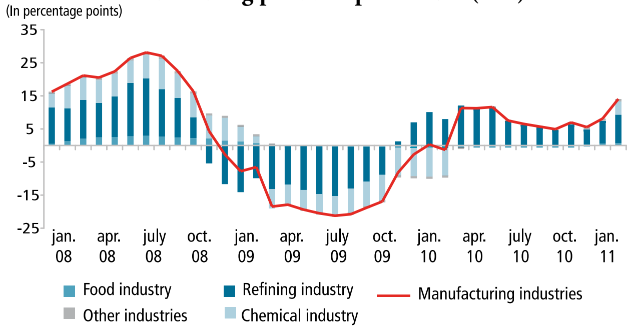
and an increase in prices of " manufacturing of other non-metallic mineral products", "Metal working" and "Leather and shoe-making industry" respectively by 0.7 percent, 1.1 percent and 1.8 percent in January from 0.3 percent, 0 percent and 0 percent respectively in December 2010. However, the contribution of prices of other industries, excluding "coking and refining" and "chemical industry" to the change in the overall index remains limited.

5.5 Inflation expectations

According to the BAM business survey of January 2011, prices of industrial products are expected to increase slightly, as reflected by the rising percentage of corporate managers surveyed who anticipate a rise over the next three months (See Chart 5.11).

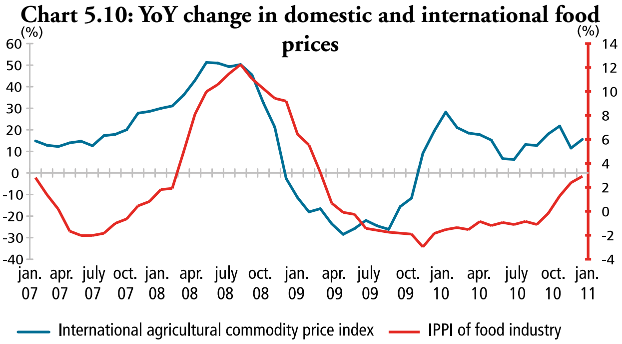
Concomitantly, the results of the survey indicate that corporate managers' anticipation of inflation trend over the next three months did not vary considerably. Indeed, the percentage of corporate managers having anticipated a stagnation of inflation during the next three months stood at 62 percent. As to the percentage of economic players having anticipated a rise, it remained nearly unchanged at 34 percent (See chart 5.12).

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



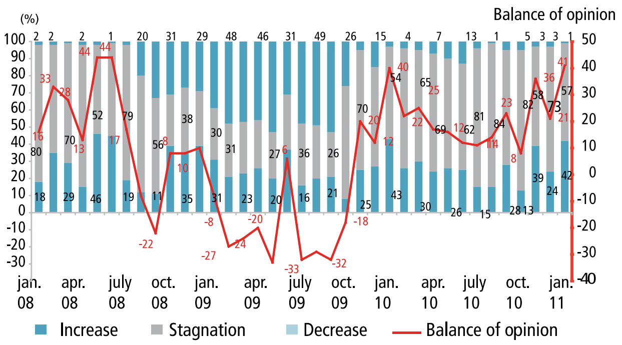
Sources: HCP, and BAM calculations

Chart 5.10: YoY change in domestic and international food prices



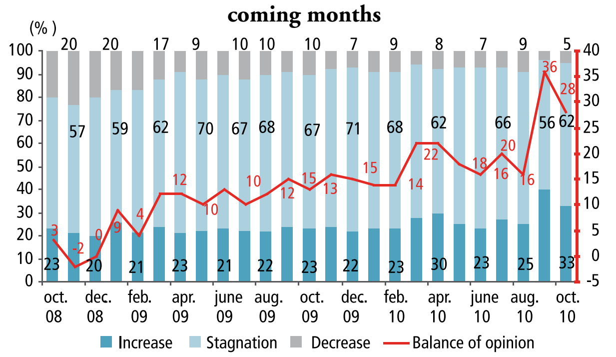
Sources: World Bank, HCP, and BAM calculations

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 to be the 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 number of variables affecting economic activity and inflation. Assuming the non-occurrence of the major risk factors identified, the inflation trend over the coming six quarters remains in line with the price stability objective, with an average forecast of about 2.1 percent, nearly similar to the average rate expected in the last Monetary Policy Report (2.2 percent). For the year 2011, inflation is expected to reach around 2.1 percent, from the 2.3 percent projected in the last MPR. In the first half of 2012, we anticipate an average inflation rate of 2.2 percent. The balance of risks for the present forecast exercise is edging upward, notably in view of the uncertainties surrounding the future change in commodity prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

Although global output registered a slight drop during the second half of last year, this contraction was less pronounced than previously anticipated by the International Monetary Fund and the growth momentum is becoming less and less dependent on economic stimulus measures. Accordingly, economic activity grew moderately in developed countries compared to emerging ones, which reported a steady growth, pointing to a likely overheating of their economies especially in view of the massive capital flows.

Against this background, the economies of the euro area and the United States grew by 2 percent and 2.8 percent, respectively. These achievements occur in a context characterized by the set up of new economic stimulus measures in the U.S., the improved indicators of private consumption, the extension of the downward trend in risk premiums, and last, the easing in loans' granting conditions which have concerned even SME's.

Despite the relatively favorable international economic environment, some vulnerability factors contributed to moderating economic growth as evidenced by the persistently high unemployment rate, the inertia of the U.S. real-estate market, the sluggish securitization market, as well as the re-emergence of financial turmoil in euro area peripheral countries due, mainly, to the sovereign debt crisis in Ireland and the subsequently significant widening of spreads.

Concerning the inflation outlook, the IMF updated projections revised upward the expected growth rate in the United States. Accordingly, the Fund predicts a 3 percent growth from 2.3 percent in its October 2010 edition. Projections relating to the euro area remained the same, standing at 1.5 percent for this year. However, forecasts for the financial year 2012 were slightly revised downward. Hence, the U.S. economy is expected to grow by 2.7 percent from 3 percent. Likewise, projections concerning the economic growth in the euro area fell from 1.8 percent to 1.7 percent.

Despite the optimism which might be triggered by stronger global growth in connection with a favorable trend in export, a relatively higher confidence level amongst corporate managers and a significant momentum in private domestic demand, the downside risks to growth in developed countries still persist. Indeed, the upward trend in commodity prices and the weak recovery of the U.S. real-estate market raise many uncertainties. Worries continue regarding the likely increase in risk-aversion behavior and a probable decline in share prices, in the event financial turmoil in the euro area peripheral countries persists and spreads to central Europe. Finally, the insufficient progress made in fiscal rebalancing programs triggers concerns about public debt sustainability.

In view of these developments, we assume as a baseline scenario in this MPR a weighted growth rate in our major trading partners (Germany, Spain, France and Italy) of about 1.4 percent in 2011 and 1.7 percent in 2012. In comparison with the last MPR, assumptions laid forward saw no significant change. It should be mentioned that this growth rate is calculated on the basis of a weighted average of the respective shares of these countries in our external trade.

Due to the hike in oil and food commodity prices, the latter being strongly impacted by the bad weather conditions which hit some major international agricultural producers in 2010 (Commonwealth of Independent States, European Union), inflation in the euro area continued to edge upward at levels slightly above the objective of 2 percent set by the European Central Bank. Yet, with the new crop year 2011, a drop in food products on the international markets is expected. Taking into account the perfect anchoring of inflation anticipations and the large spare capacity, inflation is projected to rise only slightly before falling to moderate levels by the end of this year. Consequently, the ECB expects an inflation rate at 2.3 percent in 2011 and 1.7 percent in 2012.

Risks surrounding inflation trend in the euro area are broadly tilted to the upside. This outlook is mainly attributable to greater concerns relating to high commodity prices, excluding energy and fuel, whose prices would be impacted by political instabilities sweeping across some MENA region countries. In addition, the rise in indirect taxation and in administered prices may turn out to be more important, in connection with the needed fiscal consolidation effort in countries having widened their deficit during the crisis. However, these risks remain mitigated by uncertainties relating to economic growth and persistently high unemployment rates.

As to the Euribor, the central scenario in the present MPR assumes a 1.33 percent rate for the first half of this year. This rate should grow gradually to average 1.86 in the second half of 2011. For the first half of 2012, we project a Euribor rate of 2.27 percent.

Finally, in a global context characterized by a sharp increase in commodity prices, the non-energy import price indexes, included in the forecast models elaborated by Bank Al-Maghrib, were considerably revised upward for this year compared to the change presented in the last Monetary Policy Report. However, a moderation of external inflationary pressures is expected for 2012.

6.1.2 National environment

In accordance with the assumptions laid out in the last Monetary Policy Report, our national economy is expected to report a more favorable growth in 2011. This improved outlook is driven by the momentum in nonagricultural activity, mainly in connection with stronger domestic demand. As for external demand, it remains dependent on the economic recovery in our main trading partners. Finally, the contribution of agricultural output to national economic growth is expected to be positive, unlike in 2010, should the favorable forecasts of the underlying indicators be confirmed in the next months.

Indeed, Bank Al-Maghrib projects a cereal production of around 80 million quintals in the 2010-2011 crop year, a level adopted in the baseline scenario of this forecast. Several indicators support this scenario: good launch conditions, good rainfall distribution and an increase in surface areas of cultivated lands. The agricultural value added would therefore improve compared to 2010. As to the 2011-2012 crop year, and in the absence of a visibility, we adopt as an assumption an average cereal production of 60 million quintals.

Nonagricultural activity is expected to register a stronger growth, boosted mainly by domestic demand. The latter should benefit from the measures undertaken in the framework of the 2011 Finance Act, in terms of reinforcing household purchasing power and increasing public investment level (which should grow by 21.4 percent year on year), as well as from a rebound in the remittances of Moroccans living abroad. Similarly, fueled by the positive crop year, private consumption is expected to strengthen, especially amongst rural households.

Projections of a recovery in external demand to Morocco remain favorable albeit weak compared to the pre-crisis levels. This trend is attributable to a weak demand from partner countries which would continue to report moderate economic growth rates.

In this context, the overall value added would grow, for 2011, between 4 percent and 5 percent, a higher level compared to 2010.

The updated statistics related to the labor market, dating back to the fourth quarter 2010, show a slight increase in national unemployment rate by 0.2 percent compared to the same period of the preceding year. Urban unemployment rate fell from 13.8 percent to 13.7 percent while rural unemployment rose from 3.7 percent to 4.2 percent. The main job providers were the sectors of construction with 35,000 new jobs, agriculture with 29,000 jobs and industry and services, with a similar number of jobs, namely 28,000 jobs. The favorable national economic outlook for 2011, added to the Government's decision to recruit post-graduates in the public sector, suggest a possible improvement in the labor market.

Similarly, based on BAM quarterly business survey of January 2011, Moroccan industrials expect that the number of employed people, for the first quarter of 2011, would increase in electrical and electronic industries, grow slightly in the food industries, stagnate in chemicals and related industries, while it is expected to drop in other sectors.

However, these conditions should not weigh on the future trend in wages and no readjustment of the minimum wage is expected for the forecast horizon.

Global economic recovery -driven mainly by emerging countries-, coupled with the recent political tensions in some North African and Middle East countries, have greatly impacted fuel prices on international markets. Accordingly, the IMF revised upward its last forecasts on the price of the barrel (basket) which stands now at 89.5 and 89.7 dollars respectively for 2011 and 2012. On the futures market, the barrel's price would average 108.6 and 107.9 dollars respectively in 2011 and 2012.

In this context, and in order to preserve Moroccan households' purchasing power, the Government decided to inject 15 billion dirhams to the subsidization fund, on top of the 17 billion already envisaged by the 2011 Finance Act. Consequently, the subsidization system should remain sustainable over our forecast horizon, so the assumption of a stagnation of the diesel pump price at 7.15 dirhams a liter is adopted in the forecast baseline scenario.

6.2 Inflation outlook and balance of risks

Assuming the non-occurrence of the main risks mentioned below, the central forecast for the next six quarters would stand at 2.1 percent. This level, nearly similar to the average rate presented in the last Monetary Policy report (2.2 percent), remains consistent with the objective of price stability. The inflation forecast for the year 2011 shows, however, an average rate of 2.1 percent, a forecast slightly below the 2.3 percent predicted in the preceding year.

Over the first quarter of 2011, headline inflation would average 1.8 percent, from 2.3 percent as published in the previous MPR, while inflation in the second quarter of the same year would decrease from 2.3 percent to 2 percent. For the two last quarters of this year, we project an inflation rate of about 2.3 percent and 2.2 percent, from 2.5 percent and 2.2 percent as in the last MPR. Finally, for the first half of 2012, headline inflation would stand at 2.2 percent on average (See table 6.1).

These projections are based on assumptions considered to be the most probable. However, there are still many sources of uncertainty stemming from future trends in exogenous variables as well as from the forecasting models which may impact the projected inflation rate either upward or downward. Analysis of the balance of risks generates a forecast range represented in the form of a fan chart which is a probabilistic evaluation of uncertainty zones surrounding the central forecast (See Chart 6.1).

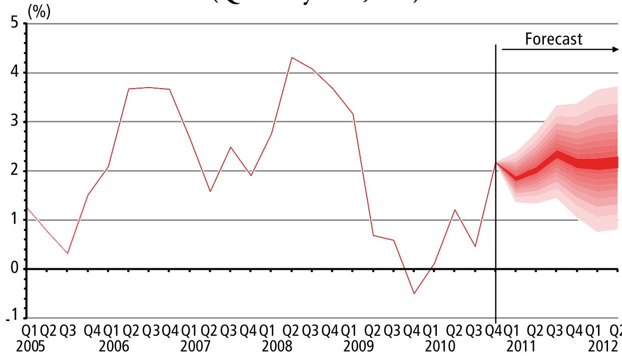
The fan chart of this forecast exercise suggests a very slight upward asymmetry denoting a high probability that headline inflation would deviate to a level above the central forecast. This asymmetry stems from potential inflationary risks linked, on the one hand, to uncertainties surrounding the development of the international economic situation (surge in commodity prices excluding energy, with a trend similar to the one registered before the crisis; future changes in fuel prices on international markets which may impact, indirectly, our import prices) and, on the other hand, to the national environment with a more favorable crop year compared to the one adopted in the baseline scenario, which may contribute to an improvement in employment and rural households demand. The materialization of one or more of these risks could lead to a deviation of the inflation rate from the central forecast, at a value falling (with a probability of 90 percent) within the forecast range represented in the fan chart.

Table 6.1: Inflation outlook for Q1 2011- Q2 2012

	2011				2012		Average	FH*
	Q1	Q2	Q3	Q4	Q1	Q2	2011	
Central forecast (%)	1.8	2.0	2.3	2.2	2.1	2.2	2.1	2.1

(Quarterly data, YoY)
**Forecast horizon*

Chart 6.1: Inflation forecast, Q1 2011- Q2 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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