BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 17 / 2010

Document prepared for
the Bank Board
December 21, 2010

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بنك المغرب

LIST OF ABBREVIATIONS

APC	:	Cement manufacturers professional association
BAM	:	Bank Al-Maghrib
BPW	:	Building and public works
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
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)
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, December 21, 2010

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, December 21, 2010.

2. At this meeting, the Board examined recent economic, monetary and financial trends, and inflation forecasts prepared by the Bank staff up to the first quarter of 2012.

3. The Board noted that inflation remained subdued, as demand pressure eased and inflation in the major partner countries continued to be low. Year-on-year headline inflation reached 2.6 percent in November 2010, mostly because of the rise in volatile food prices, up from 0.5 percent in the third quarter. At the same time, core inflation, which reflects the underlying trend of prices, continue to grow very moderately, at rates not higher than 1 percent since the second quarter of 2009. Industrial producer prices, mostly determined by changes in international commodity prices, reported an increase by 7.1 percent in October, compared with 4.9 percent in September and 5.7 percent in August.

4. On the international financial situation, bond and foreign exchange markets came under renewed pressure because of the worsening fiscal position in many euro area countries. These developments, together with elevated unemployment and sluggish demand, increase uncertainties about the still slow and fragile economic recovery in the major partner countries.

5. The uncertain international outlook is expected to impact domestic activity. Against this backdrop, overall GDP growth would be close to 4 percent in 2010, while nonagricultural growth in the coming quarters is projected to stabilize around 5 percent.

6. Analysis of monetary conditions as at end October 2010 suggests the continued moderate growth of M3, down to 5.7 percent year on year from an average of 6.7 percent in the last three quarters of 2010. Under these circumstances, money gap remains negative, suggesting the absence of monetary pressure on prices. As in the first ten months of the year, credit in 2011 would grow at rates close to its long-term average. Moreover, foreign exchange reserves, now equal to about 7 months of goods and services imports, showed better resilience than expected early this year.

7. On the basis of these elements, the central inflation forecast remains close to that of last September. On average, headline inflation would reach about 1 percent in 2010 and hover around 2.2 percent over the next six quarters. At the end of this forecast horizon (first quarter of 2012), it would be close to 2 percent. Core inflation would also remain at a level consistent with the price stability objective.

8. Under these circumstances where the central inflation forecast continues to be consistent with the price stability objective and the balance of risks is broadly neutral, the Board decided to maintain the key rate at 3.25 percent.

9. The Board also examined the three-year budget forecasts and approved the budget of fiscal 2011.

10. In line with the best governance practices in the central banks, the Board members decided to adhere to a code of ethics that defines the rules and values relevant to them.

11. The Board agreed on the schedule of its meetings for the year 2011, which will be as follows:

    - March 29, 2011
    - June 14, 2011
    - September 20, 2011
    - December 20, 2011

As projected in the previous monetary policy reports, inflation remained subdued as demand pressure eased and the pace of price rises slowed in the major partner countries. Year-on-year headline inflation reached 1.8 percent in October, up from 0.5 percent in the third quarter of 2010, mostly because of the one-off increase in certain food prices, whereas core inflation was only 0.5 percent. Industrial producer price index was up 7.1 percent, from 4.9 percent in September, driven by the rise in world commodity prices.

On the international financial situation, euro area bond and money markets, in particular, came under some pressure because of the worsening fiscal position in the euro area peripheral countries. However, credit continued to grow, albeit at a pace slower than the pre-crisis levels, while the major stock market indicators trended upward. On currency markets, volatility did not decline, with a drop of the euro against the dollar in November, following October's appreciation. Moreover, there are increasingly important uncertainties as to the future trend in the dollar after the announcement of new quantitative easing by the U.S. Federal Reserve.

Meanwhile, recent real sector data show continued recovery in the global economy, mostly driven by the emerging countries. Growth in the advanced economies remains insufficient to stimulate demand and shrink the high unemployment rate. For the next few quarters, growth projections prepared by national and international organizations suggest no significant rebound. They even show a slowdown in global growth in 2011 due to persistent risk factors related to the fiscal problems and the slow improvement in labor and credit market indicators in the industrialized countries. In this context, and despite the rise in international commodity prices, inflationary pressures remain relatively weak, especially in the advanced economies where inflation should remain broadly below 2 percent by 2011.

Despite the slow global economic recovery, particularly in key European partners, the domestic balance-of-payments current account again posted positive developments. Indeed, exports to end-October increased by 27 percent, with a 15.2 percent rise in exports excluding phosphates and derivatives, while travel receipts and remittances from Moroccan expatriates were up 6.6 percent and 7.7 percent, respectively. Meanwhile, imports rose 13.5 percent, mainly due to the 35.7 percent increase in the energy bill. As a result of these developments, together with the improved financial account indicators, foreign exchange reserves showed resilience, now covering nearly 7 months of goods and services imports.

The recovery in external demand and the relative strengthening of domestic demand contributed to enhancing nonagricultural growth. However, because of the gradual wearing off of the base effects related to the weak performance during the first two quarters of 2009, nonagricultural growth would slow down in the second half, ranging between 4.5 percent and 5.5 percent for the full year 2010. Under these circumstances, the nonagricultural output gap, relevant to the assessment of inflationary pressures, would be slightly above zero in the second half and should remain low in the coming quarters. Given the decline in agricultural value added, GDP would expand by about 3 percent in the second half and between 3 to 4 percent for the full year, in line with the estimates presented in the last Monetary Policy Report.

Most recent monetary data show the continued moderate growth of money supply, as the M3 aggregate increased 5.7 percent year on year in October, following an average 6.7 percent over the last three quarters. In this context, monetary overhang remained negative, indicating the absence of monetary pressure on prices. At the same time, credit expanded by 12.1 percent, a rate slightly lower than the level reported in the first nine months of the year and comparable to its long-term growth rate. Regarding lending rates, BAM's survey among banks for the third quarter shows a decline in the weighted average interest rate, primarily owing to the fall in rates on property and equipment loans. In terms of asset prices, the real estate price index calculated by BAM points to an increase by 2.4 percent in the third quarter in a market characterized by a decline in transaction volumes.

Given all these elements, and similarly to the results of the previous forecasts, inflation in the next six quarters should remain consistent with the price stability objective. However, the central forecast was slightly revised upward, compared with the one published in the previous MPR, in response to the one-off increase in food prices in the fourth quarter. At the end of the forecast horizon, i.e. the first quarter of 2012, headline inflation is indeed projected at 2 percent. Over the forecast horizon, headline inflation is expected to average 2.2 percent, up from the previously projected 1.9 percent. It would average 1 percent in 2010 and 2.3 percent in 2011, while core inflation should be below 2 percent at the end of the forecast horizon. The balance of risks surrounding the central forecast is broadly neutral.

1. AGGREGATE SUPPLY AND DEMAND

GDP expanded 3.5 percent in the first half of 2010 and would fall to 3 percent in the second half, mostly because of the slowdown in nonagricultural activity, which is estimated to grow by nearly 4.7 percent from the 5.3 percent recorded in the first half. The momentum in the nonagricultural sector would be driven by the positive trend in the mining, energy and services sectors. In contrast, the value added of the industrial and construction sectors, though higher than the first half, should grow at rates lower than the pre-crisis levels. Taking advantage of strong household consumption and the gradual upturn in private investment, domestic demand would continue to support growth, though with a contribution lower than the average of the last five years. Foreign trade indicators to the end of October show much faster increase in exports than imports. As a result, the contribution of net external demand to overall growth would be higher, with a coverage ratio of 49.3 percent, up from 44.1 percent in the same period last year. Altogether, the changes observed and the various high-frequency indicators analyzed do not suggest significant revisions of national accounts estimates for the full year 2010, as GDP growth would be between 3 percent and 4 percent, reflecting at the same time a rise in the nonagricultural value added between 4.5 percent and 5.5 percent and a decline in that of the agricultural sector by about 7 percent.

1.1 Output

Nonagricultural activities would continue to improve in the third and fourth quarters of 2010, but at a year-on-year rate slower than the level seen since the fourth quarter of 2009, reflecting in part the dissipation of base effects. Analysis of various data available indicates that nonagricultural growth would hover around 4.7 percent in the second half of the year, in response to the positive trend in the mining, energy and tertiary sectors. Under these circumstances, and given a nearly 7 percent decline in the agricultural value added, the overall growth is projected at about 3 percent in the second half.

For the full year, the forecasts published in the last Monetary Policy Report were kept unchanged, namely an overall growth between 3 percent and 4 percent, driven by higher nonagricultural value added ranging between 4.5 percent and 5.5 percent.

In the primary sector, activity continues to decline, as the volume of cereal sales to the end of October 2010 fell 30 percent while cereal imports, in which soft wheat accounts for 45 percent, surged 88 percent. Exports of early vegetables, according to data as at November 21, shrank 25 percent, while shipments of citrus fruit trended up.

Table 1.1: Year-on-year growth of quarterly GDP at 1998 chained prices per major sectors

Activity sectors, in%	2009				2010			
	QI	QII	QIII	QIV	QI	QII	QIII (e)	QIV(f)
Agriculture	30.7	31.2	29.4	31.1	-8.6	-7.6	-7.3	-6.6
Nonagricultural VA	**-2.2**	**0.1**	**0.9**	**5.4**	**6.1**	**4.9**	**4.8**	**4.6**
Extractive industry	-46.8	-31.0	-21.9	14.0	107.9	46.9	49.4	21.8
Processing industry	-1.5	-1.0	-0.1	3.3	1.6	1.5	1.9	2.1
Electricity and water	6.2	2.3	3.3	2.2	6.7	11.3	10.1	10.4
Construction	2.6	3.9	1.0	6.1	2.9	2.6	2.8	2.9
Trade	3.1	2.7	3.0	5.3	1.6	1.9	2.5	2.9
Hotels and restaurants	-5.8	-2.0	0.1	2.9	6.7	8.3	6.4	6.8
Transportation	1.5	2.6	2.3	4.9	7.6	5.6	5.5	5.9
Post and telecommunication	2.8	3.3	3.9	1.1	4.1	3.1	3.2	3.9
General government and social security	7.7	7.7	7.6	7.6	3.4	3.3	3.5	3.6
Other services*	3.5	3.7	3.5	4.0	4.3	4.9	4.9	4.8
Taxes on products net of subsidies	4.0	3.1	6.5	5.1	4.1	4.0	4.5	4.6
Nonagricultural GDP	-1.5	0.4	1.5	5.4	5.8	4.8	4.8	4.6
Gross domestic product	**2.2**	**4.2**	**4.9**	**8.6**	**3.9**	**3.0**	**3.0**	**2.9**

(*) 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

Concerning fisheries, catches of inshore and small-scale fishing to the end of October 2010 grew 3 percent in value and 8 percent in volume. This growth covers an 8 percent increase in pelagic fish catches as well as a fall by 8 percent in whitefish catches and 5.4 percent in catches of cephalopod, crustaceans and seashells.

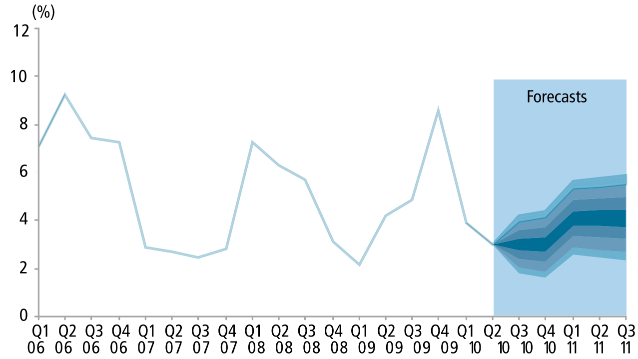
The secondary sector's contribution to economic growth was higher in the year 2010, on the back of a marked improvement in the extractive industry and a gradual recovery in the processing and construction industries. Indeed, after a 5.8 percent rise in the second quarter, the sector would grow by 6.4 percent in the third quarter, and thereby contribute 1.5 percentage point to overall growth.

Based on latest available data, mining activity is projected to maintain the momentum observed in recent quarters, while slowing down somewhat in conjunction with the gradual dissipation of base effects. The production of raw phosphate to the end of September rose 60.6 percent to nearly 7 million tonnes, as opposed to a 41.8 percent decline a year ago. Similarly, the production of phosphoric acid and natural fertilizers were up 45.5 percent and 48.0 percent, respectively.

However, the value added of the processing industry, despite the continued improvement it has been posting for several quarters, would not grow at a rate higher than 2 percent in the second half of 2010. BAM's October business survey in the industrial sector shows an uptrend in the sector, suggesting higher production in all industries and broadly positive outlook for the coming months. The survey yet reveals that orders are still weak and inventories are above normal.

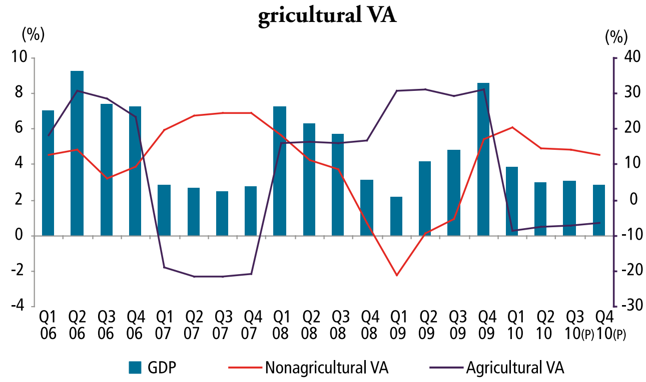
At the same time, the value added of oil refining industry, with a contribution of about 1 percent to the processing sector's value added, is expected to expand, mainly due to the 68 percent rise in the

Chart 1.1: Growth forecasts Q3 2010-Q3 2011*



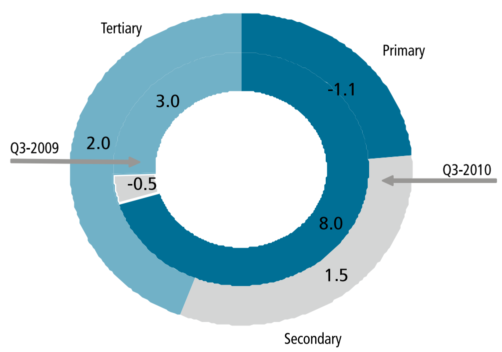
(*) Fan chart based on the standard deviation
Sources: HCP, BAM forecasts and estimates

Chart 1.2: 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 production of diesel oil as two new plants of the Mohammedia refinery came into full production.

The electricity-and-water sector's value added is projected to grow by nearly 10 percent during the second half, up from 9 percent in the first half. The production of the Office national d'Electricité (ONE) to the end of September was 6.8 percent year on year, thus reducing electricity imports by 11.5 percent. ONE sales to the industrial sector and households rose 9.5 percent and 7.5 percent, respectively.

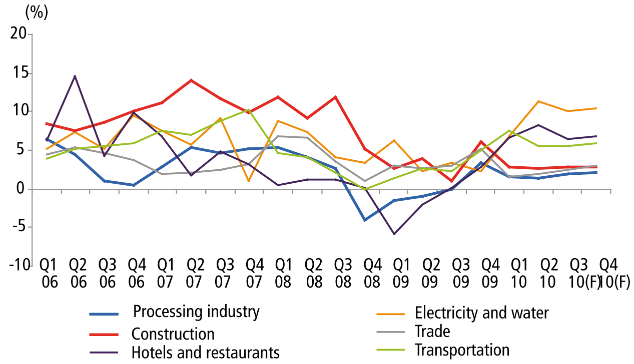
Growth in the construction industry would remain below its pre-crisis level, with an increase of 2.8 percent in the second half, virtually unchanged from the first half. To the end of September 2010, cement sales, which represent the sector's major indicator, increased a mere 0.6 percent from a 0.2 percent decline in the same period of 2009, mostly because of the decrease in construction activity during the month of Ramadan. Home loans grew 9.1 percent, down from 15 percent at end-September 2009.

The services sector would keep momentum in the third quarter of 2010, growing by about 4.1 percent and contributing 2 percentage points to growth. This is supported by the uptrend in the sectors of transportation, trade and public services, as well as the good performance of tourism activities.

Indeed, the major tourism indicators suggest marked improvement throughout the year 2010, after the negative shock that had hit the tourist industry since late 2008. To the end of October, tourist influx and overnight stays in classified hotels increased by nearly 12 percent, while room occupancy rates rose from 43 percent to 45 percent. Travel receipts were up 6.6 percent year on year, to 47 billion dirhams.

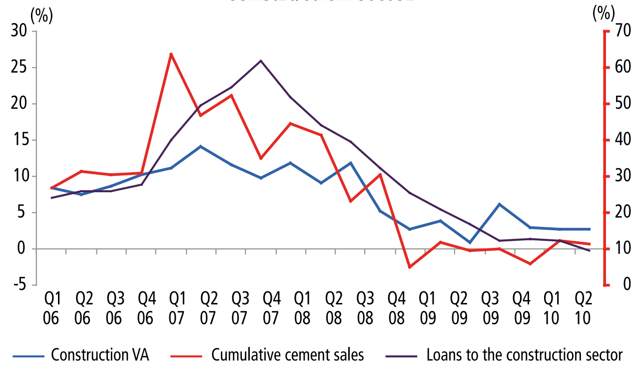
The value added of the post and telecommunication sector would grow

Chart 1.4: Year-on-year change in value added



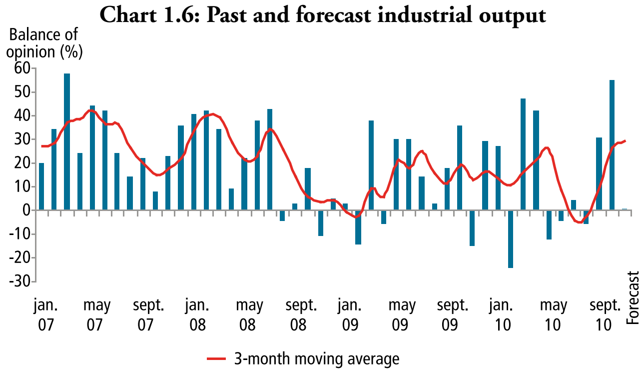
Sources: HCP, and BAM forecasts

Chart 1.5: Year-on-year change in the construction sector's value added, cement quarterly cumulative sales and loans to construction sector



Sources: APC, and BAM forecasts

Chart 1.6: Past and forecast industrial output



Source: BAM monthly business survey in the industry

3.6 percent in the second half year, unchanged from first half. The number of fixed-line and mobile phone subscribers increased 9.2 percent and 21.6 percent, respectively, to the end of September, while internet subscribers rose 57.1 percent to 1.6 million.

The transportation sector's value added would expand 5.7 percent in the second half of 2010, reflecting the good performance of rail and maritime transportation, and the strong growth in air traffic (15.6 percent at end-September). Trade is expected to grow by nearly 2.7 percent, in response to the contrasting trends of agricultural and nonagricultural activities.

1.2 Consumption

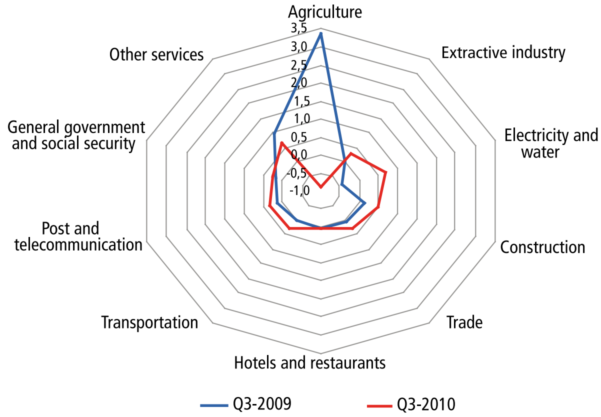
Household consumption continues to hold up well, as evidenced by the various coincident indicators, particularly travel receipts, current transfers, imports of food products and finished consumer goods, and VAT revenues.

After declining 1 percent and 3 percent in July and August 2010, travel receipts improved markedly in September and October. During the first ten months of the year, they reached nearly 47 billion dirhams, up 6.6 percent over the same period last year.

Meanwhile, food imports grew 12.4 percent, as against a decrease of 24.3 percent a year ago. Imports of finished consumer goods also rose 4.8 percent, compared with a decline of 2.5 percent at end-October 2009, especially with a recovery in imports of passenger cars.

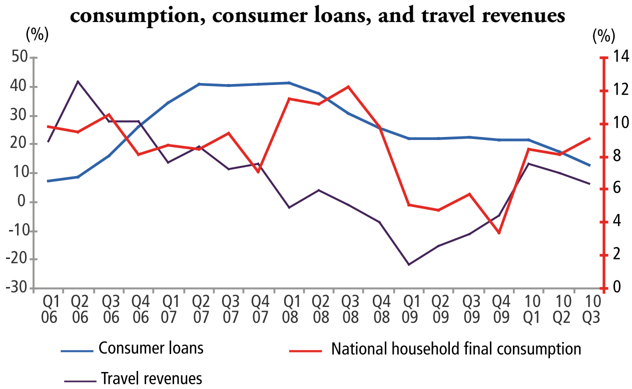
Household consumption would be driven by the improved purchasing power resulting from the wage increase under the income tax reform, the ongoing low inflation and higher transfers of Moroccan expatriates which rose 7.7 percent to the end of October 2010 as against a decline of 8.5 percent a

Chart 1.7: Sectors' contribution to overall growth



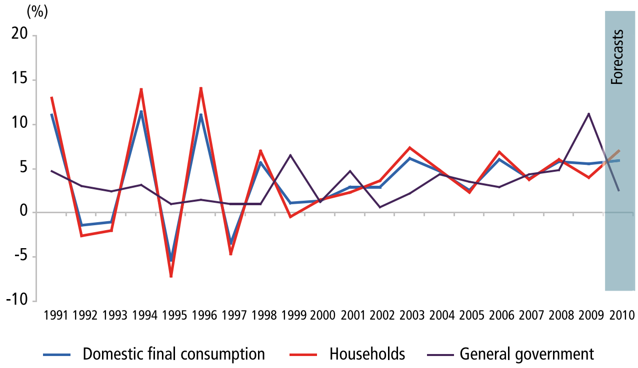
Sources: HCP, and BAM forecasts and calculations

Chart 1.8: Year-on-year quarterly change in household final consumption, consumer loans, and travel revenues



Sources: HCP, Foreign Exchange Office, and BAM forecasts and calculations

Chart 1.9: Volume change in household final consumption



Sources: HCP, and BAM forecasts and calculations year ago. Moreover, the growth rate of consumer loans, though slowing, remains strong (see Chapter 4).

Concerning public consumption, the latest available data on Treasury assets and liabilities to the end of September report a 3.8 percent increase in operating expenditure, down from 11.3 percent in the same period last year.

Altogether, national final consumption should maintain momentum, covering faster growth in household final consumption and slower general government consumption.

1.3 Investment

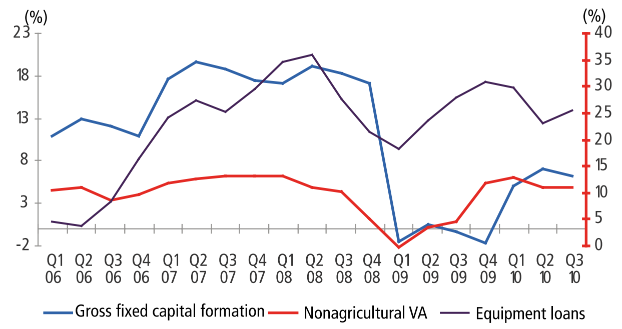
In response to the gradual improvement in business prospects, investment, particularly private, is expected to increase in 2010, after the sharp slowdown in 2009. However, its pace of recovery remains determined by uncertainty about the continuation and extent of recovery in our major trading partners.

Indicators on external accounts suggest gradual improvement in private investment, with a 3 percent rise in imports of industrial finished capital goods and an increase in revenues from foreign private investments and loans as against an 18.8 percent decline a year ago.

The results of BAM business survey in the industry for the third quarter point to an increase in production from the previous quarter, and show generally optimistic expectations of corporate managers for the next three months.

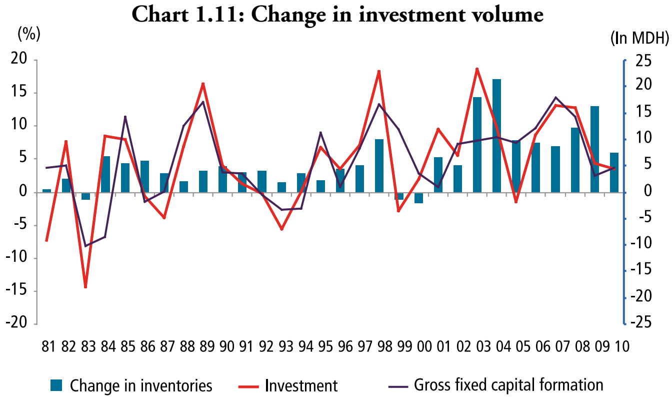
Public investment would continue to hold up well, though slowing down from the exceptional growth recorded in 2009. Treasury investment spending declined 4.1 percent to the end of September, compared with a 21.8 percent increase in the same period of 2009. Broadly speaking, these expenses remain far above the average of the last five years.

Chart 1.10: Year-on-year quarterly change in gross fixed capital formation, nonagricultural VA and equipment loans



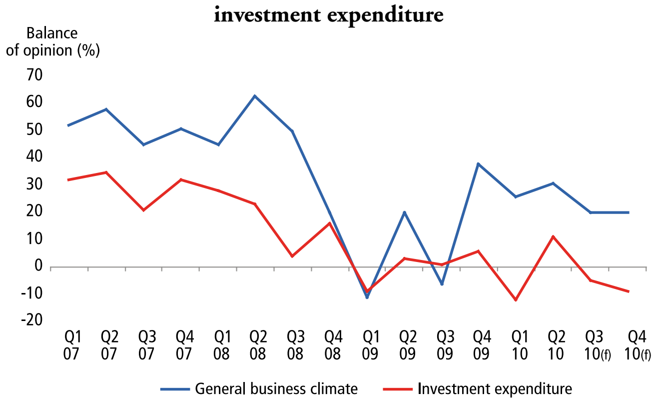
Sources: HCP, and BAM forecasts and calculations

Chart 1.11: Change in investment volume



Sources: HCP, and BAM forecasts and calculations

Chart 1.12: Change in the general business climate and investment expenditure



Source: BAM business survey in the industry

1.4 Foreign trade

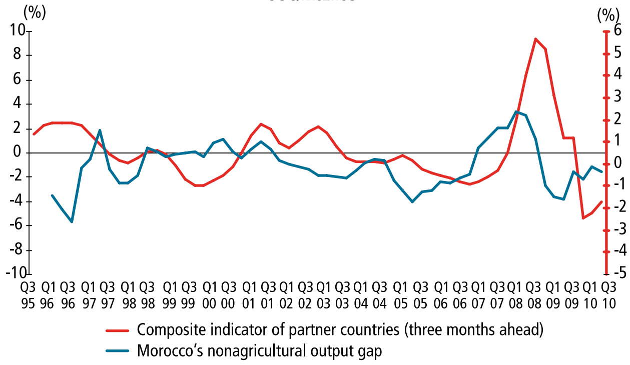
Foreign trade data as at end October 2010 show continued upturn in foreign demand for Morocco, as evidenced by the faster growth rate of exports. As imports increased less rapidly, the worsening of the trade deficit has eased compared to previous months.

Indeed, trade balance at the end of the first ten months of the year posted a deficit of 124.5 billion dirhams, up 2.8 percent year on year, compared with an average increase of 5 percent in the last three months. This trend resulted from a 13.5 percent growth in imports by 29.1 billion dirhams, higher than the 27 percent increase in exports by 25.7 billion. The coverage ratio thus jumped to 49.3 percent, from 44.1 percent in the same period of last year.

Export growth is largely due to the exceptional rise by 87.2 percent in shipments of phosphates and derivatives. Exports of phosphates, phosphoric acid and natural and chemical fertilizers during the first ten months of the year respectively increased 94.7 percent, 67.7 percent and 107.7 percent from 2009, and by -54.6 percent, -48.4 percent and 1.8 percent compared with the same period of 2008. Non-phosphate exports grew 15.2 percent, as against a decline of 11.5 percent in the same period of 2009. Shipments of wires and cables, electronic components, citrus fruits and hosiery items moved up 34.1 percent, 30 percent, 11.2 percent and 3.1 percent, respectively, while those of ready-made garments and fresh vegetables fell 5.4 percent and 23.5 percent, respectively.

On the opposite, the expansion in imports mostly results from a 35.7 percent surge in the energy bill which totaled 58.5 billion dirhams, and the increasing purchases of semi-finished goods, finished consumer goods, foodstuffs and raw materials.

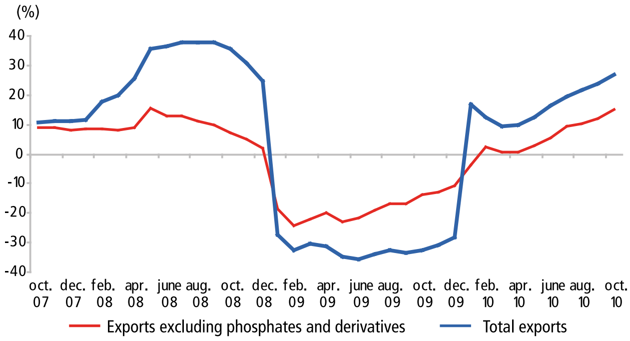
Chart 1.13: Weighted composite leading indicator of partner countries*



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.

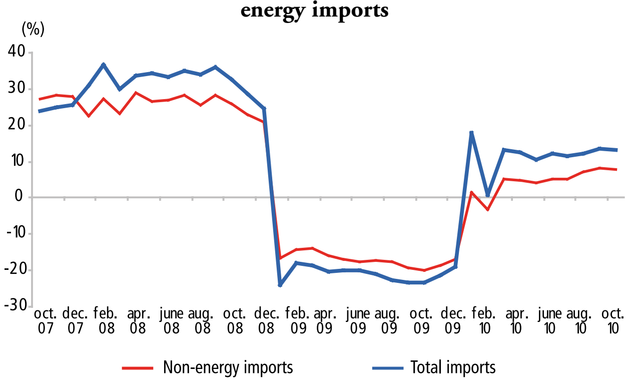
Sources: OECD, and BAM calculations

Chart 1.14: Year-on-year change in total exports and non-phosphate exports



Source: Foreign Exchange Office

Chart 1.15: Year-on-year change in total imports and non-energy imports



Source: Foreign Exchange Office

Meanwhile, purchases of capital goods edged up nearly 1 percent.

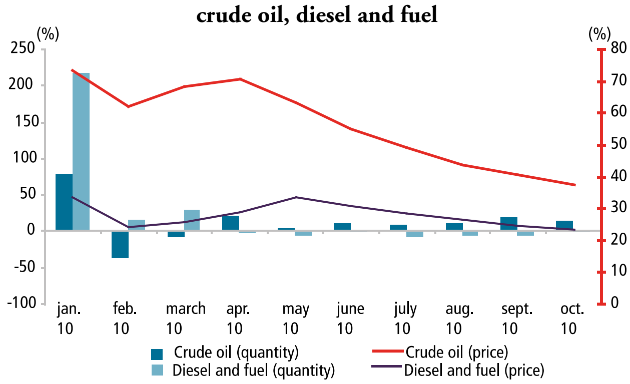
The higher imports of energy products result from the increase in the volume and average tonne price of imported crude oil, by 15.2 percent and 37.6 percent, respectively. The average price per imported tonne rose to 4,711 dirhams, from 3,424 dirhams in the same period last year. Purchases of crude oil climbed from 3,797 thousand to 4,373.8 thousand tonnes. Similarly, imports of diesel and fuel oil, as well as petroleum gas and other types of fuel increased 21.7 percent and 37.5 percent, respectively. Non-energy imports grew 7.9 percent to 187.1 billion dirhams. Actually, purchases of semi-finished goods expanded 17.6 percent, mostly because of higher imports of chemicals, plastics and iron and steel, up 19.8 percent, 16.3 percent and 14.5 percent, respectively. Consumer goods imports also jumped 4.8 percent, largely due to the increase of 8.7 percent, 9.7 percent and 9 percent in the purchases of passenger cars, receiver devices and drugs, respectively. At the same time, food imports rose 12.4 percent as purchases of wheat and corn grew 11.6 percent and 21.2 percent, respectively.

Table 1.2: Year-on-year change in the trade balance, at the end of October 2010

(In millions of dirhams)	jan.-oct. 2009	jan.-oct. 2010*	Change Amount	%
Total exports	**95 382.8**	**121 130.6**	**+25 747.8**	**+27.0**
Phosphate and derivatives' exports	15 652.8	29 296.5	+13 643.7	+87.2
Exports excluding phosphates and derivatives	79 730.0	91 834.1	+12 104.1	+15.2
Electricity wires and cables	7 708.1	10 335.9	+2 627.8	+34.1
Electronic components	3 249.0	4 224.2	+975.2	+30.0
Citrus fruits	1 642.5	1 826.0	+183.5	+11.2
Hosiery items	5 595.2	5 769.4	+174.2	+3.1
Ready-made garments	15 727.3	14 874.9	-852.4	-5.4
Total imports	**216 477.6**	**245 598.2**	**+29 120.6**	**+13.5**
Energy imports	43 116.7	58 509.9	+15 393.2	+35.7
Non-energy imports	173 360.9	187 088.3	+13 727.4	+7.9
Semi-finished goods	43 403.6	51 033.2	+7 629.6	+17.6
Food products	20 095.6	22 585.3	+2 489.7	+12.4
Consumer goods	43 914.4	46 015.7	+2 101.3	+4.8
Capital goods	54 618.2	55 073.8	+455.6	+0.8
Trade deficit	**-121 094.8**	**-124 467.6**	**3 372.8**	**2.8**

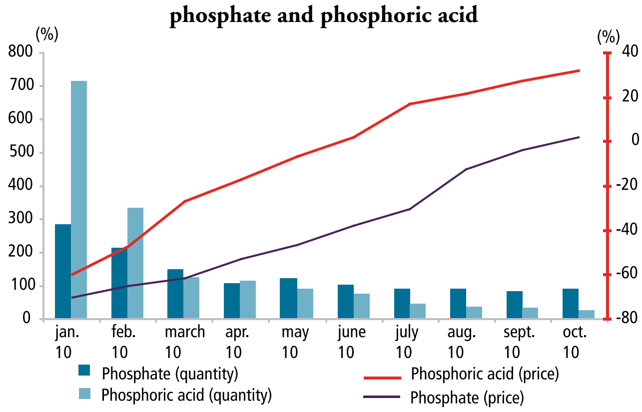
** Provisional data*
Source: Foreign Exchange Office

Chart 1.16: Year-on-year change in the quantity and price of crude oil, diesel and fuel



Source: Foreign Exchange Office

Chart 1.17 : Year-on-year change in the quantity and price of phosphate and phosphoric acid



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

With the positive trend in domestic demand and the slow, but continued, recovery in the main partner countries, the nonagricultural output gap is expected to be slightly higher than zero throughout the second half of 2010. Similarly, the industrial capacity utilization rate in October was above its historical average for the second month in a row. The third quarter 2010 registered lower national unemployment rate than the same period of last year, resulting from lower rates in both urban and rural areas. Wage-related data point to a decline in real wages in the private sector in the second quarter 2010. Despite the increasing signs of improvement, concerns remain about the pace of foreign demand, in connection with recent developments in Europe and their impact on the confidence of economic agents and consequently on activity in the major partner countries. Overall, the various indicators suggest continued upturn, but show no significant demand pressure on prices.

2.1 Pressures on output capacity[1]

Bank Al-Maghrib estimates, based on available data, show an output gap slightly above zero in the second half of 2010. However, the trend in national economic activity is still determined by recent developments in Europe and their impact on the pace and sustainability of recovery in the major partner countries. The output gap of these countries, which largely explains changes in the Moroccan nonagricultural activity, would be positive only as from the third quarter of 2011.

Considering the results of BAM's October monthly survey in the industry, industrial capacity utilization rate was above its historical average for the second month in a row, at 76 percent. This reflects the continued recovery in some export-oriented industrial sectors, together with the gradual improvement in external demand.

Capacity utilization rate in the textile and leather industry, strongly linked to business conditions in partner countries, marked a significant increase from 63

1 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 2.1: Nonagricultural output gap

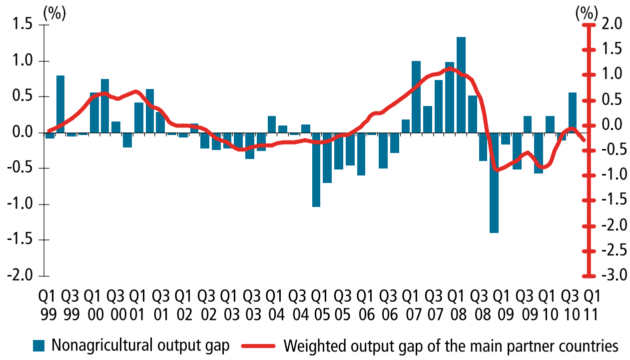
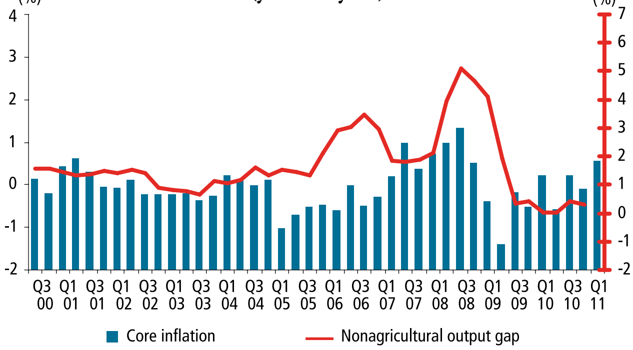


Chart 2.2: Nonagricultural output gap and core inflation (year-on-year)



Sources: HCP and BAM's estimates

percent in August to 74 percent in October. The sector's production, overall sales and orders received also improved in October, with optimistic forecasts for the coming months.

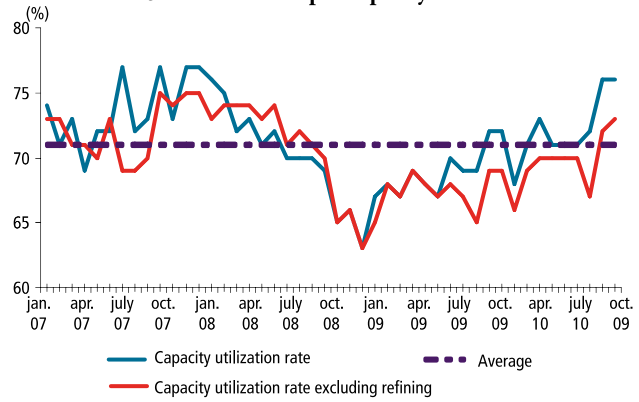
In other sectors, capacity utilization rate has risen, with the exception of the food-processing industry that was flat at 76 percent. It reached 83 percent in chemicals and related industries, 80 percent in electrical and electronic industries, and 64 percent in mechanical and metallurgical industries.

Apparent labor productivity[1] in the nonagricultural sector increased 4 percent year on year in the third quarter of 2010, to about 115 points. This trend reflects an urban employment growth rate lower than that of nonagricultural GDP, as estimated by BAM for the third quarter of 2010.

The BAM business survey points to a rise in the unit production cost (UPC) in the third quarter of 2010, with a balance of opinion at 28 percent. This increase, mainly attributable to higher prices for energy commodities and financial costs, affected all industries, particularly the textile and leather sector and the electrical and electronic industry. In fact, prices for energy commodities and financial costs were the main source of cost increases in

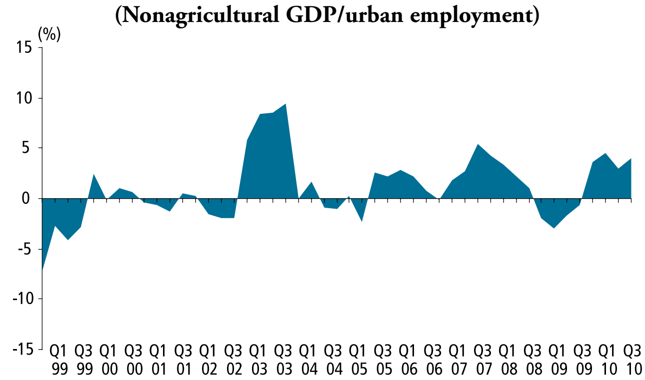
1 Apparent labor productivity is measured by the ratio between production and employed labor force. This indicator must be interpreted cautiously, as it does not take into account the efficiency with which labor force is used in production.

Chart 2.3: Industrial output capacity utilization rate



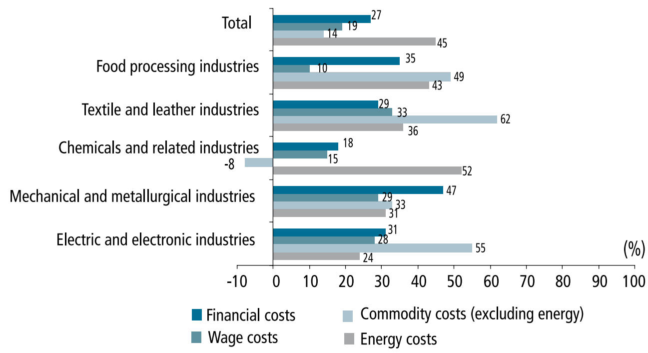
Source: BAM monthly business survey

Chart 2.4: Year-on-year 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 Q3 of 2010)



Source: BAM monthly business survey

chemicals and related industries as well as mechanical and metallurgical industries. In other industries, prices for non-energy commodities largely contributed to the increase in the UPC.

2.2 Pressures on labor market

At the end of the third quarter of 2010, labor force aged 15 and over reached 11,323,000 persons, up 0.1 percent over the same period of 2009. This includes a 0.4 percent decrease in urban labor force and a 0.6 percent increase in rural areas. However, the participation rate fell 0.8 percentage point to 49 percent, as the labor force aged 15 and over grew at a slower pace than the total population. Employment in the third quarter of 2010 marked a slight increase in the employed labor force, compared with the same quarter a year earlier. Nevertheless, the employment rate fell 0.4 percentage point to 44.5 percent, because of the larger increase in the population aged over fifteen years. By place of residence, employment rate in urban areas edged down from 37.5 percent to 36.9 percent, while in rural areas it rose 0.1 percentage point to 55.8 percent.

The number of gainful jobs created reached 183,000 in the third quarter of 2010, as against a net loss of 90,000 unpaid jobs, which resulted in a net creation of 93,000 employment positions, including 36,000 jobs in urban areas and 57,000 in rural areas.

The major job-providing sectors were the services sector with 73,000 new jobs (up 1.9 percent), the construction sector with 52,000 jobs (up 5.4 percent), and the primary sector with 40,000

Table 2.1: Year-on-year quarterly change in activity and unemployment indicators per place of residence(1)

In million / in %	Q3 - 2009			Q3 - 2010		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (2)	5.93	5.38	**11.31**	5.91	5.41	**11.32**
Labor force participation rate (%) (3)	44	58.2	**49.8**	42.8	58.0	**49.0**
Employed labor force	5.06	5.15	**10.2**	5.09	5.2	**10.3**
Employment rate (%) (4)	37.5	55.7	**44.9**	36.9	55.8	**44.5**
Unemployment						
Unemployed labor force	876	229	**1105**	816	205	**1021**
Unemployment rate (in %) (5)	14.8	4.3	**9.8**	13.8	3.8	**9.0**
By degree						
. Non-graduates	7.5	2.9	**4.6**	7.7	2.1	**4.1**
. Graduates	20.5	12	**18.9**	18.4	13.1	**17.4**

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

Chart 2.6: Nonagricultural growth and urban unemployment Q2 2001 – Q3 2010

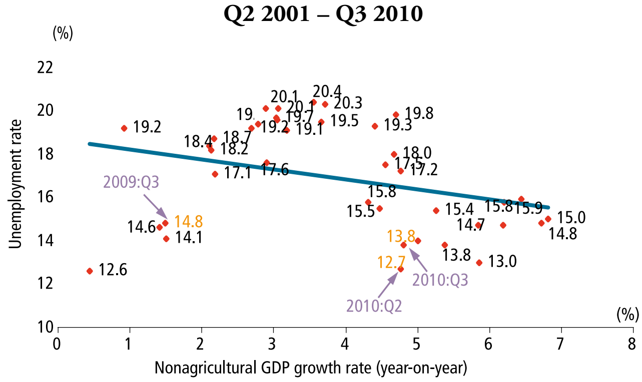
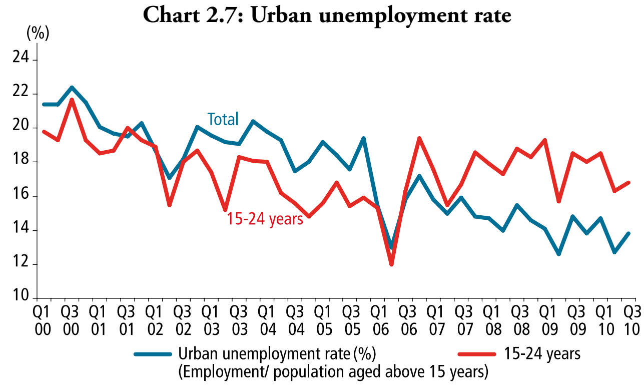


Chart 2.7: Urban unemployment rate



Source: HCP

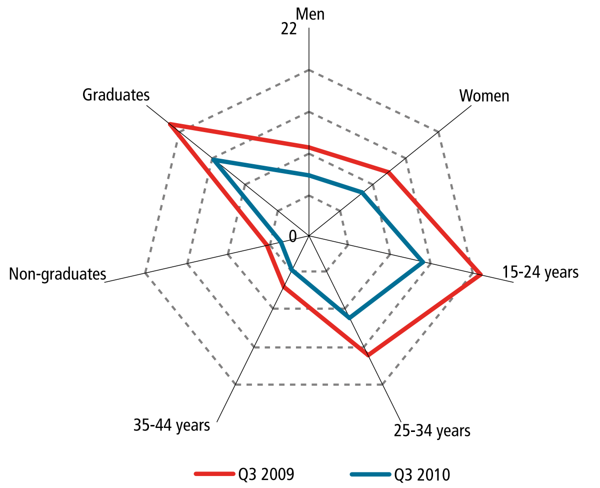
jobs (up 1 percent). In contrast, the industrial sector registered a net loss of 70,000 jobs, mostly in rural areas. For the next few quarters, Bank Al-Maghrib's business survey shows that corporate managers anticipate the labor force to increase in all industries, except chemicals and related industries, where it is expected to remain virtually unchanged.

Moreover, the unemployment rate in the third quarter 2010 fell about 0.8 percentage point from the same quarter a year earlier, to 9 percent. This trend reflects a decline in the unemployment rate both in urban and rural areas, down from 14.8 percent to 13.8 percent and 4.3 percent to 3.8 percent, respectively. The largest decreases in unemployment rate were recorded among the 15-24 age group (-1.7 point) and the 25-34 age group (-0.8 point). On the opposite, the only increase was registered among the 45 and over age group, from 2 percent to 2.1 percent.

Concerning wage costs, the most recent data relate to the second quarter of 2010 and show a year-on-year increase of 0.7 percent in the relative unit labor cost, as opposed to an increase of 4 percent in the apparent labor productivity. Compared with other countries, the growth rate of Morocco's relative unit labor cost in second quarter 2010 exceeded that of Poland, Greece and South Korea by 3 percent, 2 percent and 0.5 percent, respectively. However, it increased at a slightly slower pace than in Belgium, Hungary, the United States and Italy.

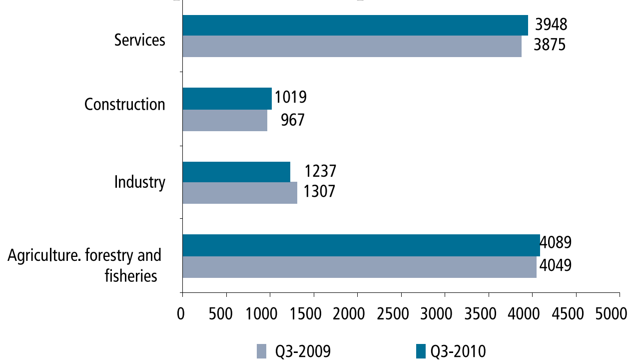
The quarterly average wage index for the second quarter 2010, as measured by the HCP based on the CNSS data, grew at a quarterly rate

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



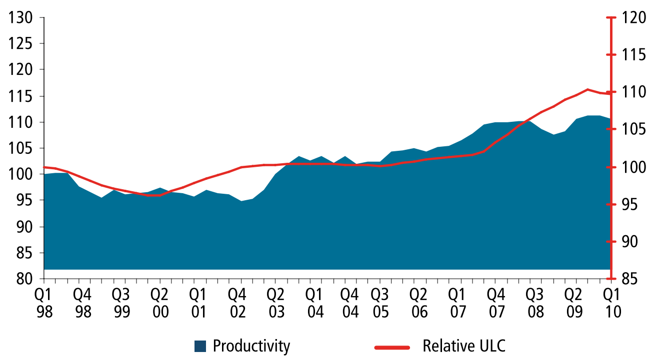
Source: HCP

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



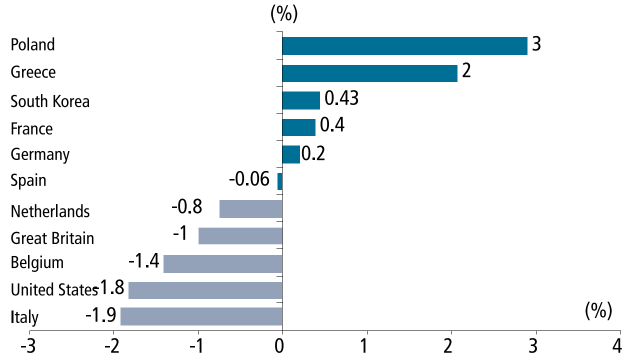
Source: HCP

Chart 2.10: Relative unit labor cost and apparent labor productivity (Q2 1998- Q2 2010)



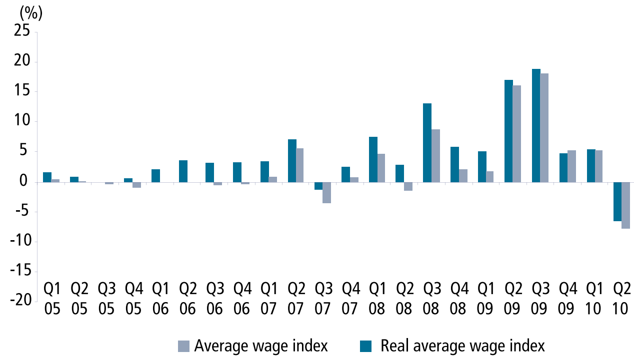
Sources: DataStream, and BAM calculations of 1.2 percent but fell at an annual rate of 6.6 percent. In real terms, the index decreased 7.6 percent over the same period of last year, mostly because of the base effect caused by wage increases after the upward revision of minimum wage in 2009. Payroll in the industrial sector, according to Bank Al-Maghrib's business survey for the third quarter of 2010, increased, with a positive balance of opinion of 19 percent.

Chart 2.11: Change in the unit costs of the manufacturing labor force in Morocco compared with other countries, Q2 2009 – Q2 2010 (in %)



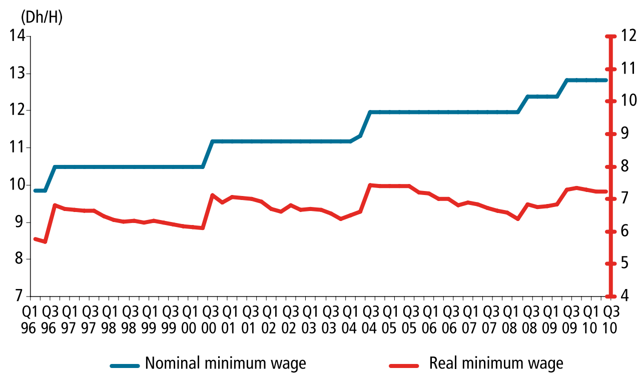
Sources: Datastream, and BAM calculations

Chart 2.12: Year-on-year change in the private sector 's average wage index in nominal and real terms



Sources: HCP, CNSS, and BAM estimates

Chart 2.13: Quarterly change in real and nominal minimum wage



Sources: Labor Ministry, and BAM calculations

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

International financial conditions faced further disruption, especially as the fiscal position in peripheral euro countries worsened, particularly in Ireland for which an €85 billion support plan was approved by the European Union and the IMF, and the risk of contagion to other euro countries increased. The recent tensions have mostly risen in euro area bond markets, where long-term yield rates jumped markedly, and to a lesser extent on money markets. On other compartments, major stock market indexes increased somewhat, while credit continued to grow, albeit at a rate much lower than the pre-crisis level. Latest real-sector indicators show that global economic recovery remains largely driven by emerging economies. In the advanced countries, national accounts of the third quarter 2010 generally point to a slow recovery, with uneven pace from one country to another. Indeed, year-on-year growth slightly accelerated in the United States, but stagnated in the euro area at below 2 percent. In the main partner countries, except Germany where GDP expanded about 4 percent for the second consecutive quarter, economic growth remains sluggish and labor market indicators show no sign of improvement. Unemployment rate reached 10 percent in France, 6.7 percent in Germany, 8.3 percent in Italy, and a high of 20.8 percent in Spain.

In the very short run, the October forecasts of the IMF and the projections prepared by the OECD and other national and international organizations show that growth in advanced and emerging countries in the full year 2010 would remain close to that of the third quarter, but would slow down in 2011. Several uncertainties surround this weak recovery, especially in the advanced countries where it is still highly difficult to maintain equilibrium between the need to restore macroeconomic balances in order to ease tensions in financial markets, and the necessity to strengthen, or at least maintain, support measures in order to revive economic activity. Moreover, inflation continues to moderate despite the strong demand in emerging markets and the continued growth of commodity prices, in conjunction with the still poor growth prospects in the advanced countries and the persistent large spare production capacity.

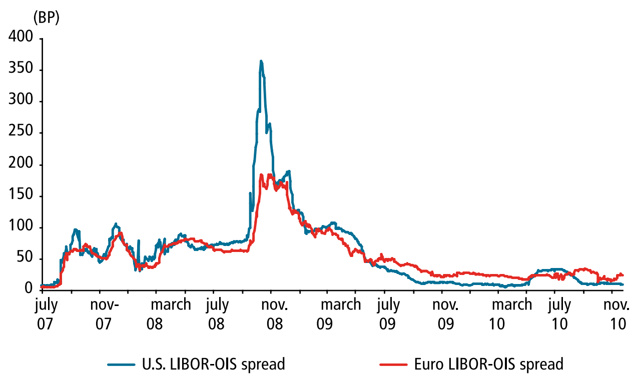
3.1 Global financial conditions and economic activity

The quarter under review was marked by turbulent financial conditions, due mainly to the deteriorating fiscal position of some peripheral eurozone countries. The latest indicators on the international economic situation show that global economy continues to recover, though at a pace somewhat slow and uneven across regions.

3.1.1 Financial conditions

In November 2010, money market conditions continued to improve in the United States, while they came under significant pressure in the euro area. The 3-month dollar Libor was unchanged at 0.29 percent and the dollar Libor-OIS spread fell to 10.6 basis points from 11.4 points the previous month. In the euro area, the 3-month Euribor remained unchanged at 1 percent between October and November, whereas the euro Libor-OIS spread rose from 18 to 21.2 basis points.

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

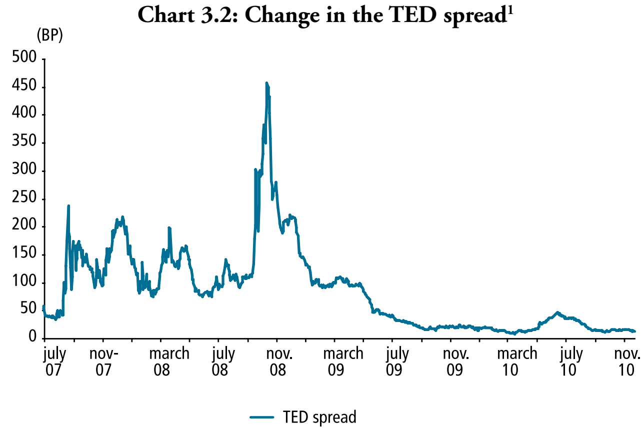
Bond markets were the most severely hit, as sovereign bond yields, particularly on peripheral euro countries, sharply increased. Yields on 10-year Irish and Portuguese sovereign bonds in November were at the highest since early 2010, at 7.9 percent and 6.7 percent, respectively. Those of Greece and Spain reached 11.3 percent and 4.5 percent, respectively, up from 9.5 percent and 4 percent the previous month. These trends reflect the deteriorating fiscal situation in Ireland and the greater risk of contagion to other peripheral countries like Portugal and Spain. Albeit at significantly more moderate levels, yields on German and French sovereign bonds rose from 2.37 percent and 2.71 percent to 2.51 percent and 2.92 percent, respectively. Similarly, yields on 10-year U.S. Treasury bills were up 20 basis points to 2.71 percent in November.

The deterioration of investors' perception of sovereign risk in peripheral euro countries is also apparent through the developments in derivatives markets. Indeed, five-year credit default swaps (CDS) on Irish government debt widened to 547 basis points in November, from 431 points in October. CDS on other peripheral countries maintained their upward trend, while those on emerging countries remained relatively low.

As a result of its fiscal difficulties and troubled bank balance sheets, Ireland's long-term debt rating was downgraded by Fitch and Standard & Poor's from "A" to "AA-". In response to the worsening situation in that country, the European Union, euro area member states and the IMF late November agreed to the Irish Government's request for financial assistance. They approved an €85 billion rescue plan to consolidate public finance and support the banking sector.

In stock markets, the key indexes of advanced economies in November marked monthly increases, more moderate than the rates observed since the beginning of the year, ranging between

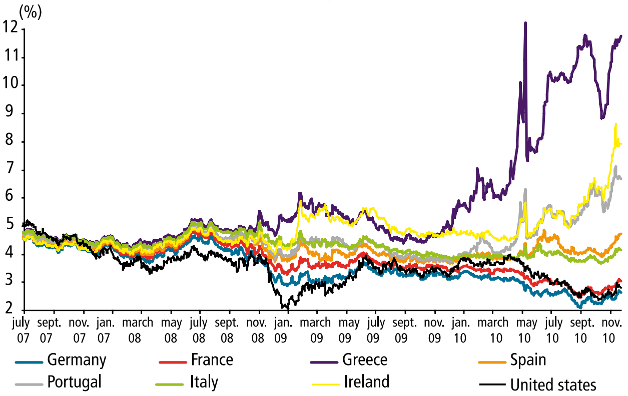
Chart 3.2: Change in the TED spread[1]



Source: Datastream

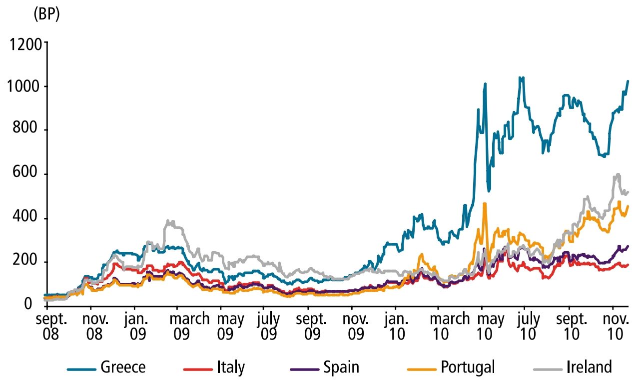
1 The TED spread represents a credit risk and corresponds to the interest rate gap between three-month U.S. Treasury bills and the three-month interbank rate in U.S. dollars.

Chart 3.3: Change in the yield of ten-year euro 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.

1.6 percent in the Footsie to a maximum of 4.6 percent in Dax. Stock exchange indexes in emerging economies were on the upside, as evidenced by the 2 percent increase in the MSCI EM[1].

Credit in advanced economies is less vigorous than the pre-2008 trends, but continues to increase year on year for several months now, marking an increase of 3 percent in the United States and 1.4 percent in the euro area in October.

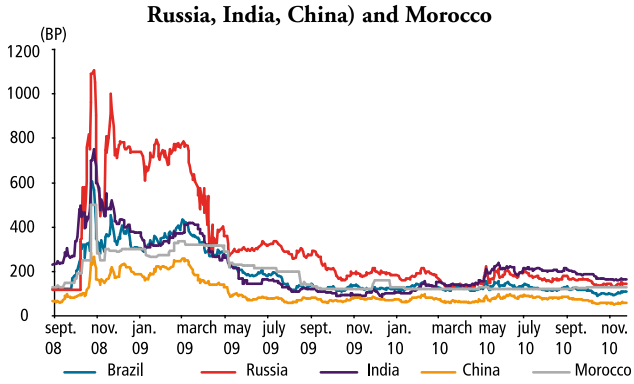
In foreign exchange markets, prices remain volatile, as the euro depreciated against the dollar in November, after rising the previous month, despite the expected impact of the Fed's recent quantitative easing.

On monthly average, the euro depreciated against the dollar to $1.37 in November, down from $1.4 the previous month. Vis-à-vis other currencies, the euro depreciated on average 0.8 percent and 1.8 percent against the yen and the renminbi from October to November. Over the same period, the dollar gained 1 percent against the yen and lost 0.2 percent against the renminbi.

Concerning monetary policy decisions, major central banks in advanced economies, following their meetings in November, 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. It also announced a new round of quantitative easing under which it would purchase $600 billion of Treasury securities, at a pace of about $75 billion per month, from the third quarter 2010 to the second quarter 2011. The Fed decided as well to reinvest $250-300 billion during the same period, representing principal payments from its securities holdings.

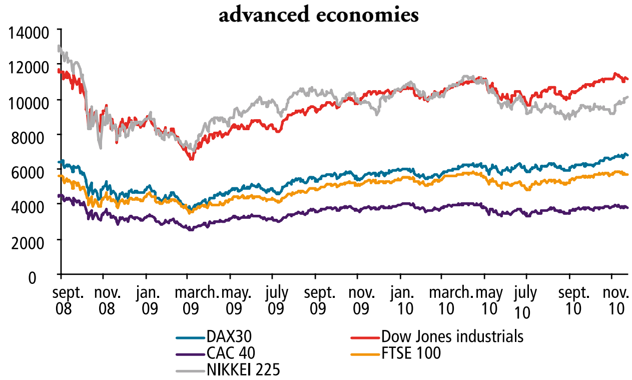
1 The MSCI EM index measures equity market performance in countries of Central Europe, the Middle-East and Africa (Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Jordan, Egypt, Morocco, and South Africa).

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



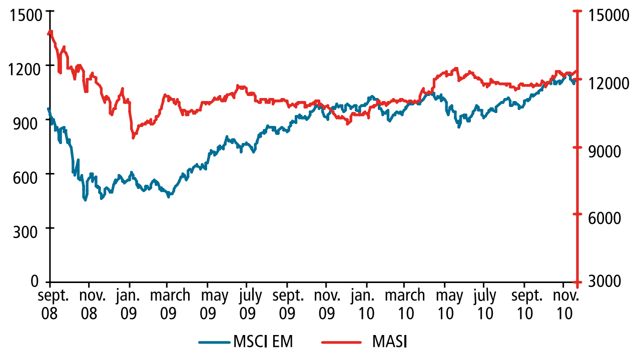
Source: Datastream

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

3.1.2 Global economic activity

The latest growth figures suggest continued global economic recovery in the third quarter of 2010, with some slowdown in many advanced and emerging economies.

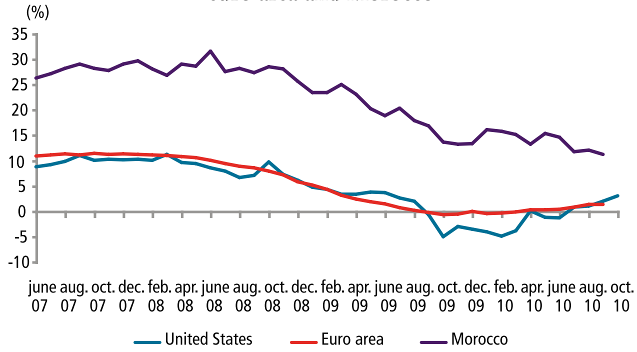
In the United States, GDP increased at an annualized quarterly rate of 2 percent in the third quarter, up from 1.7 percent the previous quarter. On a year-on-year basis, it grew 3.1 percent, from 3 percent (see Table 3.1). This slight improvement in U.S. growth in the third quarter reflects the rise in household spending and business inventories, coupled with a sharp deceleration in imports.

In the euro area, year-on-year quarterly GDP growth remained at 1.9 percent, covering continued robust growth in Germany at 3.9 percent, faster growth in France at 1.8 percent, and a deceleration in Italy from 1.3 percent to 1 percent. In Spain, GDP grew by 0.2 percent, the first since the fourth quarter 2008.

In Japan, GDP expanded at a quarterly rate of 0.9 percent in the third quarter 2010, up from 0.4 percent in the previous quarter, reflecting higher household consumption and strong exports.

In emerging Asia, particularly in China, GDP growth slowed to 9.6 percent year-on-year, after rising 10.3 percent in the previous quarter. This slowdown would be linked to measures implemented by the Chinese government to prevent economic overheating and contain inflationary pressures. In India, GDP increased by 8.9 percent, compared with 8.8 percent the previous quarter.

Chart 3.8: Year-on-year 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	2011	2010	2011
Global GDP	3.3	3.3	-	-	4.8	4.2
United States	3.3	2.9	2.7	2.2	2.6	2.3
Euro area	0.7	1.3	1.7	1.7	1.7	1.5
Germany	1.6	1.9	3.5	2.5	3.3	2.0
France	1.6	1.9	1.6	1.6	1.6	1.6
Italy	0.8	1.4	1.0	1.3	1.0	1.0
Spain	-0.6	1.0	-0.2	0.9	-0.3	0.7
United Kingdom	1.0	1.8	1.8	1.7	1.7	2.0
China	9.5	8.5	10.5	9.7	10.5	9.6
India	8.2	8.7	9.1	8.2	9.7	8.4
Brazil	6.4	4.5	7.5	4.3	7.5	4.1
Russia	4.5	4.8	3.7	4.2	4.0	4.3

**OECD (June 2010); World Bank (November 2010); IMF (October 2010)*

Sources: IMF, World Bank and OECD.

Table 3.2: Year-on year change in quarterly growth

	2009			2010		
	Q2	Q3	Q4	Q1	Q2	Q3
United States	-4.1	-2.7	0.2	2.4	3.0	3.1
Euro area	-4.9	-4.0	-2.0	0.8	1.9	1.9
France	-3.1	-2.7	-0.5	1.1	1.6	1.8
Germany	-5.5	-4.4	-2	2.1	3.9	3.9
Italy	-6.2	-4.7	-2.8	0.5	1.3	1.0
Spain	-4.4	-3.9	-3.0	-1.3	-0.1	0.2
China	7.9	9.1	10.7	11.9	10.3	9.6

Sources: Eurostat, Datastream and US Trade Department

High-frequency indicators broadly suggest continued economic recovery, with uneven speed across countries.

Indeed, the U.S. manufacturing PMI showed a further rise to 56.9 points in October 2010, up 4.6 percent month on month and 3.1 percent year on year. The Conference Board Consumer Confidence Index rose to 50.2 points in October, from 48.6 in September.

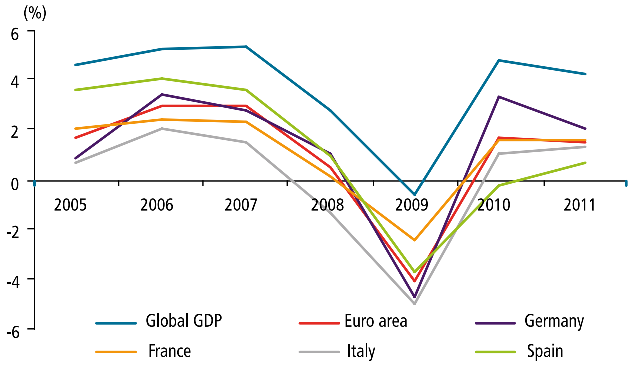
The eurozone composite manufacturing PMI reached 54.6 points in October, up from 53.7 the previous month, increasing 1.7 percent month on month and 7.7 percent year on year, while the composite PMI fell 0.6 percent to 53.8 points.

The composite leading index for the main European partners decreased at a quarterly rate of 0.2 percent, from 103.75 in the second quarter 2010 to 103.55 in the third quarter.

Concerning the labor market, the unemployment rate has been elevated for several months. In September, it held at 9.6 percent in the United States and reached 10.1 percent in the eurozone, from 10 percent the previous month, including a rate of 10 percent in France, 6.7 percent in Germany, 8.3 percent in Italy and a high of 20.8 percent in Spain.

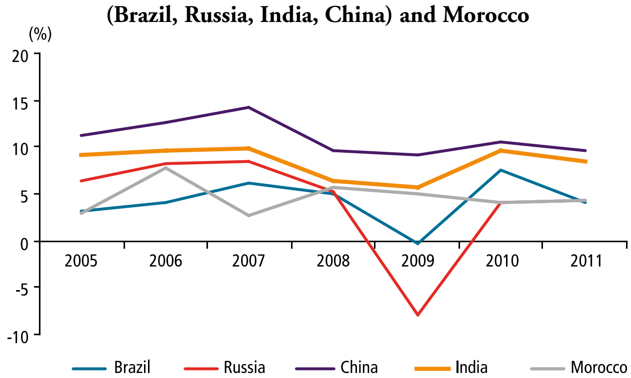
Global economic projections prepared by the IMF and other national and international bodies expect growth in the full year 2010 to be close to that observed in the third quarter. For 2011, they forecast slower GDP growth in most advanced and emerging countries.

Chart 3.9: Year-on-year GDP change in the world, the euro area and partner countries



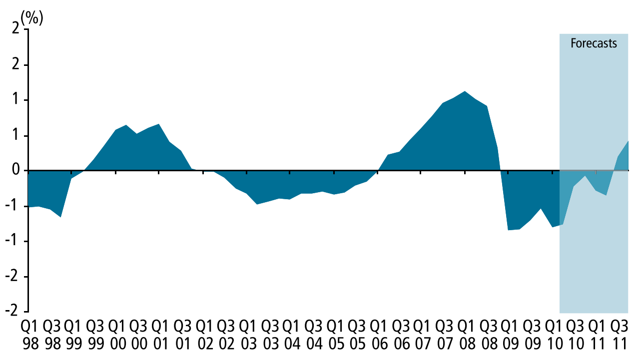
Source: IMF

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



Source: IMF

Chart 3.11: Output gap of the main partner countries



Sources: European Commission, and BAM calculations

The IMF expects global GDP to expand by 4.8 percent in 2010 and 4.2 percent in 2011. In the advanced countries, the GDP would grow by 2.7 percent in 2010 and 2.2 percent in 2011 while in emerging and developing economies it would increase by 7.1 percent in 2010 before returning to 6.4 percent in 2011.

In the United States, the IMF expects a GDP growth of 2.6 percent and 2.3 percent in 2010 and 2011, respectively, whereas the OECD projects an expansion of 2.7 percent and 2.2 percent. In the eurozone, the IMF and the OECD forecast a similar growth of 1.7 percent in 2010, but 1.5 percent and 1.7 percent, respectively, in 2011.

For Morocco's major partner countries, the IMF and the OECD expect France's GDP to expand by 1.6 percent in both 2010 and 2011, while Germany's would grow by more than 3 percent in 2010 before falling to a range between 2 and 2.5 percent in 2011. In Italy and Spain, GDP growth would be around 1 percent in 2011.

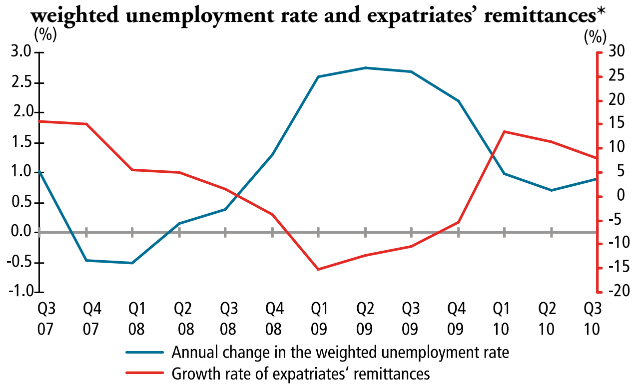
In emerging markets, particularly in China, the IMF and the OECD forecast a similar growth rate of 10.5 percent in 2010, but of 9.6 percent and 9.7 percent in 2011. In India, growth is expected to decelerate slightly in 2011 to 8.4 percent according to the IMF and 8.2 percent according to the OECD (see Table 3.2).

3.2 World inflation

Despite the ongoing recovery and continued increase in commodity prices, inflation continues to moderate in advanced countries.

In October, inflation was 1.2 percent in the United States and 1.9 percent in the euro area. In the partner countries, consumer prices in Italy and

Chart 3.12: Year-on-year 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

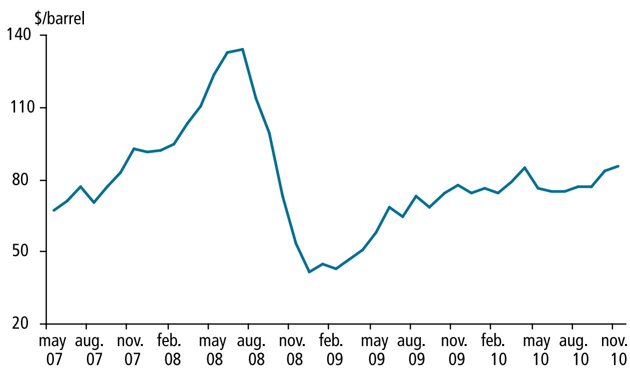
Table 3.3: Recent trend in world inflation, year on year

	Oct. 2009	August 2010	Sept. 2010	Oct. 2010	Forecasts 2010	Forecasts 2011
United States	-0.2	1.1	1.1	1.2	1.4	1.0
Euro area*	-0.1	1.6	1.4	1.7	1.6	1.5
Germany	0.0	1.2	0.9	1.2	1.3	1.4
France	0.2	1.6	1.5	1.7	1.6	1.6
Spain	-0.7	1.8	1.5	1.9	1.5	1.1
Italy	0.3	1.4	1.3	1.7	1.6	1.7
Japan	-2.5	-0.9	-0.7	-	-1.0	-0.3
China	-0.5	3.5	3.6	4.4	3.5	2.7

(*) Harmonized indexes

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

Chart 3.13: World oil price (Brent)



Source: Datastream

Spain rose 1.7 percent and 2.3 percent, respectively, up from 1.6 percent and 2.1 percent the previous month. In France and Germany, inflation remained unchanged at 1.6 percent and 1.3 percent on a month-on-month basis. In China, it accelerated to 4.4 percent, from 3.6 percent a month earlier.

Inflation forecasts of international organizations and major central banks show the continued moderation in inflationary pressures in the advanced economies, where inflation should remain below 2 percent by 2011. However, the IMF projects inflation in emerging and developing economies to reach 6.2 percent and 5.2 percent in 2010 and 2011, respectively.

The IMF expects consumer prices to grow by a mere 1 percent in the United States and 1.5 percent in the euro area, broadly in line with the forecasts of the OECD and major central banks.

In the partner countries, the different projections for 2011 expect an inflation rate between 1 and 2 percent.

3.3 Oil prices

In November, oil prices increased 2.8 percent month on month and 11.5 percent year on year, to $85.7 per barrel. Over the full year, the IMF's October Global Economic Outlook projects an average oil price of about $76.20 a barrel, before rising to $78.75 in 2011.

On the futures market, the price of oil would average $85 a barrel in 2011, $92.5 in 2012, and $105.5 in 2013.

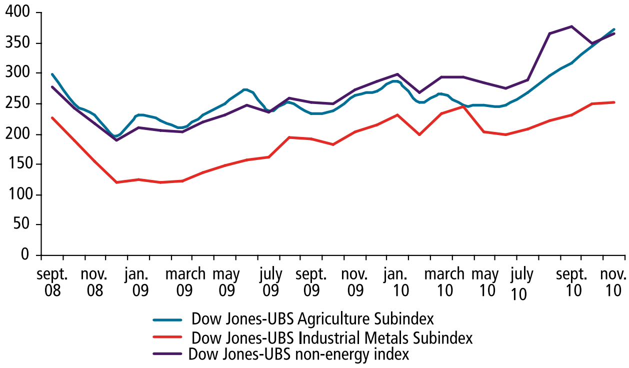
The OPEC and the IEA raised their forecasts for global oil demand in their November reports, citing continued recovery in the third quarter, particularly in advanced countries.
The OPEC expects oil demand to increase by 1.3 million barrels per day (bpd) in 2010, up 1.6 percent from 2009, and by 1.2 million bpd in 2011. The IEA,

Table 3.4: Forecasts of the current price of oil (Brent) in the futures market (in US dollars)

Q4:10	Q1:11	Q2:11	Q3:11	2011	2012	2013
80	**82**	**82.75**	**85**	**85**	**92.5**	**105.5**

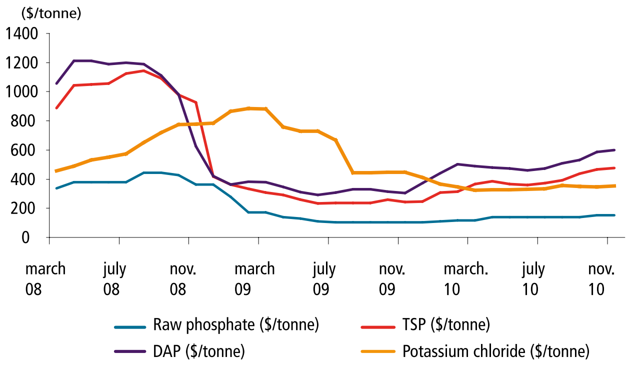
Source: Bloomberg

Chart 3.14: Change in the Dow Jones-UBS of non-energy commodity indexes (base year= 2006)



Source: Datastream

Chart 3.15: Change in the world prices of phosphate and derivatives



Source: World Bank

in turn, projects a rise in oil demand by about 2.3 million bpd from 2009 to reach 87.3 million bpd. For 2011, the Agency anticipates a 1.4 percent increase to 88.5 million bpd.

Prices of non-energy commodities continued to rise in November, as evidenced by the increase in the Dow Jones-UBS Commodity Index at a monthly rate of 4.3 percent and a year-on-year rate of 33.4 percent. This rise primarily concerned agricultural prices.

Indeed, the impact of weather conditions and the high demand from emerging countries strongly pushed up the Dow Jones-UBS Agriculture Index[1], which rose at a monthly rate of 7 percent and a year-on-year rate of 39.8 percent.

Meanwhile, the Dow Jones-UBS industrial metals index[2] declined 0.9 percent owing to a fall in the prices for nickel and zinc by 3.9 percent and 2.9 percent, respectively. However, this index showed a year-on-year increase of 24 percent.

The prices of phosphate and derivatives increased in November, as the prices of DAP, urea and TSP recorded monthly increases of 11.2 percent, 2.2 percent and 1.9 percent, respectively. Prices for phosphate rock remained unchanged from October, at $140 a tonne.

3.4 Non-energy commodity prices

The latest available data show that the non-energy import price index (IPI), as in August, fell at a monthly rate of 2.5 percent in September, reflecting the decline in import prices of all components. In fact, the food IPI recorded a month-on-month decrease of 1.1 percent, compared with 4.4 percent in August, because of the 2.5 percent drop in the average unit import price of wheat, the impact of which was

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

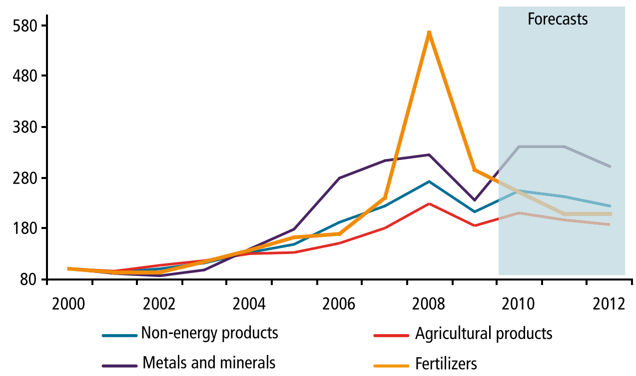
2 2 It includes aluminium, copper, zinc, and nickel.

Table 3.5: Quarterly change in wheat futures and forecasts

Wheat (USc/ bushel)	Q4:10	Q1:11	Q2:11	2011	2012	2013
Futures	674.29	685.78	711.91	723.23	753.09	751.56
Forecasts	692.5	680	672.5	644	595	605

Source: Bloomberg

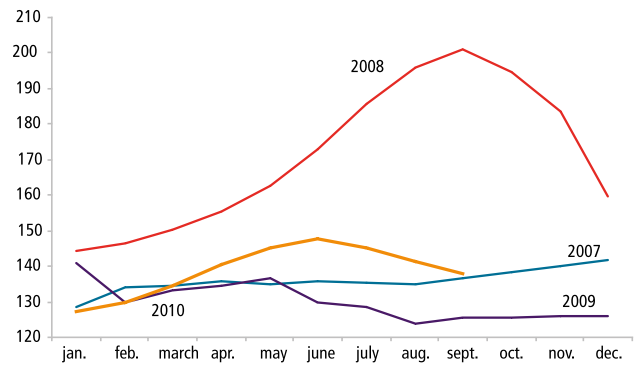
Chart 3.16: Outlook for commodity prices*



(*) Updated on July 11, 2010

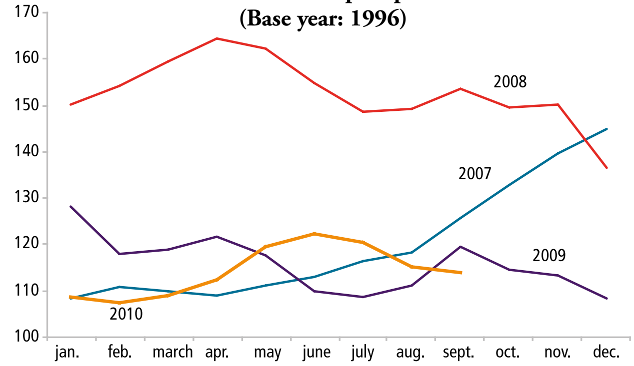
Source: World Bank

Chart 3.17: Non-energy import price index (Base year: 1996)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.18: Food import price index (Base year: 1996)



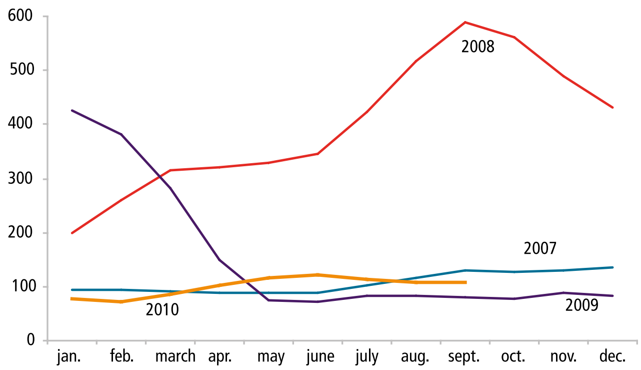
Sources: Foreign Exchange Office, and BAM calculations mitigated by the 1.6 percent increase in the price of sugar.

At the same time, the IPI of semi-finished goods fell at a monthly rate of 2.6 percent, down from 4 percent in August, mostly owing to the 1.9 percent increase in the average unit import price of plastics. Moreover, the import price index of mining products recorded a monthly decline of 1.8 percent, from 3.8 percent the previous month, due to the 7.1 percent depreciation in the average unit import price of iron and steel, offset by a 2.5 percent increase in that of crude sulfur.

On a year-on-year basis, the non-energy import price index increased 10 percent, from 14.3 percent in August. Indeed, the import price index of mining products was up 35.7 percent, mainly with the 43 percent increase in the unit import price of sulfur. Meanwhile, the IPI of semi-finished goods posted a rise of 11.1 percent, following an increase of 17.4 percent in the unit import price of plastics. In contrast, the food IPI was down 4.7 percent, largely because of the 19.4 percent fall in the unit import price of wheat, offset by a 15 percent rise in that of corn.

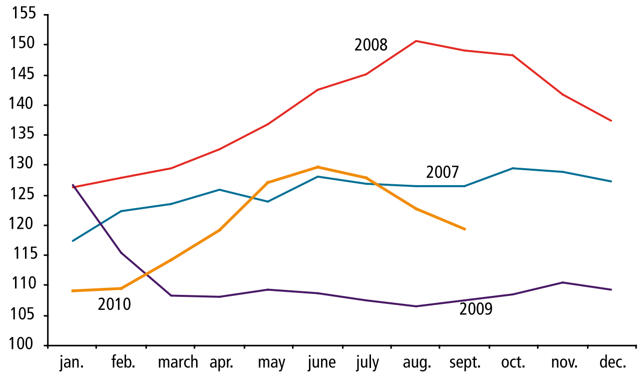
However, in light of the progressive and increasingly volatile rise in global commodity prices, inflationary pressures from import prices could intensify in the coming quarters.

Chart 3.19: Mining products' import price index (Base year: 1996)



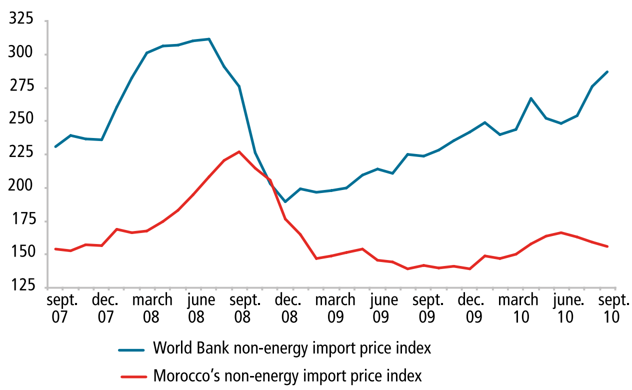
Sources: Foreign Exchange Office, and BAM calculations

Chart 3.20: Semi-finished products' import price index (Base year: 1996)



Sources: Foreign Exchange Office, and BAM calculations

Chart 3.21: Change in world commodity price index and domestic non-energy import price index (Base year: 2000)



Sources: Foreign Exchange Office, and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

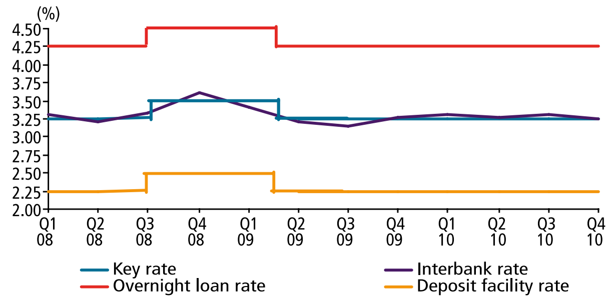
Monetary conditions were marked by the ongoing moderation in money creation and credit growth. M3 aggregate went up 5.7 percent year on year in October compared to 6.7 percent on average over the last three quarters, keeping money gap on a negative level. Concurrently, credit grew by 12.1 percent, a level which is similar to the last three quarters. As to lending rates, the BAM survey among banks for the third quarter points to a drop in the weighted average interest rate, mainly in line with the decline in real-estate and equipment loan rates. The effective exchange rate of the dirham dropped 0.3 percent in nominal terms and 1.3 percent in real terms in the third quarter, as a result of an inflation gap benefiting the Moroccan economy. Concerning asset prices, the real-estate price index calculated by BAM rose for the third quarter by 2.4 percent, on annual as well as quarterly bases. Such a growth is similar to the situation in international real estate markets, where prices are climbing gradually since the end of 2009. As to financial assets, the latest figures published by the Casablanca Stock Exchange show an increase by 1 percent of the MASI index in the third quarter and by 2.6 percent in October, bringing its annual performance to 17.6 percent. In light of these changes, monetary inflationary pressure remains moderate overall.

4.1 monetary conditions

4.1.1 Interest rates

In a context where risks were slightly skewed to the upside, mainly in relation with the outlook of import prices and an inflation central forecast consistent with the price stability objective, the Bank Board decided at its September meeting to keep the key rate unchanged at 3.25 percent. In these circumstances, the interbank overnight rate stood at 3.26 percent on average, in October and November 2010, down 5 basis points compared to the last quarter.

Chart 4.1: Change in the interbank rate*



Observation of the four quarter of 2010 corresponds to the arithmetic average of data from October 1 to November 24

Short, medium and long-term rates on Treasury bills issued on the primary market also decreased by the end of last quarter and October. The same trend characterized yields on the secondary market, both for short-term as well as medium and long-term maturities.

Table 4.1: Change in Treasury bonds' yield rates on the primary market

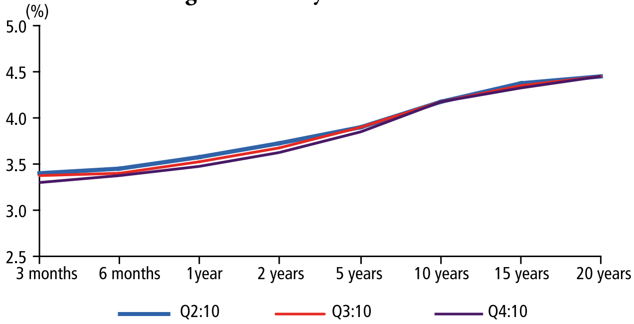
	2009			2010			
	Q2	Q3	Q4	Q1	Q2	Q3	October
13 weeks	3.26	3.25	3.25	3.44	3.39	-	3.32
26 weeks	3.31	3.27	3.28	3.56	3.45	3.41	-
52 weeks	3.35	3.33	3.37	3.62	3.55	3.49	-
2 years	3.44	3.48	3.57	3.73	3.69	3.68	-
5 years	3.69	3.68	3.74	3.95	3.90	3.90	-
10 years	-	-	-	4.20	4.19	4.17	4.17
15 years	-	-	-	4.32	4.35	-	4.34

Concerning deposit rates, the weighted average rate on 6 and 12-month deposits registered once again a rise by 8 basis points, between the third quarter and

October, standing thereby at 3.67 percent. This change is largely due to the increase in 12-month deposit rate while 6-month deposit remained unchanged.

As to lending rates, results of the BAM survey among banks for the third quarter of 2010 show a drop by 7 basis points in the weighted average rate of bank loans to stand at 6.29 percent. This change reflects a decline in rates on real estate loans and equipment loans as well as an almost stable consumer loan rates. Conversely, cash loans

Chart 4.2: Change in maturity structure of TB interest rates



**Observation of the four quarter of 2010 corresponds to the arithmetic average of data from October 1 to November 24*

Table 4.2: Rates on time deposits

	2009			2010			
	Q2	Q3	Q4	Q1	Q2	Q3	Oct.
6 months	3.52	3.31	3.24	3.28	3.32	3.32	3.32
12 months	3.96	3.68	3.69	3.65	3.64	3.71	3.87
Weighted average	3.78	3.55	3.54	3.48	3.48	3.59	3.67

Box 4.1: Liquidity and monetary policy implementation

Despite the expanding trend of the autonomous factors during the third quarter of 2010, bank cash holding needs further increased, which prompted Bank Al-Maghrib to further enhance its interventions. As a result, the average liquidity shortage edged up from 18.4 billion dirhams in the second quarter of 2010 to 23.4 billion in the third quarter.

Transactions in foreign assets led to a liquidity injection of 9.7 billion dirhams resulting from the difference between sales of foreign banknotes totaling 13.4 billion dirhams and purchases of foreign currency by commercial banks which totaled 3.7 billion dirhams.

In addition, Treasury operations caused a liquidity injection of 264 million dirhams due to the repayment of domestic debt instalments to the banking system (19.4 billion dirhams).

On the other hand, the rise in currency in circulation reached 4.9 billion dirhams due to the outflows registered during the summer season.

Overall, the autonomous factors exerted an expanding effect of 5.1 billion dirhams on the banking system's liquidity.

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

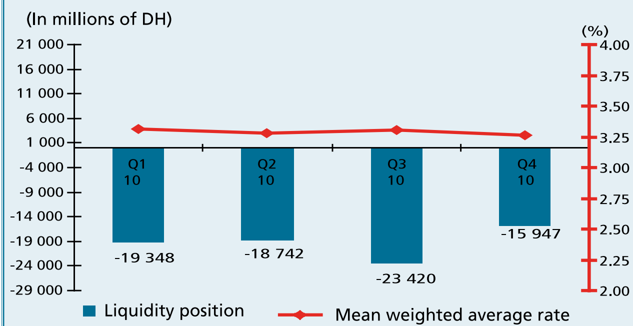
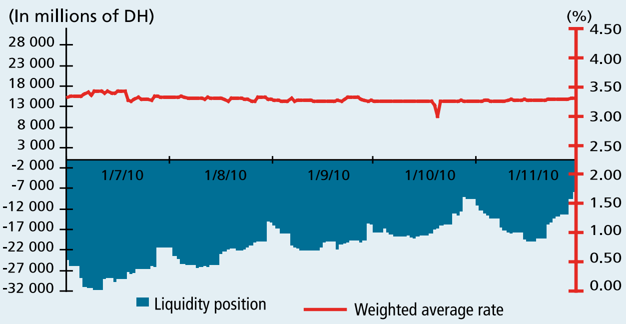


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



Given the expansive effect of the autonomous factors in the fourth quarter of 2010 and the increase in the Treasury's investments, following the important surpluses accumulated by the Treasury on the back of the foreign borrowing operation of 11.2 billion dirhams, the average liquidity shortfall dropped from 23.4 billion in the third quarter of 2010 to 15.9 billion in the fourth quarter.

Treasury operations had indeed a positive impact on bank liquidity amounting to 10.4 billion dirhams. Treasury expenses stood at 55.7 billion dirhams, 16.4 billion of which corresponding to the repayment of domestic debt instalments to the banking sector. Treasury's assets stood at 45.5 billion dirhams, including 10.3 billion corresponding to banks' purchases of Treasury bills at auctions. Conversely, currency in circulation rose by 3 billion dirhams due to the celebration of Eid Al-Adha .

In addition, transactions in foreign assets led to a liquidity withdrawal of 108 million dirhams resulting from the difference between purchases of currency by commercial banks totaling 5.1 billion dirhams and sales of foreign banknotes amounting to 5 billion dirhams.

Overall, the autonomous factors exerted an expanding effect of 7.1 billion dirhams on the banking system's liquidity.

Chart B 4.1.3: Change in reserve requirements

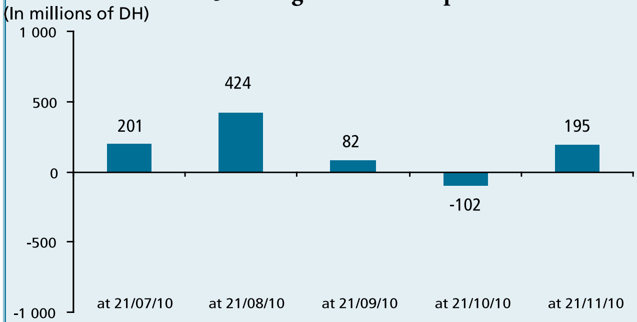
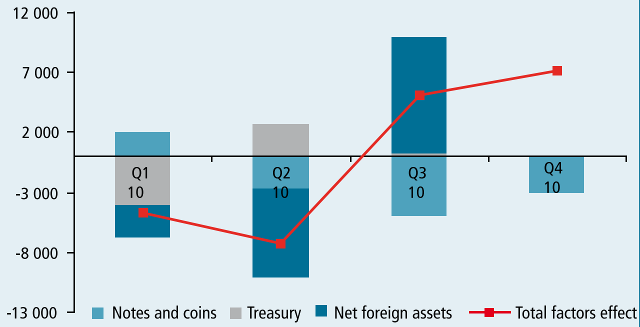


Chart B 4.1.4: Change in liquidity factors' effect



To overcome the shortage in banks' liquidity, averaging 15.9 billion during this quarter, Bank Al-Maghrib intervened through the 7-day advances with an average daily amount of 10.9 billion dirhams.

Over the fourth quarter of 2010, the mean weighted average rate reached 3.26 percent, down 5 basis points from the previous quarter.

In addition, its volatility dropped 1 basis point to stand at 0.04 percent from 0.05 percent previously, mainly due to the downward pressure on the weighted average rate in October, whose mean stood at 3.24 percent.

Chart B 4.1.5: BAM interventions on the money market

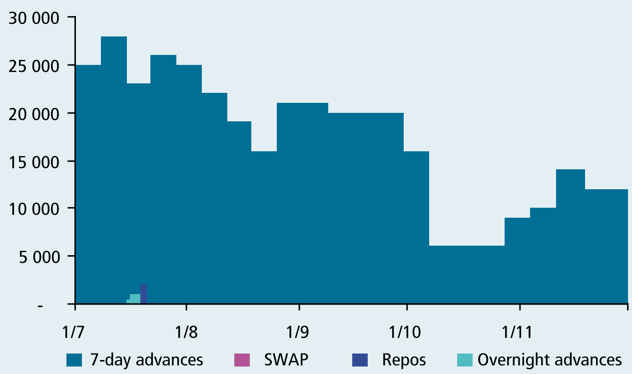
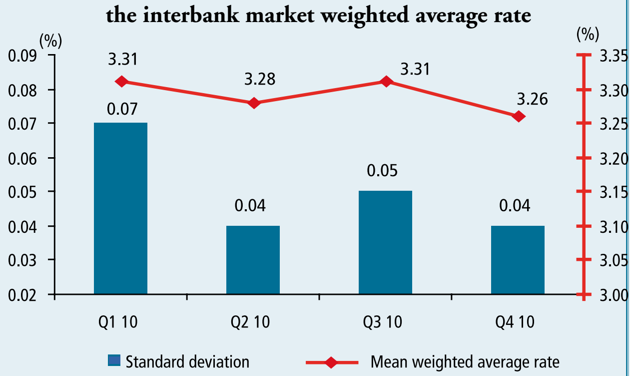


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate



rates slightly went up following three quarters of continuous drop.

4.1.2 Money, credit and liquid investments

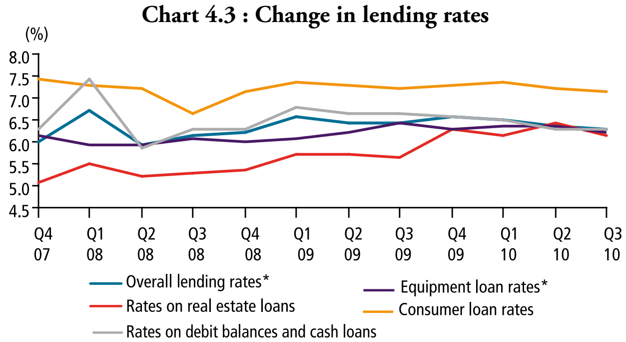
M3 growth

M3 growth continued to slow down as shown by the most recent data of October 2010. By the end of this month, M3 annual growth stood at 5.7 percent from 6.7 percent on average over the last three quarters, keeping as a result the money gap on a negative territory. The change in monetary growth suggests that monetary inflation pressure would remain moderate over the next quarters.

In addition to the decrease in net claims on the central government and net foreign assets, M3 trend reflects an increase in non monetary liabilities. On the other hand, credit continues to rise steadily, representing once again the biggest contributor to M3 growth.

The main components of the money supply registered a diverging growth between October 2010 and the preceding quarter, showing overall a drop in cash holdings, coupled with some base effects. Indeed, parallel to the slowdown in the annual growth of bank money from 7.1 percent in the third quarter to 5.9 percent in October, currency in circulation rose, conversely, from 5.6 percent to 6.7 percent. Time deposits, while stabilizing in October month on month, their annual growth became positive, after several quarters of

Chart 4.3 : Change in lending rates



** Revised series*

Chart 4.4: Change in interbank rate and lending rates

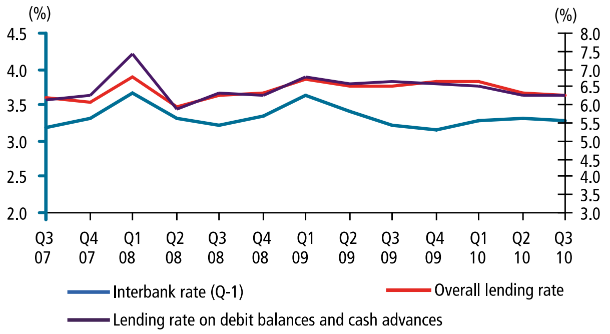


Chart 4.5: M3 growth and its trend, year-on-year

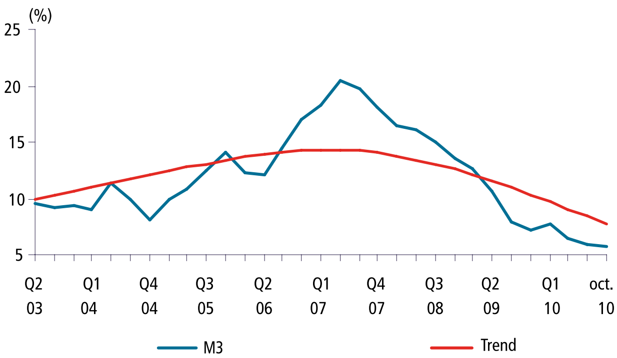
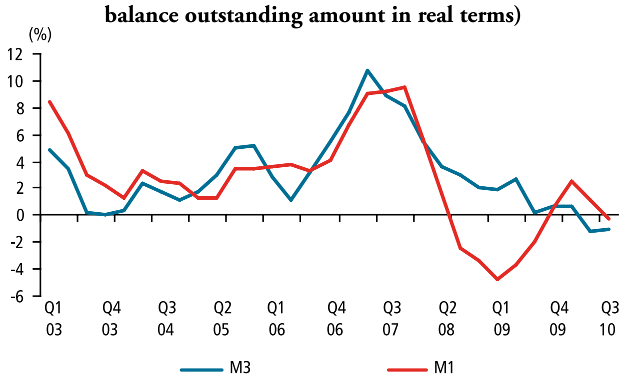


Chart 4.6: Money surplus (in percentage of M3 and M1 balance outstanding amount in real terms)



decrease, reflecting partly a base effect related to the drop registered a year earlier. Similarly, money market UCITS saw no significant change, their marked slowdown year on year was mainly due to a base effect.

By economic unit, the change in deposits included in money supply remains driven by nonfinancial units' contribution, as household and private corporations' deposits rose once again in October by 6.1 percent and 7.1 percent respectively, while public sector deposits had, as during the last quarters, no significant impact. Financial units' deposits, on the other hand, dropped both on a monthly as well as on an annual base.

Bank loans

Based on end-October data, growth in bank credit stood at 12.1 percent year on year, nearly averaging its long-term trend.

Loans by economic unit show a stepping up in credit benefiting private nonfinancial corporations. This type of loan grew by 17.3 percent in October from 10.6 percent a quarter earlier. Their contribution to credit growth rose from 5.6 percentage points to 8.9 points in October. On the other hand, the annual growth rate of credit to households fell from 7.7 percent during the third quarter to 3.9 percent in October, reducing its contribution therefore to 1.6 percentage point from 3.2 points a quarter earlier.

By economic purpose, credit growth is

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

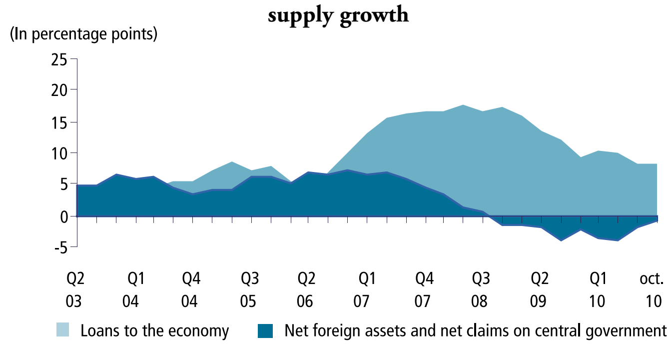


Chart 4.8: Year-on-year change in the major M3 components

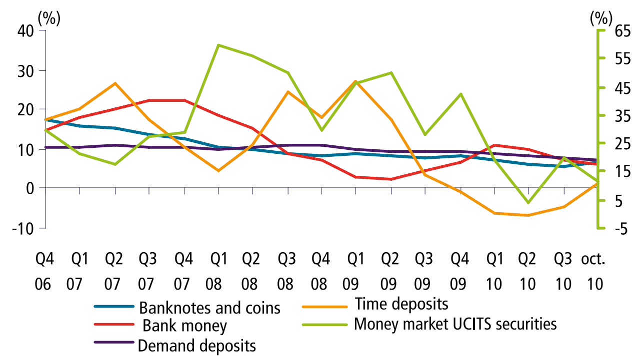


Chart 4.9: Contribution of nonfinancial agents to the growth of total deposits

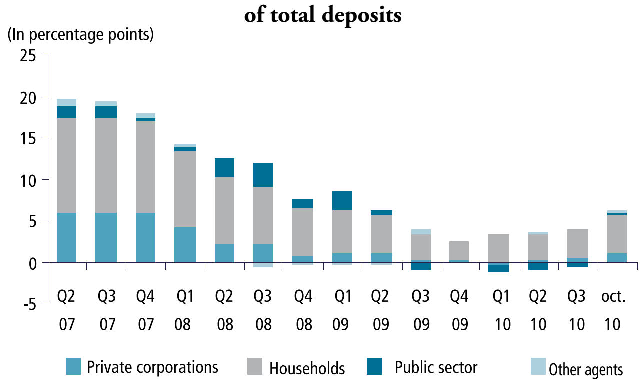
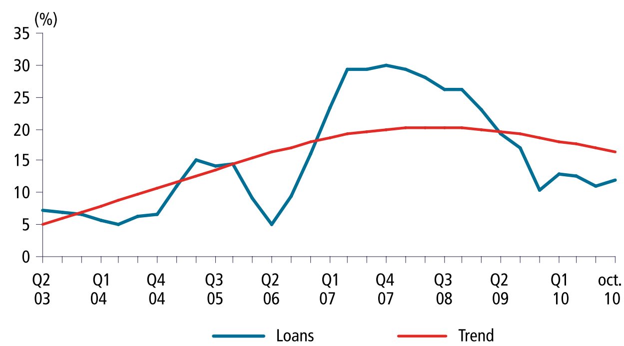


Chart 4.10: Year-on-year growth and trend of bank loans



mainly attributable to real estate loans, as they rose to 12.1 percent in October, year on year, from 9.6 percent a quarter earlier. While dropping by 0.5 percent on a monthly basis, cash advances rose 5 percent, year on year, from 2.7 percent in the third quarter. On the other hand, equipment loans, after their annual rise by 18.7 percent in the third quarter, edged down in October, increasing by 17 percent on an annual basis. Concurrently, consumer loans annual growth dropped from 12.6 percent in the third quarter to 8.7 percent in October, maintaining therefore the downward trend observed over several quarters.

Other sources of money creation

Over the third quarter of 2010, net foreign assets dropped 6.6 percent compared to their level at the same period last year. This is largely due to a widening trade deficit and increasing expenses related to investments and foreign private loans. In October, the outstanding amount of foreign exchange reserves rose by 3.4 percent from one month to the next, as a result of the issuing of a bond loan on the international market of nearly one billion euros. Accordingly, its year-on-year drop fell to 1.7 percent.

The year-on-year decrease in net claims on central government continued in October, standing at 3.9 percent from 1.9 percent in the previous quarter. This drop reflects mainly the continued effort by the Treasury to reduce its debt with other

Chart 4.11: Contribution of nonfinancial agents to credit growth

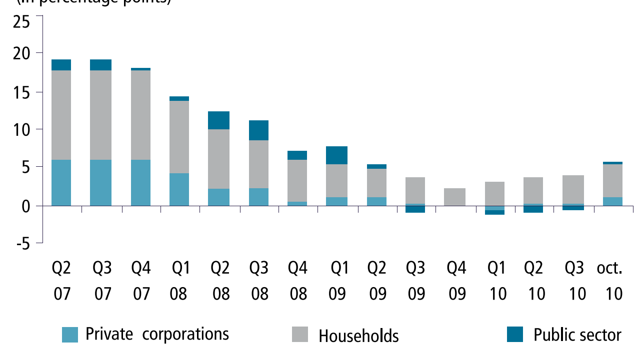


Chart 4.12: Annual growth of major bank credit categories

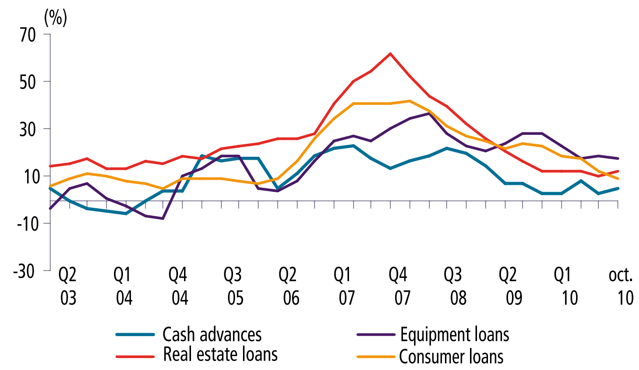


Chart 4.13: Contribution of the various loan categories to bank credit growth

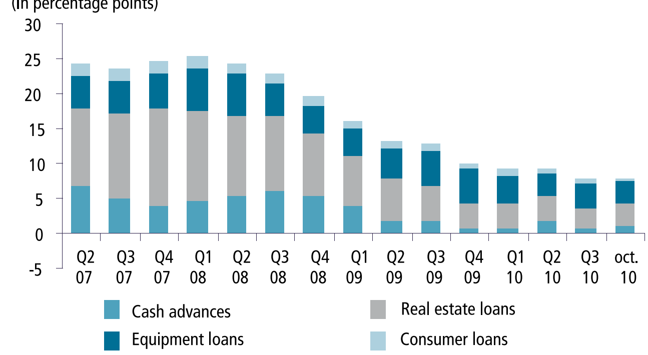
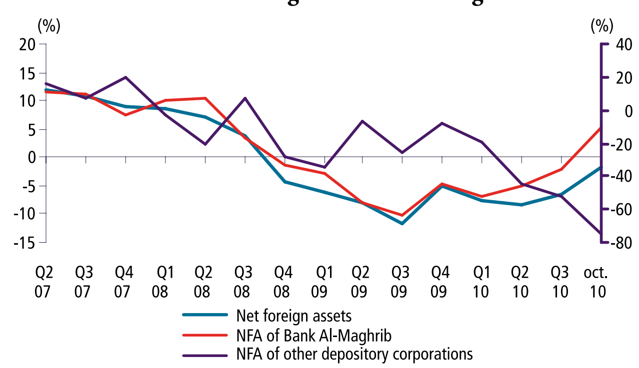


Chart 4.14: Annual growth of net foreign assets



depositary corporations as well as a slight improvement in its net position with Bank Al-Maghrib.

Liquid investments

At the end of October 2010, and after a slight slowdown over the last quarter, liquid investment aggregates rose by 22.5 percent from 20 percent over the previous quarter.

Liquid investments growth was characterized by the increase in securities of equity and diversified UCITS composing LI3 aggregate, which rose 22.1 percent in October year on year, following a 17.3 percent increase on average over the last three months. Concurrently, assets included in LI1 aggregate rose 23 percent in October, from 18 percent a quarter earlier, which is mainly attributable to a base effect related to the significant drop registered in the previous year.

The annual growth of bond UCITS securities included in LI2 stood at 21.9 percent in October from 24.9 percent over the third quarter of 2010.

Exchange rates

In the third quarter of 2010 the dirham appreciated 1.34 percent against the U.S dollar from the previous quarter. Conversely, it fell by 0.3 percent, 5.66 percent and 2.57 percent respectively against the euro, the Japanese yen and the pound sterling.

The national currency's October and November average rose 5.46 percent against the dollar and dropped 1.16 percent against the euro.

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

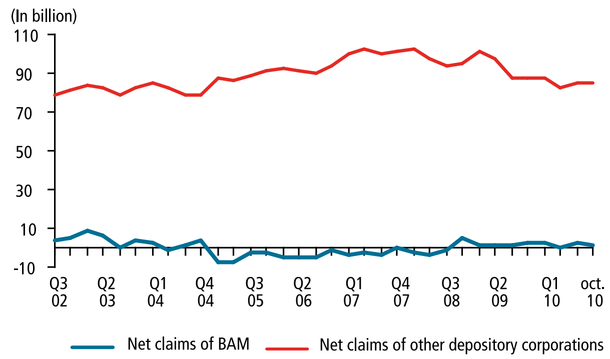


Chart 4.16: Annual change of liquid investments and time deposits

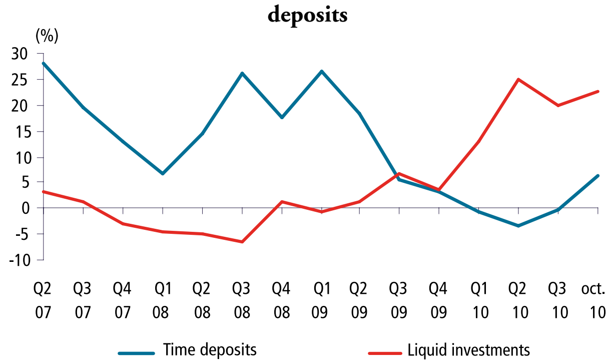


Chart 4.17: Change in LI1 and LI2 aggregates

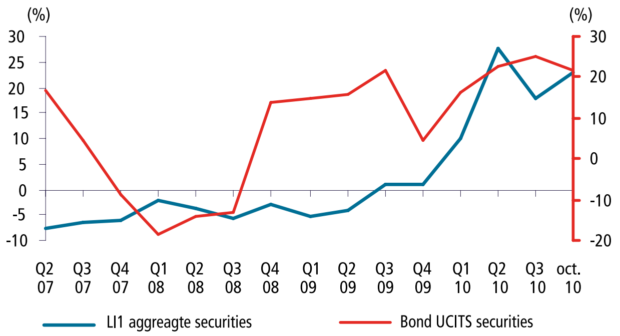
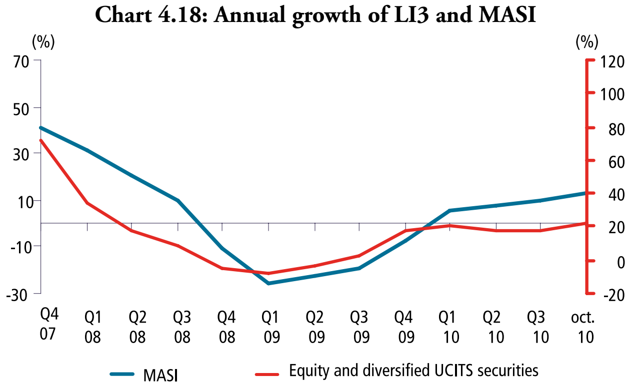


Chart 4.18: Annual growth of LI3 and MASI



The dirham's nominal effective exchange rate, based on bilateral exchange rates with Morocco's main trading partners and competitors, fell 0.3 percent in the third quarter of 2010. In real terms, the dirham depreciated 1.3 percent, owing to a positive inflation differential.

4.2. Asset prices

4.2.1 Real estate assets

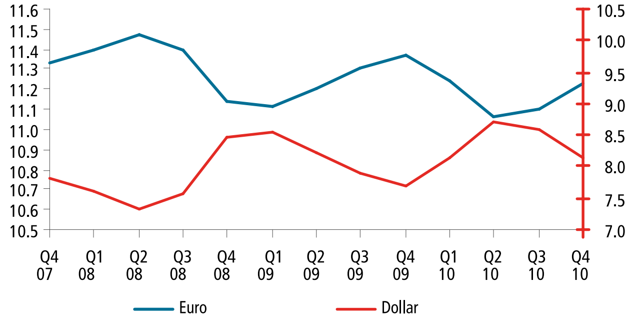
Internationally, the real-estate sector continues its recovery. The rise in real estate assets prices, registered as at end-2009 was further confirmed in the third quarter of 2010. Accordingly, real estate assets prices grew respectively by 8.9 percent and 3.3 percent, year on year, in France and the United Kingdom, while housing prices in Spain dropped 3.4 percent.

In Morocco, the real estate price index (REPI) rose once again in the third quarter of 2010 by 2.4 percent, compared to 1.1 percent in the previous quarter. Year on year, the REPI also jumped 2.4 percent following the 0.4 percent rise in the previous quarter.

However, based on data compiled 35 days after the third quarter, sales of residential property as registered at the Land Registry Office reported, in the third quarter of 2010, an annual drop of 24.6 percent, to reach around 13,000 transactions. This decline reflects a fall in the sales of three housing categories, mainly apartments.

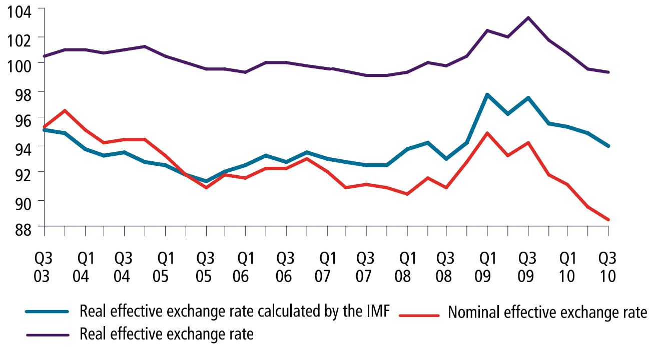
Home loans (see Chart 4.23) grew by 13 percent, year on year, to stand at 120.7 billion dirhams in the third quarter of

Chart 4.19: Exchange rate of the dirham



**Observation of the four quarter of 2010 corresponds to the arithmetic average of data from October 1 to November 30*

Chart 4.20: Effective exchange rate (Base year= 2000)



Sources: IMF and BAM calculations

Chart 4.21: Year-on-year change in the real estate price index in Spain, United Kingdom, France and Morocco

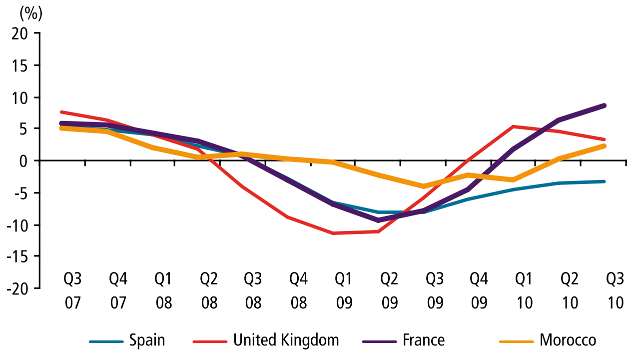
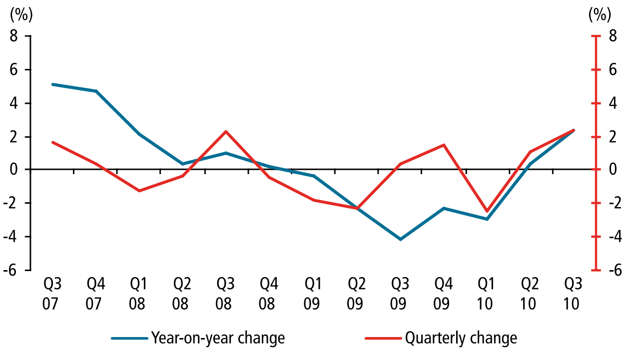


Chart 4.22: Real estate price index (REPI)



2010. Concurrently, the stock exchange real estate index (see chart 4.24) rose 3.1 percent year on year.

4.2.2 Stock prices

The MASI index climbed 1 percent in the third quarter of 2010 compared to the previous quarter, reporting an annual growth of nearly 14 percent. The upward trend continued in October with the MASI gaining 2.6 percent, raising the annual performance since the beginning of the year to 17.6 percent. Conversely, the real estate index tumbled 8.6 percent from a quarter to the next, but grew by 1.3 percent at end-November.

The PER of the Casablanca stock market edged down quarter on quarter, from 18.1 to 17.7 before rising again to 18.3 at end-November; yet, it still stands at a relatively high level compared to other markets of similar-size.

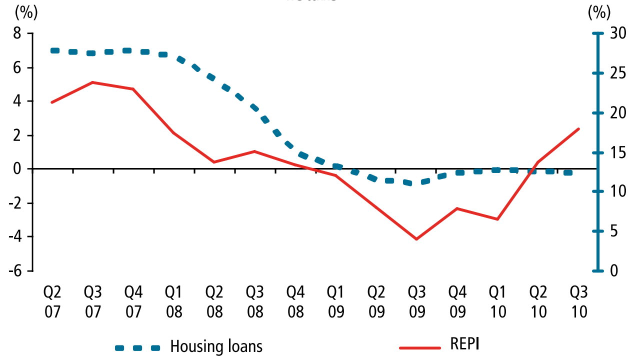
In addition, the price/book ratio1, standing at 3.7 at end-November, remains very high compared to other markets.

In turn, the volume of transactions increased by 11.8 percent to reach 65.6 billion dirhams compared to 58.6 billion a quarter earlier. For October and November, it stood at 43 billion.

On the other hand, market capitalization dropped 5.5 percent to stand at 538.2 billion dirhams. End-November data show an improvement in the market

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

Chart 4.23: Year-on-year change in the REPI and housing loans*



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

Chart 4.24: Year-on-year change in the REPI and the real estate stock market index

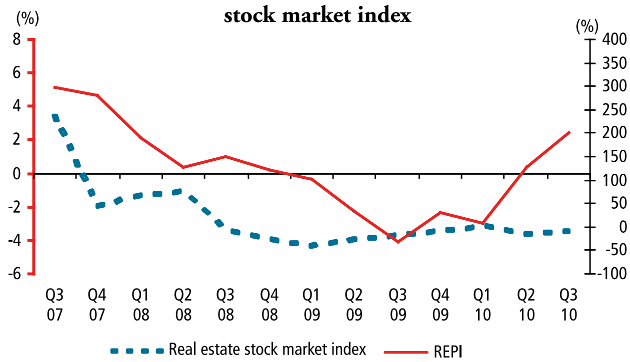


Chart 4.25: Stock market indexes

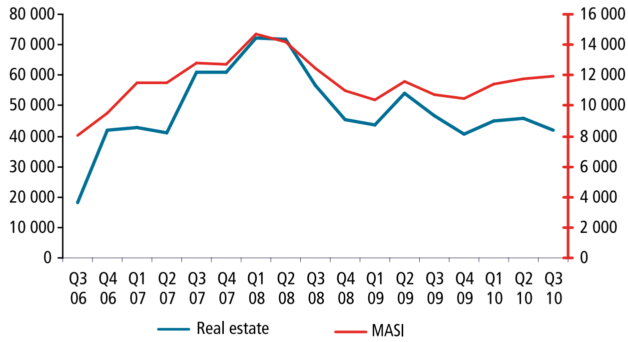


Table 4.3: Equity market's PER

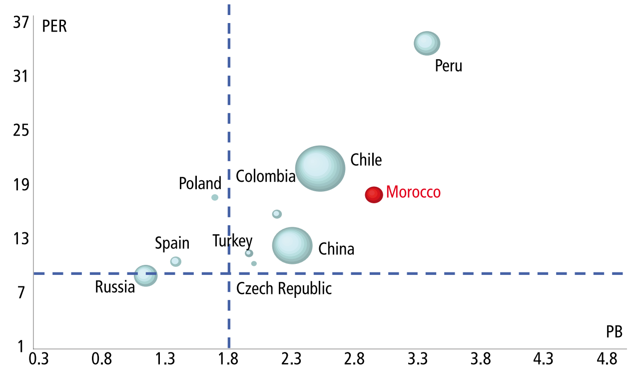
PER	Q3 : 09	Q4 : 09	Q1 : 10	Q2 : 10	Q3 : 10
Argentina	13.9	15.7	17.5	9.5	10.9
Brazil	11.1	13.2	16.4	15.2	11.9
Mexico	18.1	19.8	17.1	13.8	14
Turkey	10.8	9.9	11	11.9	11.7
Morocco	**15.8**	**15.7**	**16.9**	**18.1**	**17.7**

Sources: Datastream and CFG

capitalization of Casablanca stock exchange, which edged up to 558.2 billion dirhams.

Sectoral indexes, for their part, suggest varying trends from one quarter to the next. The pharmaceutical sector index climbed 11.2 percent and the banking and insurance sectors respectively rose by 7.8 percent and nearly 6 percent. Meanwhile, transport and real estate indexes fell by 11.7 percent and 8.6 percent respectively.

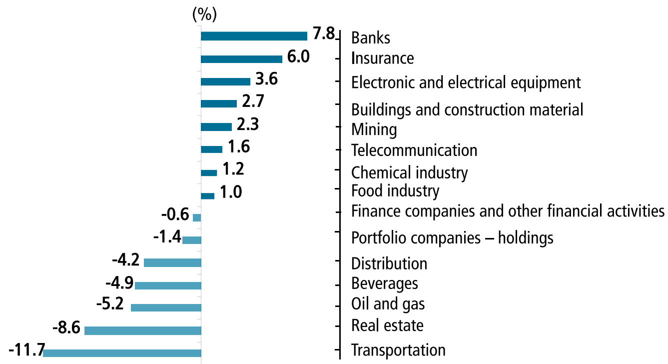
Chart 4.26: Equity market's PER in Morocco and in some emerging countries (*) at the end of September 2010



(*) 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

End-October 2010 data concur with the quarterly forecasts of Bank Al-Maghrib published in the previous Monetary Policy Report, which projected a slowdown in inflation during the third quarter. While risk factors, particularly those related to import prices, did not materialize, the ongoing moderation of demand pressure and the low pace of consumer price increase in our trading partners continue to keep inflation in line with the price stability objective. Headline inflation stood, year on year, at 1.8 percent in October from 0.5 percent in the third quarter of 2010. Inflation moderation and low volatility is better seen at the level of core inflation, which was limited to 0.5 percent in October, year on year, covering a drop by 0.5 percent of the CPIXT index and a rise by 1.5 percent of the CPIXNT index. Conversely, industrial producer prices partly reflect the recent increase in international prices of some oil and food commodities, registering thereby a new rise, year on year, by 7.1 percent in October following the 4.9 percent increase registered in September.

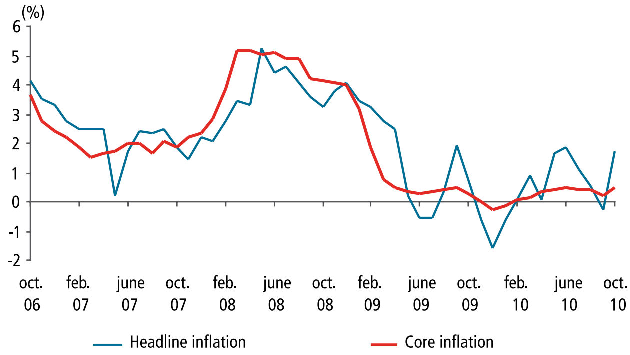
5.1 Inflation trends

Overall, inflation remained for several quarters in line with the price stability objective owing to a moderation of demand pressure and low pressure on consumer prices in our main trading partners. On the very short term, price fluctuations may have an impact on inflation volatility but will not change significantly, however, its average.

After reaching 0.6 percent in August 2010 and -0.3 percent in September, headline inflation measured by the annual change in the consumer price index (CPI), stood at 1.8 percent in October, reflecting in particular the rise in prices of "volatile food products", itself due to a base effect.

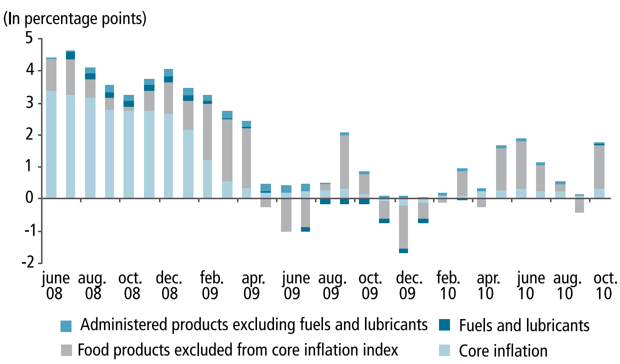
The prices of volatile food products, composed mainly of fresh produce, rose by 9.9 percent in October from -2.8 percent a month earlier. In addition to a base effect, this change is due to the temporary hikes in fresh vegetables' prices as a result of weak supply, which in turn is attributable to late autumn harvest as well as to rising transport costs following the entry into force of the new road code.

Chart 5.1: Headline inflation and core inflation, year-on-year



Sources: HCP and BAM calculations

Chart 5.2: Contribution of the main components to headline inflation, year-on-year



Sources: HCP and BAM calculations

Excluding volatile food and administered prices (accounting for about 33 percent of the CPI basket), core inflation reached 0.5 percent in October from 0.3 percent in the third quarter of 2010. The slight increase in October is mainly due to the rise in prices of "tea" and "preschool and primary school teaching" as well as a lesser drop, year on year, in prices of some staple food, namely crops and oils. Over the first ten months of 2010, core inflation did not exceed 0.3 percent from 0.8 percent over the same period in the previous year.

As to prices of fuels and lubricants, they were unchanged from one month to the next and compared to the same month of last year, while prices of other administered products grew, like in September, by 0.2 percent.

5.2 Tradable and nontradable goods

Price dynamics can also be carried out through the breakdown of the CPI into an index of tradable and nontradable goods, with respective weights representing 49 percent and 51 percent of the overall index. This analysis shows that headline inflation was most driven by tradable goods, whose year on year prices moved from -1.2 percent in September to 2.6 percent in October, contributing 1.3 percentage point to headline inflation. Nontradable goods prices, on the other hand, only slightly appreciated from 0.7 percent to 0.9 percent, and contributed 0.4 percentage point to inflation.

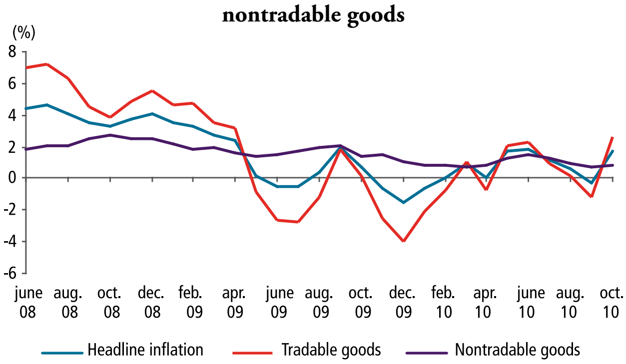
Excluding "volatile food products" and "administered goods", the inflation of tradable goods remained negative, standing at -0.9 percent in August and September and -0.5 percent in October 2010. This trend is

Table 5.1: Inflation and its components

	Monthly change (%)			Year-on-year (%)		
	Aug. 10	Sept. 10	Oct. 10	Aug. 10	Sept. 10	Oct. 10
Headline inflation	**0,9**	**1,4**	**0,8**	**0,6**	**-0,3**	**1,8**
Including:						
- Food products excluded from core inflation	5,7	8,2	4,7	1,7	-2,8	9,9
- Fuels and lubricants	0,0	0,0	0,0	0,1	0,0	0,0
- Administered goods except fuels and lubricants	0,0	0,0	0,0	0,5	0,2	0,2
Core inflation	**0,1**	**0,0**	**0,2**	**0,4**	**0,2**	**0,5**
Including: - Food products	0,7	0,2	0,3	-0,6	-0,9	-0,4
- Clothing and shoes	0,2	0,4	0,5	0,4	0,1	0,5
- Housing, water, gas, electricity and other fuels*	0,1	0,0	0,1	0,8	0,6	0,6
- Furniture, household appliances and common house maintenance	0,1	0,1	0,0	0,8	0,9	0,8
- Health*	0,0	-0,1	0,2	-0,2	-0,4	-0,1
- Transportation*	0,0	0,2	-0,1	0,2	0,0	-0,1
- Communication	0,0	0,0	0,0	-0,5	-0,4	-0,4
- Leisure activities and culture	0,0	-0,1	0,0	-0,5	-0,6	-0,8
- Education	0,0	4,1	0,4	3,8	4,3	4,6
- Restaurants and hotels	0,0	0,0	0,1	2,6	2,0	1,9
- Miscellaneous goods and services	0,1	0,1	0,7	1,8	1,6	2,2

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

Chart 5.3: Year-on-year change in price indexes of tradable and nontradable goods



Sources: HCP, and BAM calculations

Table 5.2 : Domestic selling price of oil products

Products (Dh/Liter)	Dec. 08	Feb. 09	Apr. 09	July 09	Jan. 10	Apr. 10	Oct. 10
Premium gasoline	11.25	10.25	10.25	10.25	10.25	10.25	10.25
Gasoline*	7.22	7.22	-	-	-	-	-
Diesel 350/50 *	10.13	7.50	7.15	7.15	7.15	7.15	7.15
Industrial fuel (Dh/Ton)	3 374	3 074	3 074	3 074	3 074	3 074	3 678

(*) The Diesel 50PPM replaced the diesel 350 in February 2009 and the ordinary diesel in April2009.

Source: Ministry of Energy and Mining

due to the ongoing drop, year on year, in prices of some staple food, coupled with the decline in the prices of consumer durable goods, particularly cars and household appliances.

The index of nontradable goods, excluding volatile and administered products, particularly relevant to the assessment of domestic inflationary risks, hovered around 1.6 percent over the last three months, from an average of 1.9 percent registered since the beginning of 2009.

5.3 Goods and services

The breakdown of the overall consumer price index by type of product shows that in October 2010, inflation was mainly driven by the growth in goods prices. Services, fuels and lubricants prices continued to rise at stable and moderate levels.

Indeed, prices of unprocessed goods, composed mainly of volatile food products, dropped from 1.5 percent in August to -1.8 percent in September before reaching 5.9 percent in October 2010.

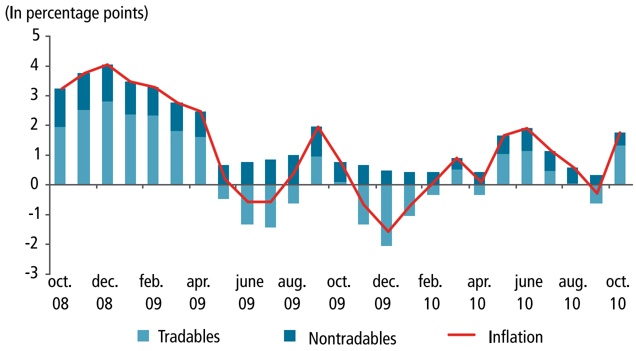
Prices of processed goods, excluding fuels and lubricants, reported a less significant drop, -0.3 percent in October, compared to -0.7 percent in September and -0.6 percent in August. The contribution of this category of goods to inflation stood at -0.3 percentage point in August and September and -0.1 percentage point in October. As to services prices, they grew at the same pace registered in the previous month, which is 1.5 percent. Prices of fuels and lubricants,

Table 5.3: Change in the price indexes of tradables and nontradables

	Monthly change (%)			Year-on-year change (%)		
	Aug. 10	Sept. 10	Oct. 10	Aug. 10	Sept. 10	Oct. 10
Tradables	1.5	2.6	1.9	0.1	-1.2	2.6
Nontradables	0.4	0.1	-0.2	1.0	0.7	0.9

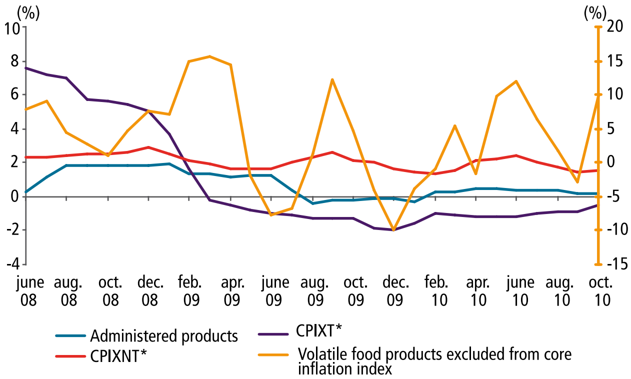
Sources: HCP and BAM calculations

Chart 5.4: Contribution of tradables and nontradables to headline inflation (year-on-year)



Sources: HCP and BAM calculations

Chart 5.5: Year-on-year change in the prices of tradables and nontradables excluding volatile food products and administered products



**The two acronyms refer to tradables and nontradables excluding volatile food products and administered products*

Sources: HCP and BAM calculations

Table 5.4: Price indexes of tradables and nontradables excluding volatile and administered products

	Monthly contribution to inflation		Year-on-year contribution to inflation	
	Sept. 10	Oct.10	Sept. 10	Oct.10
Products excluded from core inflation index Of which:	1.1	0.7	-0.4	1.4
Administered products	0.0	0.0	0.0	0.0
Volatile food products	1.1	0.7	-0.4	1.4
CPIXT	0.1	0.1	-0.3	-0.2
CPIXNT	0.2	0.0	0.4	0.5

Sources: HCP and BAM calculations

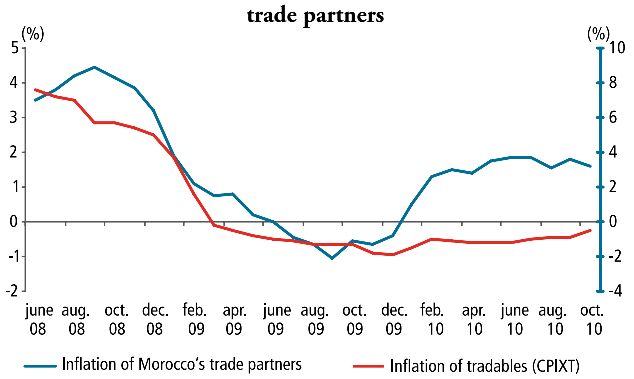
unchanged since July 2009, have stagnated since last June compared to the levels registered a year earlier.

5.4 Industrial producer price index

October 2010 data, related to the manufacturing producer price index, show an increase in production costs resulting from soaring world commodity prices. Accordingly, the annual rise of the industrial producer price index rose from 4.9 percent in September to 7.1 percent in October, mainly reflecting the accelerating rise in the "coking and refining industry" by 18 percent in September and 25.6 percent in October. The contribution of the "coking and refining industry" to the increase in the reference index stood at 6.3 percentage points from 4.6 percentage points a month earlier.

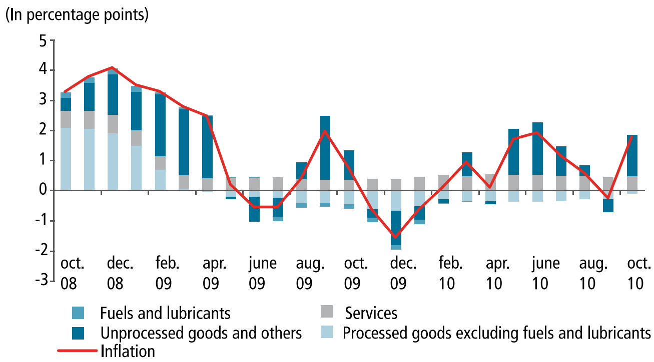
Excluding the "coking and refining industry" , the annual growth rate of industrial producer price was limited to 1.1 percent in October following 0.4 percent in September. This trend covers, in part, the accelerated rise in prices of "woodworking industry" and "metal working" by 10.5 percent and 2.1 percent respectively and, on the other hand, a lesser drop in prices of the "food industry" and "clothing and fur industry" standing respectively at -0.2 percent and -0.3 percent in October from -1.1 percent and -0.5 percent in September. In turn, "paper and cardboard industry" and "metallurgy" prices contribution to the annual rise of production costs saw no significant change from the previous month.

Chart 5.6: Year-on-year change in inflation of tradables excluding volatile and administered products and inflation in trade partners



Sources: HCP, IFS and BAM calculations

Chart 5.7: Contribution of goods and services prices to inflation (year-on-year)



Sources: HCP and BAM calculations

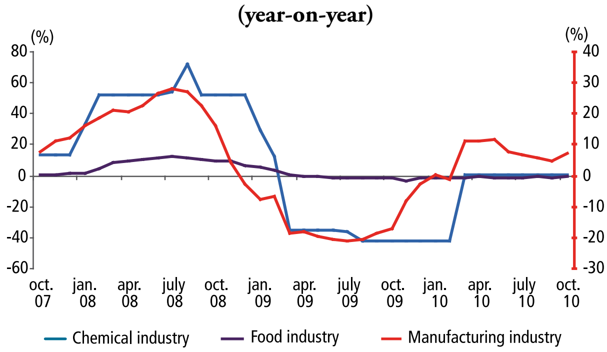
Table 5.5: Price indexes for goods and services

	Monthly change (%)			Year-on-year change (%)		
	Aug. 10	Sept. 10	Oct. 10	Aug. 10	Sept. 10	Oct. 10
Processed goods*	0.1	0.2	0.4	-0.6	-0.7	-0.3
Unprocessed goods and others	3.9	4.9	2.6	1.5	-1.8	5.9
Services	0.0	0.5	0.2	1.5	1.4	1.5
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: Change in industrial producer price indexes (year-on-year)



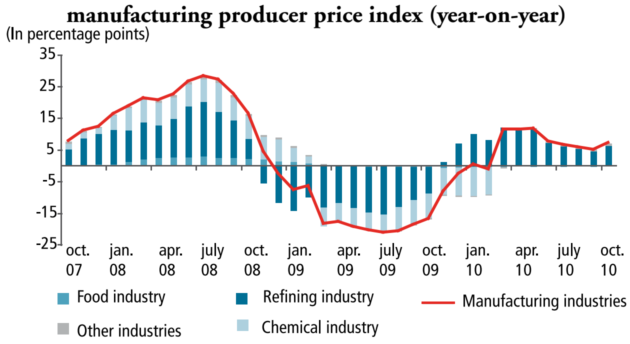
Sources: HCP, and BAM calculations

5.5 Inflation expectations

Based on the results of the BAM business survey, industrial producer prices are not expected to see a sharp rise, as highlighted by the percentage of corporate managers anticipating a stagnation of these prices reaching the high level of 82 percent in October, after 77 percent on average over the last quarter of 2010 (see chart 5.11).

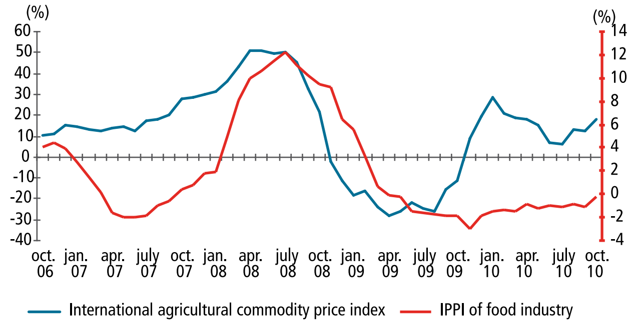
As to operators' anticipations concerning consumer price trend, the business survey points that the percentage of corporate managers expecting stagnation in prices over the next three months also rose in October to stand at 62 percent, after the drop registered in August and September. Concurrently, the percentage of those expecting a rise in prices fell from 36 percent to 28 percent from one month to the next (see chart 5.12).

Chart 5.9: Contribution of the main headings to manufacturing producer price index (year-on-year)



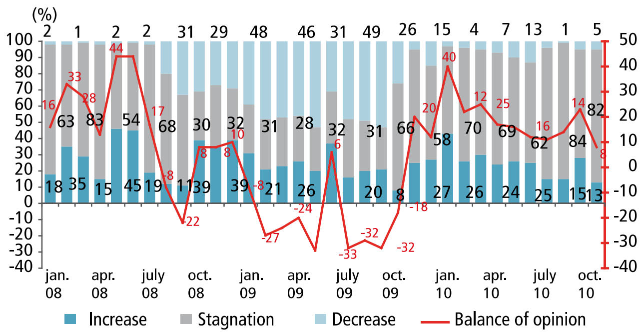
Sources: HCP, and BAM calculations

Chart 5.10: Change in domestic and international food prices (year-on-year)



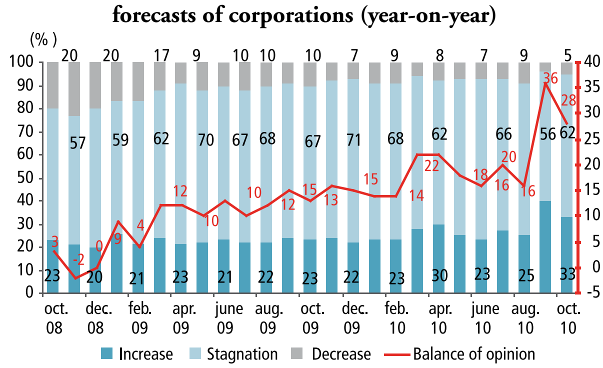
Sources: World Bank, HCP and BAM calculations

Chart 5.11: Corporate managers' perception of inflation for the next three months



Source: BAM monthly business survey

Chart 5.12: Change in industrial producer price index and forecasts of corporations (year-on-year)



Source: BAM monthly industrial business survey

6. INFLATION OUTLOOK

This section presents the inflation trend deemed most probable (central forecast) over the next six quarters and examines the major associated risks (balance of risks). The central forecast scenario therefore depends on the assumptions and trends envisaged for a series of variables affecting economic activity and inflation. Assuming the non-occurrence of the major risk factors identified, inflation over the coming six quarters remains in line with the price stability objective, with an average forecast of about 2.2 percent. Over 2010, headline inflation should hover around 1 percent, which is equal to the level published in the previous MPR. In 2011, headline inflation is expected to stand at around 2.3 percent, compared to the 2.2 percent projected in the September MPR. The balance of risks surrounding the present forecast is broadly balanced because of uncertainties surrounding the future trend of credit as well as import prices.

6.1 Baseline scenario assumptions

6.1.1 International environment

At the end of a year marked by an economic upturn, following the dip registered in 2009 amid the financial crisis, the global economy continues its upward trend thereby confirming the recent recovery, albeit at uneven levels from one country to the other.

Advanced countries continued to post positive growth rates in the third quarter of 2010, as in the euro area and the United States where growth reached 1.9 percent and 3.2 percent respectively. This result is attributed to increasing global output and trade, improving inventory and investment, a significant recovery in consumption and a return of confidence in financial markets, particularly in the United States.

However, the economic improvement marking the end of the year remains vulnerable to the uncertainties relating to the cyclical nature of the main growth engines, such as the public stimulus measures and the upturn in inventory. In addition, unemployment rates only moderately dropped in advanced countries following the peak levels of last year. Also, the decrease in the number of hours worked in some European countries and Japan would not lead to a rise in net job creation.

As to the growth outlook, the IMF revised upward its forecasts relating to economic activity in the euro area for the current and next year. The IMF projects a growth rate of 1.7 percent in 2010 and 1.5 percent in 2011, from 1 percent in 2010 and 1.3 percent in 2011 projected in its July report. On the opposite, the outlook for the U.S economy was revised downward with 2.6 percent expected in 2010 (from 3.3 percent) and 2.3 percent in 2011 (from 2.9 percent).

Risks to the growth outlook remain significant, and are tilted to the downside. In the short term, negative feedback loops effects may result from the vulnerability of the real-estate market, the slowdown in inventory rebuilding and the rise in oil prices and other commodities owing to a strong demand from emerging economies, which might precipitate a monetary policy tightening. In addition, worries concerning the sustainability of public debt in some countries may substantially disturb financial markets and create an unstable climate. Finally, potential output in advanced economies will probably remain below the pre-crisis levels, which suggests that higher unemployment rates may still persist.

Based on these developments, the baseline scenario for this Monetary Policy Report assumes a weighted growth rate of 1.4 percent in 2010 and 2011 for our main trading partners (France, Germany, Spain and Italy). Regarding 2012, a growth rate of

1.8 percent is projected. Compared to the projections outlined in the September MPR (1 percent in 2010 and 1.3 percent in 2011), these assumptions were revised upward in line with the revisions bearing on the major euro area economies. It should be noted that this growth rate is calculated on the basis of an average weighted by the respective share of these countries in the Moroccan foreign trade.

In view of the upward pressures caused by the surge in commodity prices, inflation slightly rose in advanced economies in the last few months. However, it is projected to stay at a moderate level owing to the expected easing in commodity prices (OECD), and the anticipated stagnation of inflation excluding food and energy. Against this background, the ECB projects an inflation rate for the euro area at 1.5 percent in 2010. Projections relating to the next two years point to an inflation rate at 1.6 percent in 2011 and 1.5 percent in 2012.

Risks to inflation in the euro area are broadly on the upside, but remain mitigated by a limited increase in prices and internal costs. This trend is mainly attributable to persisting uncertainties relating to a possible surge in oil and non-oil commodity prices, as well as a rise in indirect tax rates and administered prices which may turn out to be higher-than-expected by the ECB, as a result of the fiscal consolidation effort to be exerted over the forthcoming years by countries running large deficits.

These developments indicate that the ECB will probably keep its short-term key rate unchanged at 1 percent. Accordingly, the baseline scenario for this MPR points to a Euribor rate of 1.08 percent for the fourth quarter of the current year. This rate is expected to rise gradually to average 1.30 percent in the first half of 2011 and 1.56 percent in the second half of the same year. In the first quarter of 2012, we anticipate a Euribor rate of 1.76 percent.

Finally, in an international context marked by surging commodities prices, non-energy import price indicators included in the forecast models developed by Bank Al-Maghrib concerning 2011 were slightly revised upward compared to the September MPR.

6.1.2 National environment

The national economic outlook for the year 2011 shows continued recovery in nonagricultural activity mainly driven by domestic public and private demand. Foreign demand addressed to Morocco, it remains dependent on economic recovery in our main trading partners.

Concerning agricultural activity, and in line with the recent statements of the Ministry of Agriculture, the crop year 2010-2011 looks promising given the favorable climate conditions at the beginning of the year and the measures undertaken as part of the "Green Morocco" plan, especially the subsidization of cereal seeds and the extension of irrigated fields. Accordingly, our baseline scenario expects a cereal production of 70 million quintals for the current crop year, slightly higher than an average crop year. The sector's value added would therefore register a slight drop compared to last year. As to the 2011-2012 crop year, we anticipate a cereal output of 60 million quintals.

Moreover, nonagricultural activity is projected to keep growing owing to the momentum in domestic demand. Indeed, the latter would remain buoyant on the back of pubic investments which would increase 21.4 percent under the Finance Act 2011.

Household consumption is also expected to remain strong taking into account the good agricultural outlook and the rebound in expatriate remittances.

Foreign demand addressed to Morocco is also expected to continue its positive trend, with the improvement of the international environment. This momentum, however, would be less pronounced compared to the pre-crisis period due to the moderate recovery in our main trading partner economies.

Such developments suggest a continued rebound in economic activity for the year 2011.

The latest available figures on the labor market, for the third quarter of 2010, show a slight drop in the unemployment rate, down from 9.8 percent to 9 percent, decreasing thereby by 0.8 percent year on year. This improvement covers both urban and rural areas. The main job creations concerned the sectors of services, construction, and agriculture, forests and fishing with, respectively, 73.000, 52.000 and 40.000 new jobs. In contrast, the industrial sector reported a loss of about 70.000 jobs.

Bank Al-Maghrib business survey for the third quarter of the current year highlights a slight increase in the industrial sector's total labor force during the fourth quarter of 2010, together with a virtual stability in the chemicals and related industries. Concurrently, the relatively favorable outlook characterizing the current crop year and the projected rebound in nonagricultural activity indicate a likely improvement in the labor market. Such conditions, however, are not expected to weigh on the future trend in wages and no increase in the minimum wage is expected over the forecast horizon.

The recovery in world economy would affect oil prices. Indeed, the latest IMF projections on the barrel price (basket) were adjusted upward to $76.20 in 2010 and $78.75 in 2011. This increase, due in part to the rebound in economic activity in emerging markets, should remain moderate in line with the modest growth outlook in advanced economies. On the futures market, the barrel price averages $85 and $92.5 for 2011 and 2012, respectively. Finally, the latest projections of the World Bank expect a barrel price (basket) of $73.2 in 2011 and $73.1 in 2012.

These projections suggest that Morocco's subsidization system would remain sustainable in view of the costs earmarked thereto under the Finance Act 2011, amounting to 17 billion dirhams and calculated on the basis of a $78 a barrel scenario. Under these circumstances, the central forecasting scenario assumes the diesel pump price to stagnate at 7.15 dirhams per liter.

6.2 Inflation outlook and balance of risks

Assuming the non-occurrence of the major risks stated above, the central forecast for the coming six quarters would stand at 2.2 percent. This level, albeit higher than the 1.9 percent projected in the previous MPR, remains in line with the price stability objective.

Projections over the coming six quarters suggest a rise in inflation in the fourth quarter of 2010, to stand at around 2.4 percent. For the full year 2010, inflation would reach 1 percent, a similar level compared to 2009. For 2011, it is projected to stand at 2.3 percent.

Inflation over the first quarter of 2011 is expected to reach nearly 2.3 percent, from 2.5 percent projected in the previous forecast. The projections for the second quarter of the same year are raised from 2.2 percent to 2.3 percent, while those of the third quarter are lifted from 2.2 percent to 2.5 percent. In the fourth quarter, they remain unchanged at 2 percent. Finally, for the first quarter of 2012, inflation would stand at 2 percent.

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

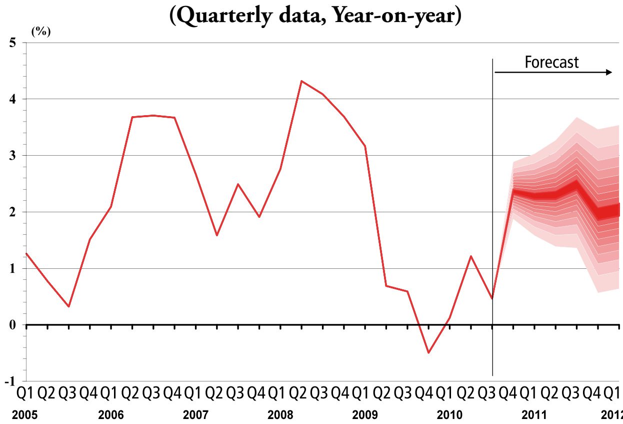
The Fan chart of this forecasting exercise is symmetrical due to the potential risks associated with the uncertainties relating to the future change in loans and import prices. The occurrence of these risks may deviate the inflation rate from the central forecast, to a level included (with a 90 percent probability) within the forecasting range represented in the fan chart.

Table 6.1: Inflation outlook for Q4 2010- Q1 2012

	2010	2011				2012	Average		HP*
	Q4	Q1	Q2	Q3	Q4	Q1	2010	2011	
Central forecast (%)	2.4	2.3	2.3	2.5	2.0	2.0	1.0	2.3	2.2

(Quarterly data,, Year-on-year)
**Forecast horizon*

Chart 6.1: Inflation forecast, Q4 2010- Q1 2012
(Quarterly data, Year-on-year)



(*) 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 of fall in headline inflation 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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