BANK AL MAGHRIB

MONETARY POLICY REPORT

N° 15 / 2010

Document prepared for
the Bank Board
June 15, 2010

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بنك المغرب

LIST OF ABBREVIATIONS

APC	:	Cement manufacturers professional association
BAM	:	Bank Al-Maghrib
CFG	:	Casablanca Finance Group
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	:	Consumer Price Index
CUR	:	Capacity utilization rate
DH	:	Dirham
ECB	:	European Central Bank
FDI	:	Foreign direct investments
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
SMIG	:	Salaire Minimum Interprofessionnel Garanti (minimum wage)
UCITS	:	Undertakings for collective investment in transferable securities
VA	:	Value added

TABLE OF CONTENTS

List of charts, tables and boxes **5**

Press release **9**

Overview **11**

1. Aggregate supply and demand **13**
- 1.1 Output 13
- 1.2 Consumption 18
- 1.3 Investment 17
- 1.4 Foreign trade 19

2. Pressures on output capacity and labor market **21**
- 2.1 Pressures on output capacity 21
- 2.2 Pressures on labor market 22

3. . International environment and import prices **26**
- 3.1 Global financial conditions and economic activity 26
- 3.2 World inflation 32
- 3.3 Oil prices 33
- 3.4 Commodity prices 34
- 3.5 Morocco's import unit value index 35

4. Monetary conditions and asset prices **36**
- 4.1 Monetary conditions 36
- 4.2 Asset prices 43

5. Recent inflation trends **46**
- 5.1 Inflation trends 46
- 5.2 Goods and services 49
- 5.3 Tradable and nontradable goods 50
- 5.4 Industrial producer price index 52
- 5.5 Inflation expectations 53

6. Inflation outlook **54**
- 6.1 Baseline scenario assumptions 54
- 6.2 Inflation outlook and balance of risks 57

LIST OF CHARTS

Chart 1.1 : Growth forecasts Q1 2010-Q1 2011 14
Chart 1.2 : Quarterly trend of the GDP and of the agricultural and nonagricultural VA....... 14
Chart 1.3 : Trend of rainfall gathered between September 1, 2009 and May 20, 2010 14
Chart 1.4 : Contribution of the primary, secondary and tertiary sectors to overall growth, in percentage points 15
Chart 1.5 : Year-on-year trend of Vas 15
Chart 1.6 : Year-on-year trend of the value added of building and public works, cement quarterly cumulative sales and loans to BPW sector 15
Chart 1.7 : Past and forecast industrial output 16
Chart 1.8 : Sectors' contribution to overall growth 16
Chart B1.1 : Ten-day cumulative rainfall....... 16
Chart B1.2 : Number of rainy days 17
Chart B1.3 : Rainfall deficit of the 2009-2010 crop year per meteorological station....... 17
Chart B 1.4 : Cereal production trend and forecasts in the second ten-days of May 2010 17
Chart 1.9 : Volume change of domestic final consumption 18
Chart 1.10 : Year-on-year quarterly trend of households' consumption, consumer loans, and remittances by Moroccan expatriates 18
Chart 1.11 : Year-on-year quarterly trend of Gross fixed capital formation and equipment loans 18
Chart 1.12 : Evolution of the general business climate and of investment expenditureinvestment expenditure....... 19
Chart 2.1 : Nonagricultural output gap 21
Chart 2.3 : Industrial output capacity utilization rate 22
Chart 2.4 : Year-on-year apparent labor productivity (Nonagricultural GDP/urban employment) 22
Chart 2.5 : Change in components of unit production cost per sector (Balances of opinion in %, in Q1 of 2010) 22
Chart 2.6 : Nonagricultural growth and urban unemployment Q1 2001 – Q1 2010....... 23
Chart 2.7 : Urban unemployment rate....... 23
Chart 2.8 : Change in unemployment structure by gender, age, and degree 24
Chart 2.9 : Employed labor force per sector (in thousands)....... 24
Chart 2.10 : Relative unit labor cost and apparent labor productivity (Q1 1998- Q4 2010) 24
Chart 2.11 : Morocco's Competitiveness-costs 25
Chart 2.12 : Variation of the average wage index in the private sector and minimum wage in nominal and real terms, year-on-year....... 25
Chart 3.1 : Change in the OIS-LIBOR spread....... 26
Chart 3.2 : Change in the TED spread 27
Chart 3.3 : change in rates of ten-year government bonds' yields in the euro area 27
Chart 3.4 : Change in CDS2 in euro area peripheral countries 27
Chart 3.5 : Change in CDS in emerging countries (Brazil, Russia, India, China) and in Morocco....... 28
Chart 3.6 : Change in the main stock market indexes in advanced economies 28
Chart 3.7 : Change in the MSCI EM and MASI indices 28
Chart 3.8 : Year-on-year change of loans in the United States, the euro area, and in Morocco....... 29
Chart 3.9 : GDP change in emerging countries(Brazil, Russia, India, China) and in Morocco....... 30
Chart 3.10 : Year-on-year GDP change in the world, the Euro area and in partner countries 30
Chart 3.11 : Output gap of the main partner countries....... 30
Chart 3.12 : Weighted Composite Leading Indicator of partner countries 31
Chart 3.13 : Year-on-year change of main partner countries' weighted unemployment rate and of the growth rate of expatriates' remittances....... 31

Chart 3.14 : World oil price (Brent)....32
Chart 3.15 : Change of the Dow Jones UBS indices of non-energy commodity prices....32
Chart 3.16 : Change in the world prices of phosphates and derivatives....33
Chart 3.17 : Change perspectives of commodity price indices....33
Chart 3.18 : Price index of non-energy products' import....33
Chart 3.19 : Food products' import price index....34
Chart 3.20 : Mining products' import price index....34
Chart 3.21 : Semi-finished products' import price index....34
Chart 3.22 : Change of world commodity price index and domestic non-energy import price index....35
Chart 4.1 : Change in the interbank rate....36
Chart 4.2 : Structure, by maturity, of interest rates on the Treasury's securities Market....37
Chart B 4.1.1 : Change in liquidity position and in the weighted average rate in quarterly average....37
Chart B 4.1.2 : Liquidity position and weighted average rate of the interbank money market....37
Chart B 4.1.3 : Change in reserve requirements....38
Chart B 4.1.4 : Change in liquidity factors' effect....38
Chart B 4.1.5 : BAM interventions on the money market....38
Chart B 4.1.6 : Change in the mean and standard deviation of the weighted average rate of interbank market....38
Chart 4.3 : Change in lending rates....39
Chart 4.4 : Interbank rate and lending rates....39
Chart 4.5 : M3 annual growth and its year-on-year trend....39
Chart 4.6 : Money surplus (in percentage of M3 and M1 balance outstanding amount in real terms)....39
Chart 4.7 : Contributions of the major components to money supply growth....40
Chart 4.8 : Year-on-year change of M3 components....40
Chart 4.9 : Contribution of non-financial agents to the growth of total deposits included in M3....40
Chart 4.10 : Year-on-year growth and trend of bank loans....40
Chart 4.11 : Year-on-year growth of bank credit major categories....41
Chart 4.12 : Contribution of the various loan categories to the growth of bank loans....41
Chart 4.13 : Contribution of non-financial agents to the growth of bank loans....41
Chart 4.14 : Year-on-year credit trends, per activity sector....41
Chart 4.15 : Year-on-year growth of net foreign assets....42
Chart 4.16 : Quarterly change of the outstanding amount of net claims on the Government....42
Chart 4.17 : Year-on-year change of liquid investments and time deposits....42
Chart 4.18 : Change in money market and bond UCITS securities....42
Chart 4.19 : Year-on-year growth of LI4 and MASI....43
Chart 4.20 : exchange rate of the Dirham....43
Chart 4.21 : Effective exchange rate....43
Chart 4.22 : Year-on-year change in the real estate price index in Spain, United Kingdom, France and Morocco....43
Chart 4.23 : Real estate price index....44
Chart 4.24 : Real estate price index and number of transactions....44
Chart 4.25 : Real estate price index and housing loans....44
Chart 4.26 : Real estate price index and real estate stock market....44
Chart 4.27 : Stock market indexes....45
Chart 4.28 : Equity market's PER in Morocco and in some emerging countries at the end of May 2010....45
Chart 4.29 : Quarterly change in sectoral indexes....45
Chart 4.30 : Quarterly change of indexes of the major stock market sectors....45
Chart 5.1 : Headline inflation and core inflation....46
Chart 5.2 : Contribution of the main components to headline inflation....46
Chart 5.3 : Year-on-year change in price indexes of tradable and non-tradable goods....47

Chart B 5.1 : Year-on-year change in headline inflation and core inflation....48
Table B 5.1 : Weight of products excluded from core inflation index in Morocco compared with a sample of countries....48
Chart 5.4 : Contribution of tradables and nontradables to headline inflation....49
Chart 5.5 : Year-on-year change in the prices of tradables and nontradables excluding volatile food products and administered products....49
Chart 5.6 : Year-on-year change in headline inflation of tradables excluding volatile and administered products and in headline inflation of trade partners....50
Chart 5.7 : Contribution of goods and services prices to headline inflation (year-on-year)....50
Chart B 5.2.1 : IPCXE and headline inflation of Morocco's trade partners (year-on-year)....51
Chart B5.2.2 : Inflation of tradable goods (old index) and inflation in Morocco's trade partners (year-on-year)....51
Chart B5.2.3 : IPCXE and inflation in Morocco's trade partners (year-on-year)....52
Chart B5.2.4 : Inflation of tradables (old index) and in Morocco's trade partners (year-on-year)....52
Chart 5.8 : Change in industrial producer price indexes....52
Chart 5.9 : Contribution of the main headings to manufacturing producer price index (year-on-year....52
Chart 5.10 : Refining industry price index and Brent price (year-on-year)....53
Chart 5.11 : Change in domestic and international food prices (year-on-year)....53
Chart 5.12 : Corporate managers' perception of inflation for the next three months....53
Chart 5.13 : Change in industrial producer price index and forecasts of corporations (year-on-year)....53
Chart 6.1 : Inflation forecast, Q2 2010- Q3 2011....58

LIST OF TABLES

Table 1.1 : Year-on-year growth of quarterly GDP at 1998 chained prices per major activity sectorsl....13
Table 1.2 : Year-on-year change of the trade balance, at the end of April 2010....19
Table 2.1 : Activity and unemployment quarterly indicators per place of residence....23
Table 3.1 : Global growth change....29
Table 3.2 : Recent trend in world inflation, on a year-on year basis....29
Table 3.3 : Recent trend in world inflation, on a year-on year basis....31
Table 3.4 : Forecasts of the current price of oil (Brent) in the futures market (in US dollars)....32
Table 3.5 : Quarterly change of wheat futures and forecasts....33
Table 4.1 : Change in Treasury bonds' yield rates on the primary market 36
Table 4.2 : Rates on time deposits....37
Table 4.3 : Equity market's PER....45
Table 5.1 : Inflation and its components....47
Table 5.2 : Domestic selling prices of oil products....49
Table 5.3 : Change in the price indexes of tradable and nontradable goods....49
Table 5.4 : Price indexes of tradable and non-tradable goods excluding volatile and administered products....50
Table 5.5 : Price indexes for goods and services....50
Table 6.1 : Inflation outlook for Q2 2010- Q3 2011....58

LIST OF BOXES

Box 1.1 : Cereal production forecast of 2010 based on the data available as at May 20, 2010....16
Box 4.1 : Liquidity and monetary policy implementation....37
Box 5.1 : Calculation of the core inflation index by Bank Al-Maghrib....48
Box 5.2 : Price index for tradable and nontradable goods included in core inflation....51

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 15, 2010

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, June 15, 2010.

2. At this meeting, the Board reviewed and approved 2009 Annual Report on Morocco's economic, monetary and financial situation as well as on the Bank's activities, which will be presented to His Majesty the King.

3. The Board also examined recent economic, monetary and financial trends, and inflation forecasts prepared by the Bank staff up to the third quarter of 2011.

4. The Board noted that, since the last meeting, headline inflation has remained moderate, despite some one-time fluctuations relating to the volatility in fresh food prices. It stood at 0.1 percent year on year in the first quarter and April 2010, up from -0.5 percent in the fourth quarter 2009. At the same time, core inflation, reflecting the underlying trend of prices, continued to hover around 0 percent in April, a trend similar to that observed in the last two quarters. However, industrial producer prices, which are largely determined by developments in international markets, reported an 11.3 percent year-on-year increase in April, similar to the rate recorded in March, following a decline by 9.3 percent in the last quarter 2009.

5. Global financial conditions worsened markedly because of uncertainties about the fiscal sustainability of some advanced countries. This deterioration led to the return of risk aversion and spread widening on bond markets. These recent trends, which are not yet fully taken into account in the last available indicators, increase risks to the continuation of global recovery.

6. In Morocco, the latest figures show that economic activity continued to improve. For the full year 2010, the rebound in nonagricultural activity is expected to continue, unless the recent deterioration in financial conditions further spreads to the real sector at the international level. In this context, nonagricultural output gap, more relevant for the assessment of inflationary pressures, would be slightly positive in 2010. Overall GDP growth is projected to be lower than in 2009, between 3 percent and 4 percent, due to the expected contraction in agricultural activity compared to the exceptional level of 2009.

7. Analysis of monetary conditions, based on data at end April 2010, suggests the continued moderate growth of M3, down to 3.9 percent from 4.6 percent in the first quarter 2010. While monetary surplus remains almost nil, growth in bank credit, albeit slower, maintains momentum, at 10.2 percent.

8. On the basis of these data, the central inflation forecast was revised upward to 1.7 percent on average over the coming six quarters, from 1.4 percent in March 2010. For the year 2010, headline inflation would average 1.2 percent, up from 1 percent in the Monetary Policy Report of March 2010. In the third quarter of 2011, it is projected to hover around 2 percent. Core inflation would also remain moderate, not exceeding 2 percent.

9. Risks surrounding inflation forecasts are still slightly tilted to the upside, in connection with the projected trend in import prices and bank credit. In this context, the Board decided to keep the key rate unchanged at 3.25 percent.

OVERVIEW

In line with forecasts published in the previous MPR, inflation has remained subdued since the Board's recent meeting. Short-term fluctuations linked to the volatility of some fresh food prices have been reprted, however. Consequently, headline inflation between the first quarter and April 2010 stabilized at 0.1 percent year-on-year, after reaching -0.5 percent in the fourth quarter of 2009. Core inflation edged up to 0.3 percent in April, from a 0.0 percent average over the last two quarters. Inflation stability covers a near stagnation at 0.9 percent in the growth rate of nontradable goods prices, and a decrease in the inflation of tradable goods from 1 percent to -0.7 percent. Industrial producer prices, which fell less rapidly in the fourth quarter of 2009, surged 11.3 percent in April 2010 in response to the transmission of changes in world commodity prices.

Internationally, the sovereign-debt crisis in the euro area put renewed strains on many financial markets, after the gradual, but somewhat fragile, normalization of financial conditions since early 2009. These tensions materialized through renewed risk aversion, higher spreads and volatile yields on several markets. As for the real sector, the main business indicators point to ongoing economic recovery in the first quarter, most notably in emerging countries and in the United States. In the euro area, the situation improved somewhat in the first quarter 2010, but the pace of recovery is still protracted compared with other regions, particularly emerging countries. In their recent forecasts, international organizations expect the outlook for 2010-2011 to remain supportive. However, the fiscal imbalances, along with financial markets' instability and its resulting budget austerity plans, still fuel uncertainty over the sustainability of recovery.

Concerning world inflation, recent data show that it will remain high in most advanced and emerging countries, as economic recovery is proceeding and world commodity prices remain higher than in 2009. However, world inflationary pressures are still moderate and may even ebb if the recent decline in commodity prices continues.

At the national level, the various business indicators confirm that economic activity has improved over the first months of 2010. The ongoing strength in domestic demand and slight recovery in external demand should contribute to the growth of nonagricultural value added, which is expected to range between 4.5 percent and 6 percent in the first and second quarters. However, agricultural activity is set to drop below its peak levels in 2009, but to remain sustained, leading to an overall GDP growth rate ranging between 3 percent and 4 percent. Nonagricultural output gap, which is particularly relevant to the analysis of inflationary pressures, is projected to be slightly positive in 2010 but would not reach levels that might involve risks to price stability.

As for monetary and financial conditions, figures at the end of April 2010 show further moderation in M3 growth, which subsided to 3.9 percent from 4.2 percent in the first quarter

2010, as a result of which monetary surplus remained virtually nil. At the same time, bank credit growth, slowing though it is, kept momentum in April at 10.2 percent, after 11.2 percent in the first quarter 2010. Concerning lending rates, the BAM survey among banks indicates that they almost stabilized as in 2009. The weighted average rate indeed stood at 6.65 percent in the first quarter of 2010, reflecting a slight increase by 2 basis points from the previous quarter. Most recent figures of the real estate price index, as measured by Bank Al-Maghrib and the National Land Registry and Cartography Agency, points to another year-on-year drop in prices in the first quarter of 2010. Financial assets prices, which edged down in May, continue to perform steadily, with a 15.6 percent increase in the MASI index over the first five months, compared with a 7.8 percent drop in emerging-economies' MSCI index over the same period.

In light of recent developments and the most likely assumptions concerning various inflation determinants, the central inflation forecast for the six coming quarters remained virtually unchanged. Headline inflation is therefore expected to be broadly consistent with price stability objective, averaging 1.7 percent over the six coming quarters and hovering around 2 percent at the end of the projection period, i.e. the third quarter of 2011. Core inflation, on the other hand, is forecast to maintain the moderate increase observed since the last three months but to remain below 2 percent. The balance of risks to the central forecast is slightly skewed to the upside, in light of the outlook for import prices and bank credit.

1. AGGREGATE SUPPLY AND DEMAND

The national GDP rose to 7.8 percent in the fourth quarter of 2009 from 5.1 percent a quarter earlier, supported by good agricultural performance and improved nonagricultural activity. The latter are expected to maintain momentum in the first and second quarters of 2010, with a growth rate ranging between 4.5 percent and 6 percent, on the back of strong domestic demand and a better external demand driven by the gradual world economic recovery. Agricultural value added would be down from the peak recorded in 2009, leading to an overall growth between 4 percent and 5 percent in the first half-year. Business indicators at the end of April suggest no significant revisions in the projections for the full year, with overall GDP growth expected to range between 3 percent and 4 percent. The various components of demand are expected to improve, except for net foreign demand, whose negative contribution to growth should increase year on year.

1.1 Output

The world economic recovery has had a positive impact on domestic economy (see Chapter 3). Nonagricultural value added is estimated to have increased at the same level seen over the last five years, between 4.5 percent and 6 percent. This accelerated nonagricultural growth also reflects the base effect related to the weak performance of nonagricultural sectors over the first half of 2009. Agricultural activity, on the other hand, is expected to drop below its peak levels in the 2008-09 crop year. Overall, national growth should range between 4 percent and 5 percent in the first half of 2010.

At the sectoral level, the 2009-10 crop year was marked by good rainfall distribution over all agricultural regions. National rainfall cumulative average at the end of May increased by around 7 percent year-on-year, while irrigation-dam filling rate expanded from 70 percent to 93 percent in one year. Based on weather data on May 20th, the Bank estimates current crop year's cereal production to be around 76 million quintals (see box 1.1), and the yields on other components of vegetal production to achieve satisfactory levels. In addition,

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

Activity sectors, in%	2008	2009				2010	
	TIV	TI	TII	TIII	TIV	TI (E)	(TII (P
Agriculture	16.6	26.8	27.8	26.0	26.9	-6.5	-4.8
Nonagricultural VA	**1.2**	**0.6**	**1.3**	**1.9**	**5.1**	**4.8**	**4.9**
Extractive industry	-23.6	-46.6	-27.1	-18.4	24.7	34.2	23.7
Processing industry	-4.1	-1.0	-0.3	0.4	3.8	4.1	4.3
Electricity and water	3.4	6.1	1.4	2.5	2.1	2.8	2.4
Building and public works	5.1	-0.2	1.0	-0.1	6.1	2.9	3.6
Trade	1.0	0.7	0.2	0.4	3.7	3.8	4.1
Hotels and restaurants	0.2	-7.8	-4.0	-2.1	2.9	4.6	3.8
Transportation	-0.1	0.3	1.9	1.3	4.9	5.5	6.0
Posts and telecommunications	4.1	2.0	2.6	3.1	0.3	2.0	2.2
General government and social security	4.9	4.5	5.3	5.5	5.2	5.3	5.5
Other services*	1.5	3.5	3.8	4.2	4.9	5.0	5.1
Taxes on products net of subsidies	3.0	0.6	3.1	3.1	3.8	3.6	3.7
Gross Domestic Product	**3.1**	**3.2**	**4.9**	**5.1**	**7.8**	**4.6**	**4.6**

(*) Including financial activities and insurance, services to companies and personal services, education, health, and social action, and the fictitious branch.

Sources: HCP and BAM estimates and forecasts the state of vegetation cover, which is already supportive for animal husbandry, should benefit from the abundant rainfall which had improved vegetation index profiles for non-irrigated areas.

The value added of fisheries activity is expected to increase markedly in the first quarter, compared with the same period a year earlier. Catches of inshore and deep-sea fishing at the end of March 2010 grew at an annualized rate of 28 percent. This growth corresponds to respective increases by 33 percent and 30 percent in pelagic and whitefish catches, along with a decline by 30 percent in cephalopod and crustacean catches. The corresponding value however depreciated by 1 percent, owing to the fall in the prices of octopus, which accounts for 26 percent of the total value.

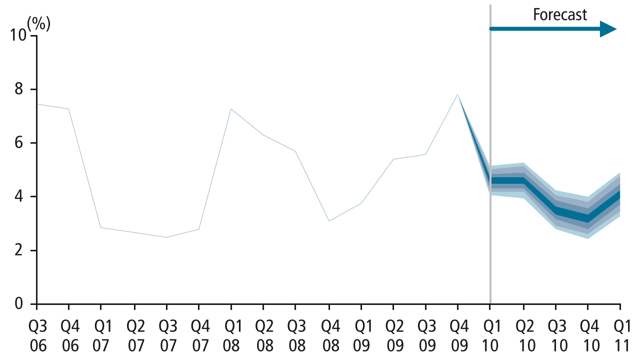
Indicators of nonagricultural activities suggest that the various sectors are projected to maintain the improvements observed as at end 2009.

The secondary sector should contribute 1.9 percentage point to the overall growth in the first quarter of 2010, thus reversing the negative course seen over the first three quarters of 2009.

The extractive industry saw a strong rebound in phosphate production which expanded by 34.2 percent, following a 25 percent increase in the fourth quarter of 2009 and a sharp contraction over the first three quarters of the same year.

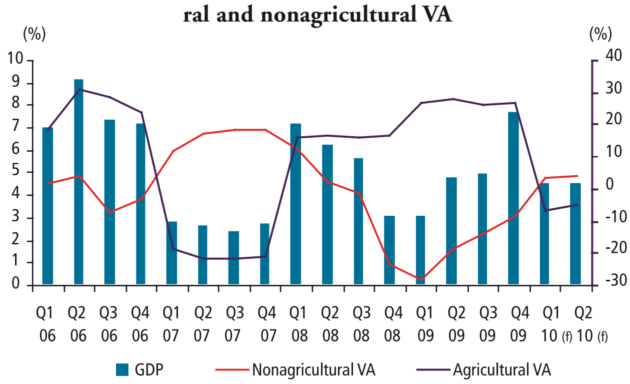
The recovery in the processing industries should step up at around 4 percent in the

Chart 1.1: Growth forecasts Q1 2010-Q1 2011*



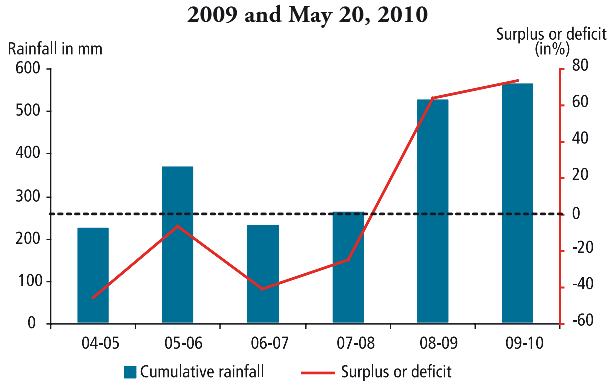
(*) Fan chart prepared on the basis of the standard deviation
Sources: HCP, BAM forecasts and estimates

Chart 1.2: Quarterly trend of the GDP and of the agricultural and nonagricultural VA



Sources: HCP, and BAM calculations and forecasts

Chart 1.3: Trend of rainfall gathered between September 1, 2009 and May 20, 2010



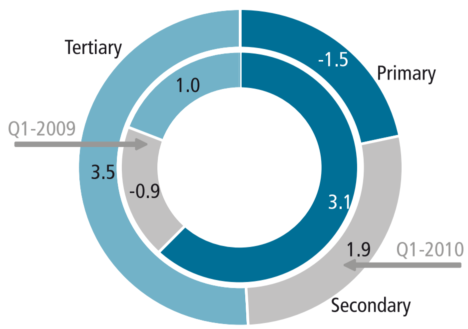
Sources: Ministry of Agriculture and Fisheries first and second quarters of 2010. The BAM April business survey underpins that recovery, as production in all sub-sectors grew month-on-month and the outlook for the three coming months is broadly supportive.

The value added of energy activities in the first quarter of 2010 should increase by 3.6 percent, in response to the marked improvements in refining and water-and-electricity industries. Oil production in the first quarter of 2010 increased by 19.8 percent, after its 20.6 percent decline in the fourth quarter of 2009, while net domestic production of the Office National d'Electricité grew by 10.5 percent.

Growth of the building-and-public-works sector is projected to decelerate in the first two quarters of 2010, owing to some vagaries which delayed the progress in construction and the strengthening in infrastructure. This deceleration has been underpinned by the sector's indicators, which point to a 2.1 percent year-on-year decrease in cement sales at the end of March, and a slowing in the growth of loans to building-and-public-works from 46.7 percent in the fourth quarter of 2009 to 35 percent in the first quarter of 2010. The sector's value added is expected to grow by 2.9 percent in the first quarter of 2010, and to improve slightly to 3.6 percent in the second quarter.

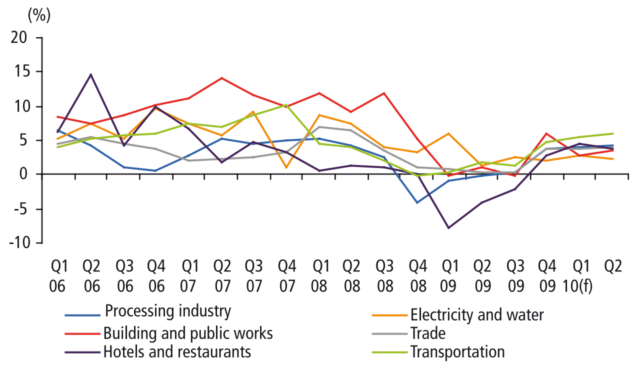
In the tertiary sector, tourism key indicators trended upward at the end of March 2010. The influx of tourists and overnight stays in classified hotels

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



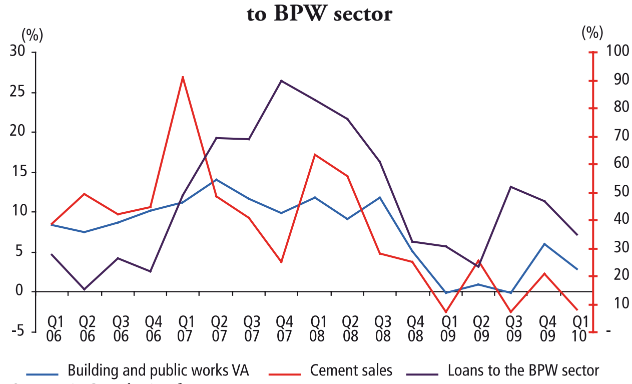
Sources: HCP, and BAM forecasts

Chart 1.5: VA year-on-year trend



Sources: APC, and BAM forecasts

Chart 1.6: Year-on-year trend of the value added of building and public works, cement quarterly cumulative sales and loans to BPW sector



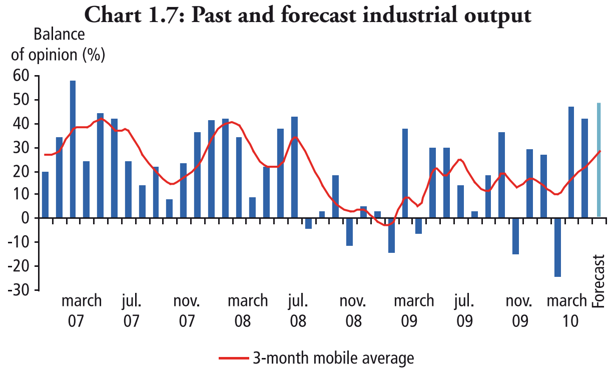
Sources: APC, and BAM forecasts

increased by 16 percent and 8 percent, respectively. Room occupancy rate edged up from 38 percent to 39 percent, while travel receipts increased by 12.7 percent to 10.3 billion dirhams year on year. At the same time, the values added of transports and trade should rise in the first quarter of 2010, supported by the recovery in other sectors. The posts-and-telecommunications sector is expected to grow by around 2 percent, from 0.3 percent in the fourth quarter of 2009, with the increase of the number of mobile, fixed-line and internet subscribers. Altogether, the added value of services is projected to increase by 4.5 percent in the first quarter of 2010.

1.2 Consumption

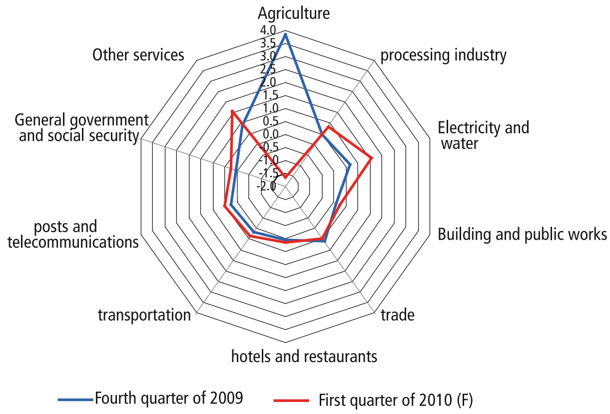
The momentum in domestic final consumption is set to continue in 2010, supported by the positive trend in both household and public consumption.

Chart 1.7: Past and forecast industrial output



Source: BAM monthly business survey in the industry

Chart 1.8: Sectors' contribution to overall growth (in %)

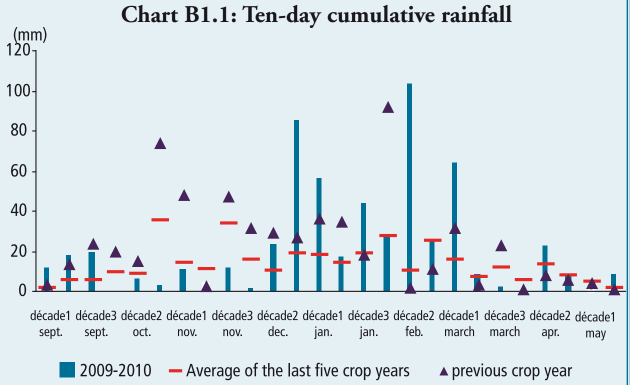


Sources: HCP and BAM forecasts and calculations

Box 1.1: Cereal production forecast of 2010 based on the data available as at May 20, 2010

The current crop year experienced significant delay in rainfall, which did not start until the second ten days of December. Consequently, sown areas shrank by 8.2 percent compared with the previous crop year and by 6 percent compared with the average of the last five crop years. Also, the launch of crop growth was delayed in most regions by almost one month compared with the last crop year.

Chart B1.1: Ten-day cumulative rainfall



Source: National Directorate of Meteorology

At its return, rainfall was marked by its abundance and concentration in time, thus causing heavy floods in many regions of the country.

According to the observations made by the Royal Center for Remote Sensing, the situation of vegetation cover is judged to be similar to, if not slightly higher than, the average of the last ten years in most regions. These observations also point to the beginning of a downward trend in the vegetation index since March, suggesting that the chlorophyll activity entered its declining phase. Consequently, the positive impact of rainfall after this period will be limited.

At the national level, the current crop year's cumulative rainfall exceeds by 67 percent the average recorded over the past five years. At the regional level, nearly all regions saw the same rainfall excess. In most regions, however, this cumulative rainfall remains short of the previous crop year's exceptional conditions.

In comparison with the latest MPR forecast of March, the overall appreciation of the current crop year posts a slight improvement.

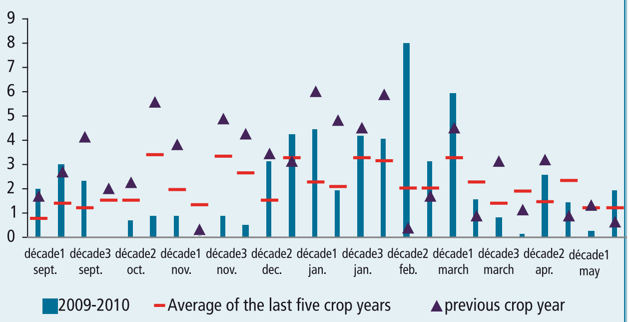
The use of the ten-day data on the nine climate variables helps to refine the forecast econometric model and the similar crop years' method. Consequently, based on the data available at the second ten-day period of May 2010, the econometric model provides a forecast of cereal production for the current crop year, standing at 76 million quintals. This global forecast includes soft wheat and durum wheat, which are estimated at 38 and 20 million quintals, respectively. The barley output has almost stagnated, compared with the averages in the past five years.

Using the similar-campaign method, based on the comparison of historical climatic conditions, cereal production is estimated at 70 million quintals, including 24 million quintals of barley, 30 million quintals of soft wheat and 16 million quintal of durum wheat.

As for the rainfall indicator method, its application leads to a preliminary forecast of cereal production at the national level, at nearly 81.7 million quintals.

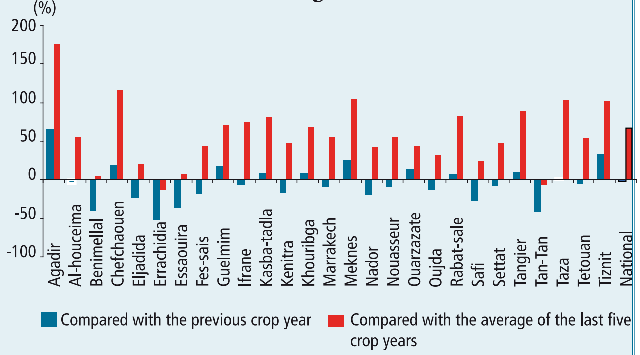
Using the three methods, the average forecast stands at around 76 million quintals, up 24 percent from the average of the last five crop years.

Chart B1.2: Number of rainy days



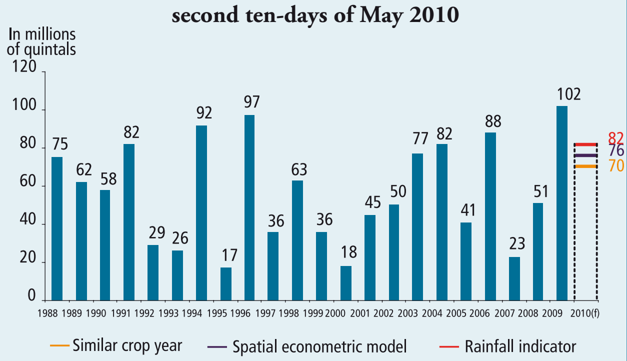
Source: National Directorate of meteorology

Chart B1.3: Rainfall deficit of the 2009-2010 crop year per meteorological station



Source: National Directorate of meteorology

Chart B 1.4: Cereal production trend and forecasts in the second ten-days of May 2010



Sources: Ministry of Agriculture and Fisheries and BAM calculations

1 The number of raining days, maximum rainfall in 24 hours, average temperature, maximal temperature average, minimal temperature average, absolute maximal temperatures and absolute minimal temperatures, rainfall evaporation and cumulated rainfall.

Price stability along with the recovery in nonagricultural activity and tax relief measures are expected to contribute to better real wages. Coupled with current crop year's good performance and the upturn in current transfers, these developments suggest that household consumption should grow by around 7 percent in real terms and above 8 percent in nominal terms.

Public consumption is expected to grow at a pace similar to that of the previous year. Data at the end of March show that operating expenses should rise by 8.5 percent, from 7.1 percent a year earlier.

Overall, real domestic final consumption should grow in 2010 at a rate ranging between 6 percent and 7 percent.

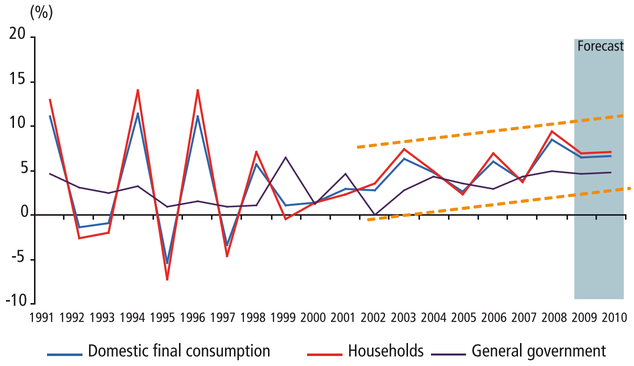
1.3 Investment

At the end of 2009, private investment slowed down, as foreign investments declined and business conditions worsened, owing to the contraction in our key-partners' economy. The various indicators available at the end of April show, however, that the outlook for 2010 will be broadly supportive.

The BAM April business survey points to an increase in production and in the capacity utilization rate, as well as to a business climate improvement in all sectors, except for textile and leather. Equipment loans in the first quarter of 2010 maintained their year-on-year rapid rate of 25.5 percent.

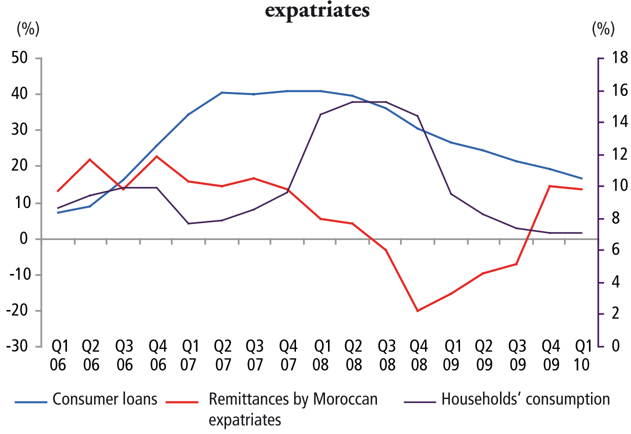
Public investment, which is reported to have increased by 21.9 percent in 2009, is expected to slow down somewhat, as end-of-March data show a 10.1 percent increase in the Treasury investment expenses.

Chart 1.9: Volume change of domestic final consumption



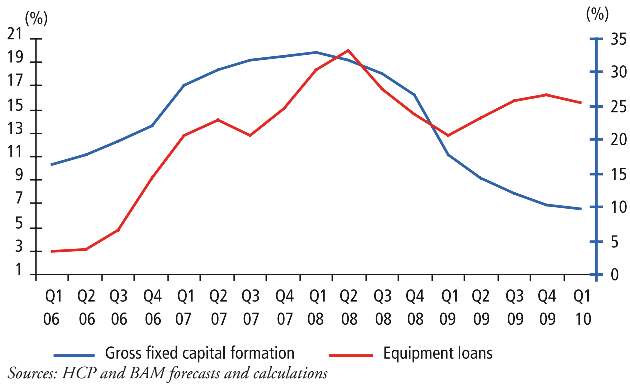
Sources: HCP and BAM forecasts and calculations

Chart 1.10: Year-on-year quarterly trend of households' consumption, consumer loans, and remittances by Moroccan expatriates



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

Chart 1.11: Year-on-year quarterly trend of Gross fixed capital formation and equipment loans



Sources: HCP and BAM forecasts and calculations

1.4 Foreign trade

Trade deficit at the end of April widened further year-on-year, largely because imports rose more significantly than exports.

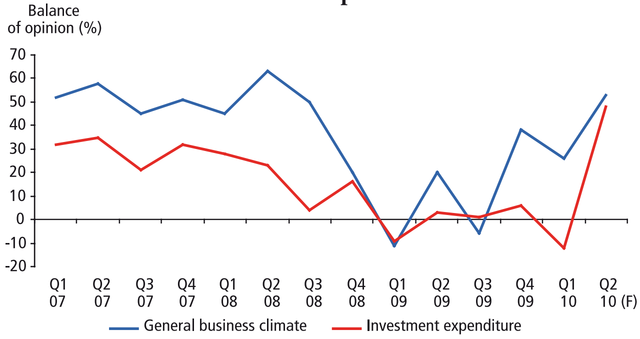
Trade balance at the end of the first four months of 2010 turned negative at 6.9 billion dirhams, up 15 percent from the same period a year earlier, after a 7.4 percent improvement in the previous year. This deterioration resulted mainly from a 12.6 percent import expansion to 10.5 billion dirhams. Exports moved up 9.7 percent to 3.6 billion dirhams. Consequently, the coverage ratio dropped to 43.2 percent from 44.4 percent at the end of the same period a year earlier.

The export growth is exclusively driven by the 60.7 percent increase in the sales of phosphate and its derivatives. Other exports almost stagnated, however. Under this sub-total, exports of ready-made garments and hosiery items moved down 25 percent and 24.3 percent, respectively. At the same time, sales of electricity wires and cables slumped by 59.7 percent. Similarly, sales of sea products and citrus fruits dropped by 3.4 percent and 2.8 percent, respectively. On the other hand, sales of electronic equipment and canned vegetables increased 31.3 percent and 15.5 percent, respectively.

On the contrary, the import expansion is largely prompted by the 51.8 percent rise in the energy bill, which reached 21.2 billion dirhams, as well as by the increase in purchases of semi-finished products, consumer finished goods and crude products by 15.5 percent, 4.8 percent and 7.9 percent, respectively. Purchases of food produce and capital goods, on the other hand, dropped by 2.1 percent and 1 percent, respectively.

Oil products' imports increased sizably, as the crude oil average price and volume per imported ton rose by 70.7 percent and

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



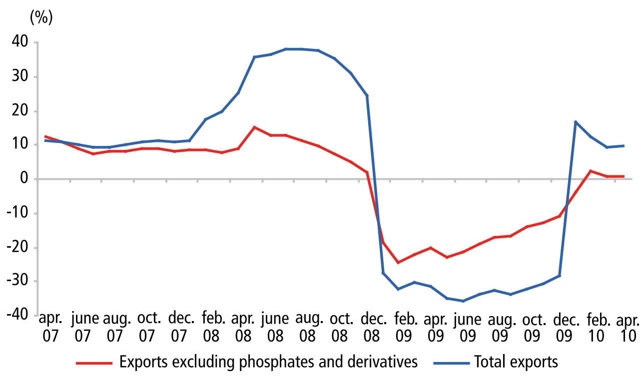
Source: BAM business survey in the industry

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

(In millions of dirhams)	janv-apr. 2009	janv-apr. 2010*	Change Amount	%
Total exports	36 890.3	40 451.9	3 561.6	9.7
Phosphate and derivatives' exports	5 431.5	8 728.2	3 296.7	60.7
Exports excluding phosphates and derivatives	31 458.8	31 723.7	264.2	0.8
Ready-made garments	6 531.7	4 900.0	-1 631.7	-25.0
Hosiery items	2 227.5	1 686.9	-540.6	-24.3
Electronic equipment	1066.9	1401.0	334.1	31.3
Citrus fruits	1 184	1 143.4	-40.6	-3.4
Canned vegetables	474.0	547.3	73.3	15.5
Total imports	83 159.2	93 669.2	10 510.0	12.6
Energy products' imports	13 949.6	21 176.8	7 227.2	51.8
Imports excluding energy products	69 209.6	72 492.4	3 282.8	4.7
Food products	9 024.9	8 836.1	-188.8	-2.1
Wheat	2 690.3	1 802.6	-887.7	-33.0
Equipment goods	22 570.9	22 344.0	-226.9	-1.0
Consumer goods	16 731.4	17 530.0	798.6	4.8
Trade deficit	-46 268.9	-53 217.3	6 948.4	15.0

** Provisional data*
Source: Foreign Exchange Office

Chart 1.13: Year-on-year change of total exports and exports excluding phosphates

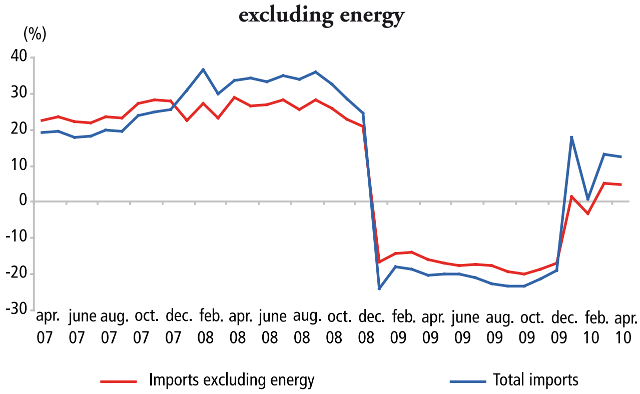


Source: Foreign Exchange Office

22 percent, respectively. The imported ton average price stood at 4,676 dh/ton, compared with 2,740 dh/ ton during the same month a year earlier.

Crude oil purchases surged from 1,435.2 billion tons to 1,751 tons. Similarly, the purchases of gasoline and fuel-oil, as well as those of oil gas and other hydrocarbons increased by 25.7 percent and 60.5 percent, respectively. Non-energy imports rose by 4.7 percent to 72.5 billion dirhams. Purchases of semi-finished products went up by 15.5 percent, led essentially by the rise in purchases of "iron and steel", "chemical products" and "plastics", by 18.8 percent, 22.5 percent and 15.3 percent, respectively. Likewise, imports of consumer goods increased by 4.8 percent, with the rise in imports of private cars, medicine and receivers by 10.5 percent, 9.2 percent and 2.4 percent, respectively. However, purchases of equipment finished products slumped by 1 percent, dragged down by the 34.8 percent contraction in purchases of agricultural capital goods. On the other hand, imports of industrial finished products increased by 1.1 percent. Finally, purchases of food produce declined by 2.1 percent, since wheat imports fell by a third.

Chart 1.14: Year-on-year change of total imports and imports excluding energy



Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

Nonagricultural output gap was again negative in the first quarter of 2010 and should stand slightly above zero in the second quarter. These developments mainly reflect better aggregate demand, supported by the ongoing strength in domestic demand and the gradual recovery in our main partners' economies. Nonetheless, the uncertainties surrounding the pace of recovery still involve risks to growth consolidation in nonagricultural activities in the coming quarters. More significantly, the industrial capacity utilization rate increased in recent months, but remained slightly below its pre-crisis average level. The labor market in the first quarter of 2010 saw a rise by 0.4 percentage point in the national unemployment rate, covering an increase in the urban unemployment rate and stability in rural areas. Available data on wages point to a moderate increase in the private sector's real wages. Overall, the relevant various indicators show no significant pressures of demand on prices for the coming quarters.

2.1 Pressures on output capacity

The latest available data and BAM estimates show that the output gap turned positive in the second quarter of 2010, reflecting the ongoing strength in domestic demand and further improvement in the international environment. However, this indicator over the four quarters remains negative on average, suggesting the absence of any significant pressures on demand. The broadly favorable outlook for nonagricultural activity will yet depend on the possible impact of the current financial turmoil on the scope and sustainability of recovery in our European major partners.

The BAM April business survey indicates that the capacity utilization rate increased by two percentage points to 73 percent, slightly below its pre-crisis average level. This rise seems to suggest either a slightly stronger demand or a possible decline in the output capacity in many industries as business conditions worsened between the fourth quarter of 2008 and the third quarter of 2009.

Apparent labor productivity in nonagricultural activities, which is highly volatile due to sharp fluctuations in nonagricultural DGP and urban employment (at annual rates),

Chart 2.1: Nonagricultural output gap

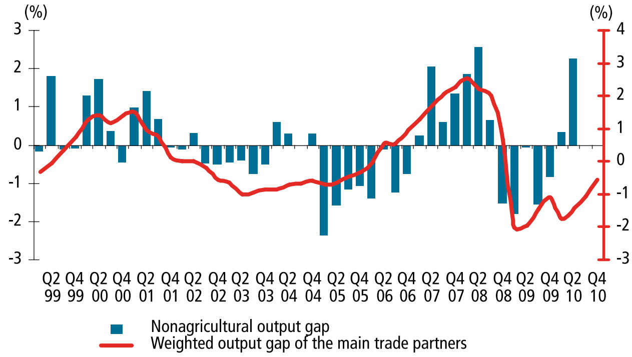
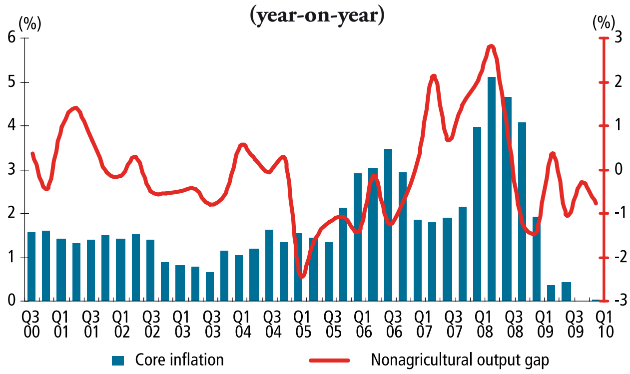


Chart 2.2: Nonagricultural output gap and core inflation (year-on-year)



Sources: HCP and BAM's estimates

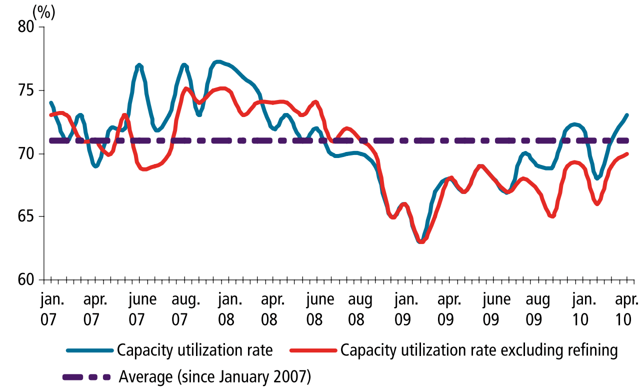
hovered around 113.6 in the first quarter of 2010, up by 5.2 percent year-on-year. This increase can be attributed to the fact that nonagricultural GDP grew faster than urban employment.

The BAM April business survey also points to an increase in the unit production cost in the first quarter of 2010, with a balance of opinion standing at 31 percent, up 12 percentage points quarter-on-quarter. This increase involved all sectors, notably the electric and electronic industries. With a balance of opinion of 55 percent, non-energy commodity costs acted as the first driver for this increase, in view of the upward trend in international commodity prices, followed by transportation costs as well as financial costs with a balance of opinion standing at 34 percent. At the sectoral level, the increase in unit production cost in all industries resulted firstly from commodity costs, and, secondly, from financial costs, as reported by operators in chemical and parachemical industries, and in textile and leather ones. In electric and electronic industries as well as in food processing industries, the level of wages was the second contributory factor to cost increase.

2.2 Pressures on labor market

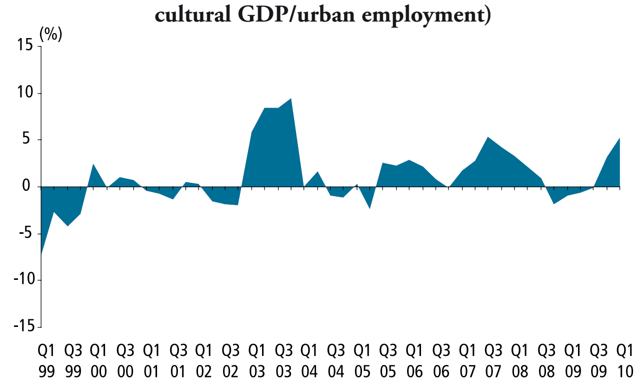
In the first quarter of 2010, labor force aged 15 and above reached 11,440,000 persons, 1 percent higher than in the same period of 2009, reflecting a rise both in urban and rural areas. Labor force participation rate stood at 49.9 percent, down 0.4 percentage point.

Chart 2.3: Industrial output capacity utilization rate



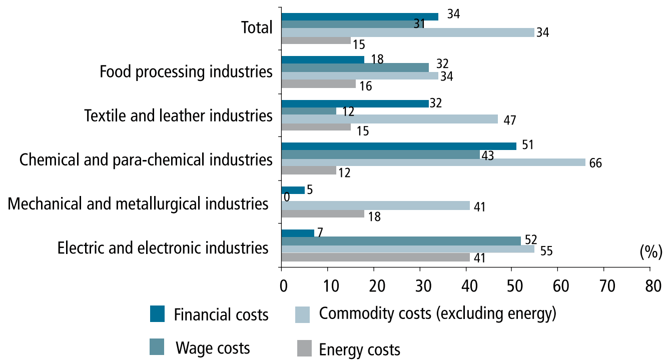
Source: BAM monthly business survey

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 Q1 of 2010)



Source: BAM monthly business survey

At the same time, employed labor force in the first quarter of 2010 increased at an annual rate of 0.7 percent to 10.3 million persons. Employment rate, on the other hand, dropped 0.5 percentage point to 44.9 percent, as the number of jobs grew at a rate somewhat slower than that of the labor force aged 15 and above. Per place of residence, urban and rural employment rates both dropped by 0.4 percentage point to 37.8 percent and 55.4 percent, respectively.

With 118,000 new jobs and 40,000 lost jobs, the resulting net job creation stood at 68,000 jobs, 60 percent of which are gainful. Unpaid labor moved up by 27,000 jobs, with the creation of 42,000 jobs in rural areas and the loss of 15,000 jobs in urban ones.

At the sectoral level, the services sector suffered for the first time in many years a net loss of 26,000 jobs in the first quarter of 2010. Turning to the main job suppliers, the "agriculture, forestry and fisheries" sector comes first with a net creation of 43,000 jobs, followed by the "building and public works" sector with 31,000 jobs, reflecting however a sharp deceleration compared with the past years. For the first time since the end of 2008, the industrial sector added 11,000 new jobs.

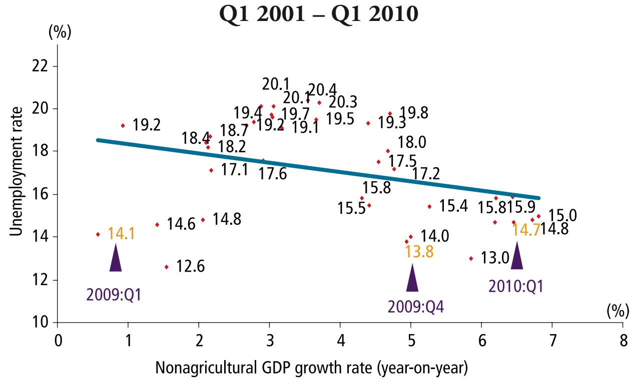
These developments are consistent with the BAM industry business survey, which shows a quarter-on-quarter rise in hires, with a balance of opinion standing at 13 percent. This situation reflects that the workforce increased both in chemical and parachemical industries, and in electric and electronic ones, while it almost stabilized in food processing industries

Table 2.1: Activity and unemployment quarterly indicators per place of residence, on a year-on-year basis [1]

In millions / in %	Q1 - 2009			Q1 - 2010		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force [2]	5.94	5.39	**11.33**	6.05	5.40	**11.44**
Labor force participation rate (%) [3]	44.5	58.6	**50.3**	44.3	58.1	**49.9**
Employed labor force	5.10	5.14	**10.24**	5.16	5.15	**10.3**
Employment rate (%) [4]	38.2	55.8	**45.4**	37.8	55.4	**44.9**
Unemployment						
Unemployed labor force	838	252	**1090**	889	250	**1139**
Unemployment rate (in %) [5]	14.1	4.7	**9.6**	14.7	4.6	**10**
By degree						
. Non-graduates	838	252	**1090**	889	250	**1139**
. Graduates	14.1	4.7	**9.6**	14.7	4.6	**10**

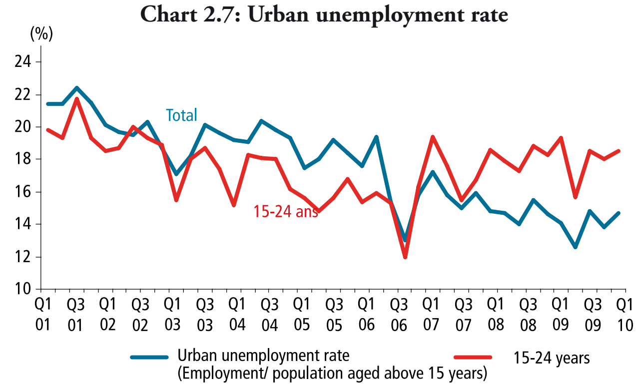
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and above (in millions of persons)
(3) Employed labor force/total population.
(4) Employed labor force/total population aged 15 years and above.
(5) Unemployed labor force/Labor force aged 15 and above
Source: HCP

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



Source: HCP

Chart 2.7: Urban unemployment rate



Source: HCP

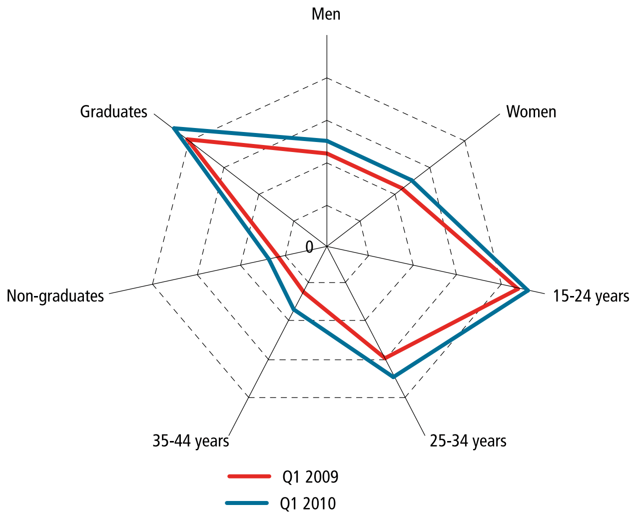
and fell in other industries. In the short run, corporate managers expect the total labor force employed in the industry to increase in all business industries, expect for textile and leather.

Overall unemployment rate in the first quarter of 2010 stood at 10 percent, up by 0.4 percentage point, as unemployment rate increased by 0.6 percentage point in urban areas to 14.7 percent, and almost stagnated at 4.6 percent in rural areas. Unemployment rate in urban areas increased by 0.8 percentage point among the 25-34 age group, 1.3 percentage point among the 35-44 age group, and 1.4 percentage point among the 45 and above age group. Among the 15-24 age group, however, unemployment rate decreased by 0.4 percentage point.

In terms of wage cost, the relative unit labor cost in the manufacturing sector is still rising at a higher pace than productivity gains. Indeed, the relative unit labor cost was 2.8 percent higher than in the same quarter a year earlier. Likewise, the growth of Morocco's relative unit labor cost exceeded that of Poland, France and Spain by 2.4 percent, 0.6 percent and 0.3 percent, respectively. However, it increased at a slightly slower pace than in the Czech Republic, Hungary, Greece and Italy.

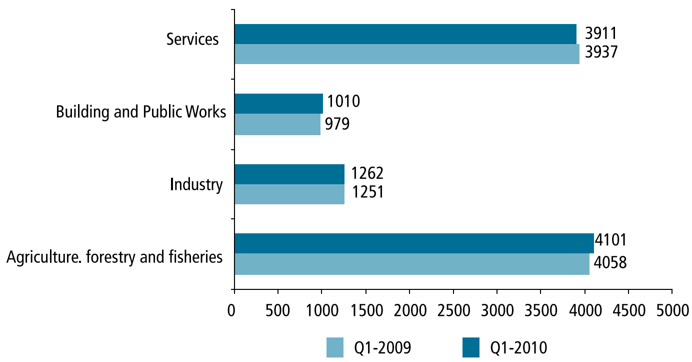
The average private wage index for the fourth quarter of 2009, measured on the basis of the CNSS data, edged up by 0.9 percent both in real and nominal terms, after its 11.6 percent strong growth in the third quarter of 2009, probably with the coming into effect of the second minimum wage readjustment on July 1, 2009 (+5 percent). This increase is

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



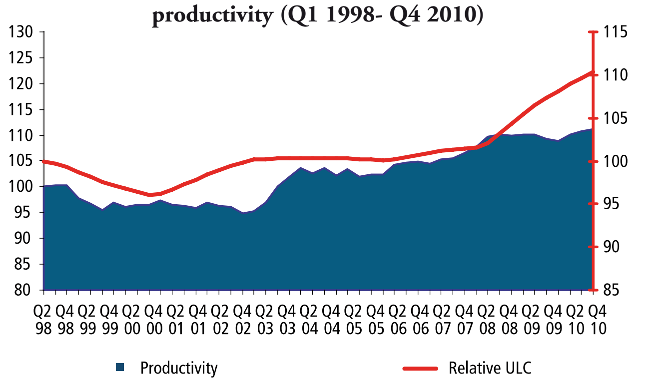
Source: HCP

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



Source: HCP

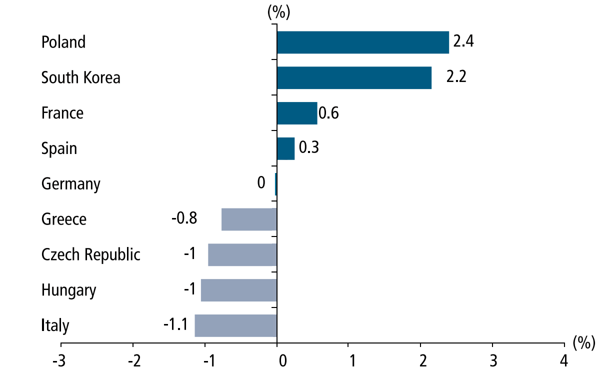
Chart 2.10: Relative unit labor cost and apparent labor productivity (Q1 1998- Q4 2010)



Sources: DataStream and BAM calculations confirmed by the conclusions of the BAM industry business survey that point to a rise in wage costs in the first quarter of 2010, with a balance of opinion standing at 31 percent, up 20 percentage points, particularly in electric and electronic industries as well as in the chemical and parachemical industries. The minimum wage remained unchanged in nominal terms, but slightly depreciated in real terms.

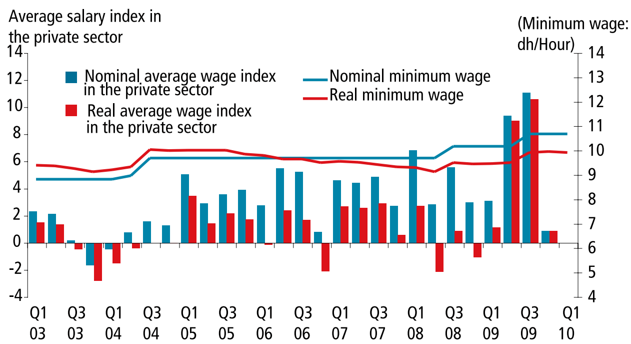
Chart 2.11: Morocco's Competitiveness-costs

Variation of the unit costs of the manufacturing sector labor force in Morocco compared with other countries, Q4 2008 – Q4 2009



Sources: Datastream and BAM calculations

Chart 2.12: Variation of the average wage index in the private sector and minimum wage in nominal and real terms, year-on-year



Sources: CNSS, Ministry of Employment, and BAM calculations and estimates

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

The difficulties in the euro area's sovereign debt market acted as significant drags on the normalization of financial conditions that began early 2009. In this context, interbank and bond markets in the euro area came under strains, while the main stock market indexes went into decline. As a result, the euro depreciated markedly against major currencies as investors flocked toward safe-haven currencies such as the dollar. Given the magnitude of risks to financial stability and to the recovery, which is not yet self-sustaining, the euro area member states and the IMF agreed on a large-scale plan to support public finance in troubled countries. In addition, the ECB reintroduced the unconventional measures and made unprecedented sovereign bond purchases on the secondary market to stabilize interest rates. Most recent data suggest that the impact of these financial strains is not yet significantly felt on the real sector, as recently updated and harmonized growth figures and monthly indicators confirm that the world economy strengthened further in the first half of 2010. A marked rebound is under way in emerging economies, particularly in Asia, and in Latin American major economies, where growth resumed strongly. In the United States, the upturn that began in the third quarter of 2009 continued. Despite the improvement in high-frequency indicators for many months now, the rebound in the euro area's economic activity remains moderate, and recovery is still sluggish and uneven across countries. Yet for all the general improvements in economic fundamentals, the fiscal imbalances along with the budget austerity measures taken by some countries only added to the above-cited risks to the sustainability of recovery, especially with the persistent high unemployment rate and weak credit in the advanced economies. In recent projections that take into account the various sources of uncertainty, international organizations, notably the IMF and the European Commission, point however to upward revisions in the outlook for 2010 and 2011 in major emerging and advanced countries, except in the euro area. As for world inflation, consumer prices in April 2010 show a further year-on-year increase. Overall, recent international developments suggest no further heightening in external inflationary risks to the Moroccan economy, but reveal new risks concerning the pace at which the adverse shock of foreign demand will dissipate, particularly in our key partner, Europe.

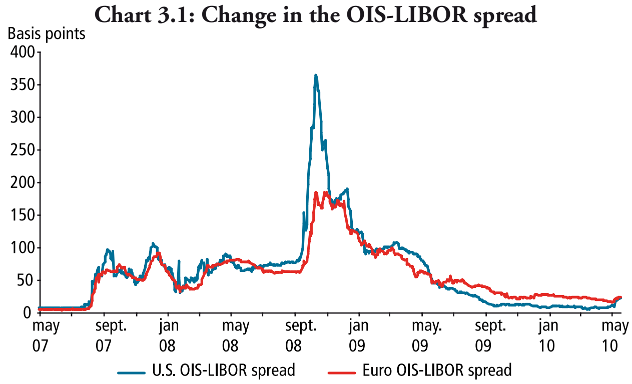
3.1 Global financial conditions and economic activity

There have been renewed strains in financial markets in the euro area, and, to lesser extent, in advanced and emerging countries. These strains arose from growing concerns over the situation of public finance in the euro area's peripheral economies, and from mounting fears that the Greece crisis might spill over the rest of Europe. Regarding the global economic conditions, the recovery is gaining traction but continue to be mainly driven by the dynamics in emerging countries.

3.1.1 Financial conditions

Money markets have been the hardest hit by the deteriorating fiscal situation in peripheral countries, despite abundant liquidity injections by central banks. The OIS-libor spread widened from 16.9 to 23.7 basis points between April and May 2010 in

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

the euro area, and from 11.5 to 23.5 basis points over the same period in the United States, standing far above their respective pre-crisis levels of 3 and 7 basis points in 2006, and reversing the stabilization trend that began early 2009.

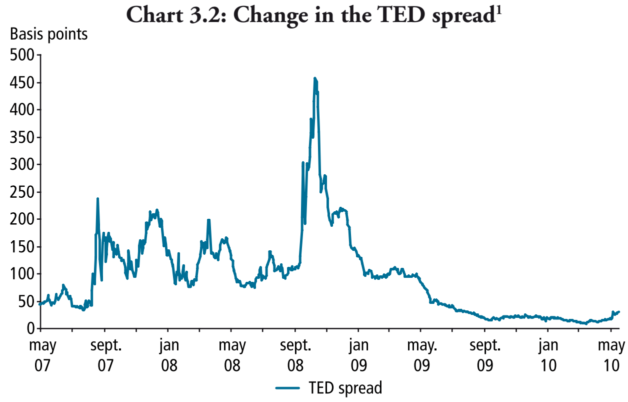
On bond markets, the change in financial spreads suffered some setbacks. Yields on government bonds remained well elevated, but dropped only slightly following the announcement early May of a €750 billion aid package by the European Union, the ECB and the IMF. Yields on ten-year government bonds in Greece, Portugal and Ireland dropped in May 2010 to 7.83 percent, 4.59 percent and 4.65 percent, respectively, from 9.02 percent, 5.17 percent and 5.18 percent a month earlier.

Following the adoption of the "European Financial Stabilization Mechanism", credit default swaps (CDS) in the euro area peripheral countries receded, before moving up subsequently. In emerging countries, by contrast, the CDS remained at very low levels year-on-year, 121 basis points over the first five months of 2010, down from 339 basis points in 2009, but increased slightly since early May, in response to the increasing risk aversion caused by the financial turmoil in the euro area.

Stock markets in advanced and emerging economies suffered from the financial turmoil in the euro area. The main relevant indexes in advanced economies declined at a rate between 3 percent and 8.7 percent in May 2010, compared with the previous month. In emerging economies, these indexes generally decreased by 7 percent in May 2010, as evidenced by the MSCI EM[1] index developments.

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).

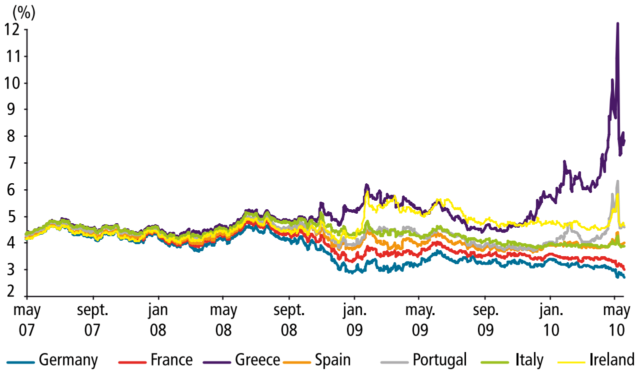
Chart 3.2: Change in the TED spread[1]



Source: Datastream

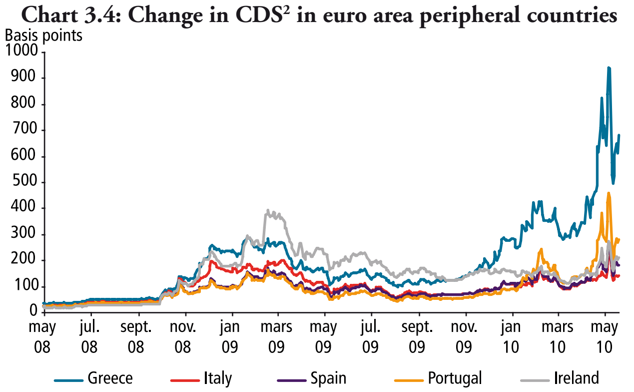
1 The TED spread represents a credit risk and corresponds to the difference between the interest rate on three-month Treasury bills and the three-month interbank rate in US dollars.

Chart 3.3: change in rates of ten-year government bonds' yields in the euro area



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.

Credit growth in advanced economies has been negative since September 2009, but returned to -0.4 percent and -0.2 percent between February and March 2010 in the euro area, and -5.2 percent and -4.7 percent, year-on-year, from March to April in the United States.

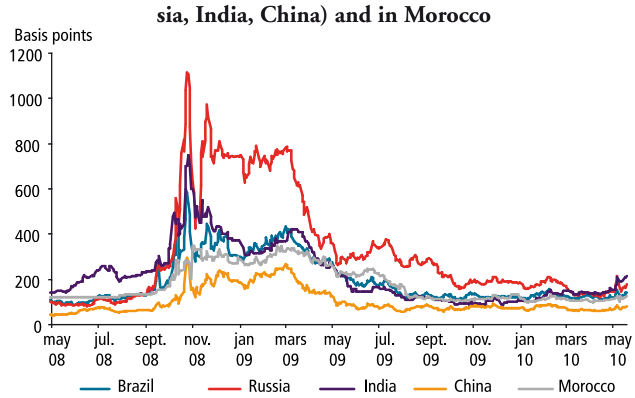
On the exchange markets, the euro depreciated further as investors flocked toward safe-haven currencies, particularly the dollar. The single currency sank to 1.22 dollars on 24 May 2010, its lowest in four years, and declined at an average monthly 5.6 percent against the dollar, 6.2 percent against the Japanese yen and 2.2 percent against the pound sterling.

Against this backdrop, the ECB made some operational amendments to stabilize the euro area's financial markets, by suspending its timetable for the withdrawal of crisis measures and reintroducing longer-term refinancing operations (LTROs). The ECB also made unprecedented sovereign bond purchases on the secondary market, to mitigate rate pressures for the hardest hit countries, notably Greece, Ireland and Portugal.

By contrast, the U.S. Federal Reserve, as part of its exit strategy, decided to introduce its new monetary policy mechanism known as the Term Deposit Facility. This instrument, established on December 28, 2009, consists in interest-bearing time deposits to absorb some of the American banking system's excess reserves.

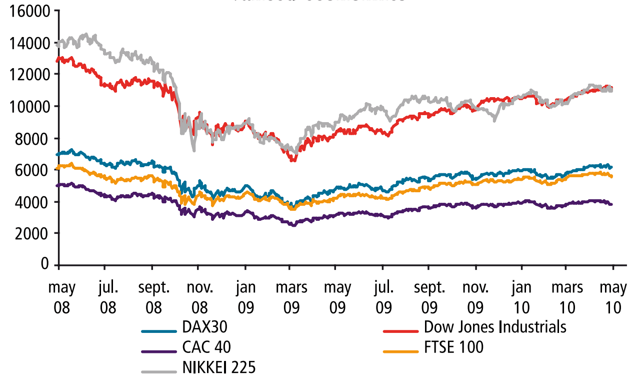
Despite the expected strengthening in world economic conditions, financial stability still raises concerns over the sustainability

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



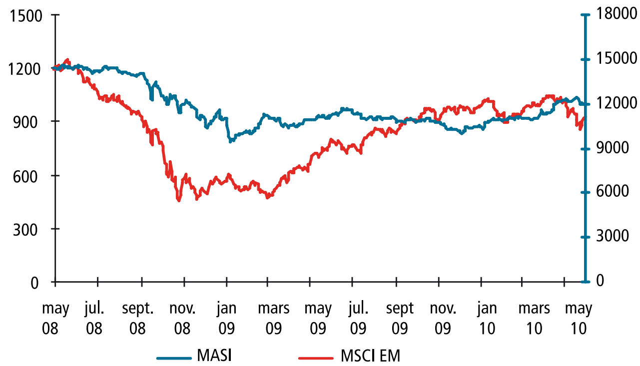
Source: Datastream

Chart 3.6: Change in the main stock market indexes in advanced economies



Source: Datastream

Chart 3.7: Change in the MSCI EM and MASI indices

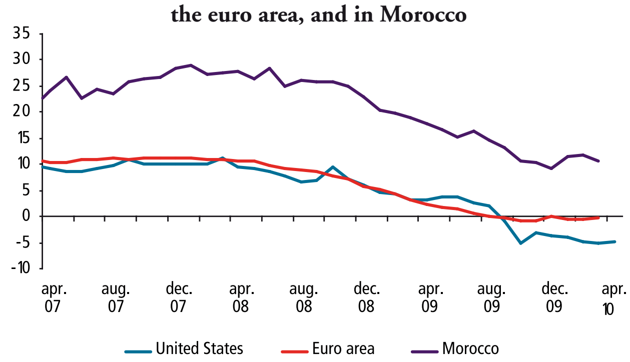


Source: Datastream

of public finance in advanced economies, which is likely to intensify pressures on financial markets and frustrate recovery in the private sector's credit. Private capital inflows to emerging economies, particularly to Asia and Latin America, could lead to the creation of asset price bubbles.

Morocco would remain sheltered from the financial turmoil, not just because of the weak dependence of the Treasury and private economic agents on foreign financing, but also because of the significant difference in public finance developments between Morocco and the European countries affected by the crisis. However, the main risk source could stem from the possible effects of financial difficulties on the economic outlook of our main partner countries.

Chart 3.8: Year-on-year change of loans in the United States, the euro area, and in Morocco



Source: Datastream

3.1.2 Global economic activity

Recent international indicators point to stronger world economic growth in the first quarter of 2010. This recovery is driven primarily by a vigorous growth in emerging economies, especially in Asian and major Latin American countries, supported by the momentum both in domestic and foreign demand. In advanced economies, recovery is ongoing in the United States, but remains modest in the euro area.

Economic growth in the first quarter of 2010 remained strong in Asian and Latin American countries, particularly in China, India and Brazil, where activity picked up noticeably. In China, for instance, GDP in the first quarter of 2010 rose to 11.9 percent year-on-year, from 10.7 percent a quarter earlier.

In the United States, economic recovery

Table 3.1: Global growth change

	Forecasts					
	World Bank		OECD*		IMF*	
	2010	2011	2010	2011	2010	2011
Global GDP	2.7	3.2	-	-	4.2	4.3
United States	2.5	2.7	3.2	3.2	3.1	2.6
Euro area	1	1.7	1.2	1.8	1	1.5
Germany	1.6	1.9	1.9	2.1	1.2	1.7
France	1.6	1.9	1.7	2.1	1.5	1.8
Italy	0.8	1.4	1.1	1.5	0.8	1.2
Spain	-0.6	1	-0.2	0.9	-0.4	0.9
United Kingdom	1	1.8	1.3	2.5	1.3	2.5
China	9.0	9.0	11.1	9.7	10	9.9
India	7.5	8	8.3	8.5	8.8	8.4
Brazil	3.6	3.9	6.5	5.0	4.7	3.7
Russia	3.2	3	5.5	5.1	3.6	3.4

**World Bank (January 2010 outlook); OECD (May 2010 outlook); IMF (April 2010 outlook)*

Sources: IMF, World Bank and OECD.

Table 3.2: Quarterly growth change, on a year-on year basis

	2008		2009			2010
	T4	2009	2009	2010	2010	2011
United States	-1.9	-3.3	-3.8	-2.6	5.6	3.2
Euro area	-1.9	-5.0	-4.9	-4.1	-2.2	0.5
France	-2	-3.9	-3.2	-2.6	-0.4	1.2
Germany	-1.8	-6.7	-5.8	-4.8	-2.2	1.5
Italy	-3.3	-6.5	-6.1	-4.7	-2.8	0.6
Spain	-1.2	-3.3	-4.2	-4	-3.1	-1.3
China	6.8	6.2	7.9	9.1	10.7	11.9

Sources: Eurostat, Datastream and US Trade Department continued in the first quarter of 2010, as the GDP grew at an annual rate of 3.2 percent, compared with 5.6 percent in the previous quarter, in response to the increase in household consumption and corporate investments.

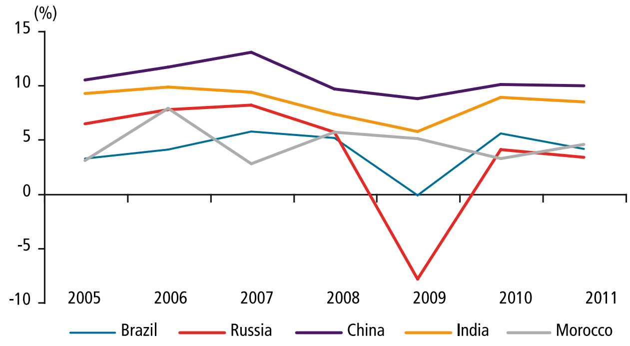
In the euro area, despite the improvements in high-frequency indicators since July 2009, the recovery remains relatively protracted. GDP in the first quarter of 2010 increased at a year-on-year moderate 0.5 percent, following a 2.2 percent decline in the previous quarter, reflecting some strength in exports and weak domestic demand. The persistent high unemployment rate in some euro area countries, coupled with the ongoing strained credit conditions and the recent distress in financial markets are all factors that affect the pace of recovery in the euro area.

Regarding Morocco's main partners, the GDP in Spain and Italy grew at respective year-on-year rates of -1.3 percent and 0.6 percent. In France and Germany, the GDP increased at 1.5 percent and 1.2 percent, respectively.

Recent high-frequency indicators point to an increase in economic activity in key advanced economies, accompanied with a strengthening in short-term improvement outlook.

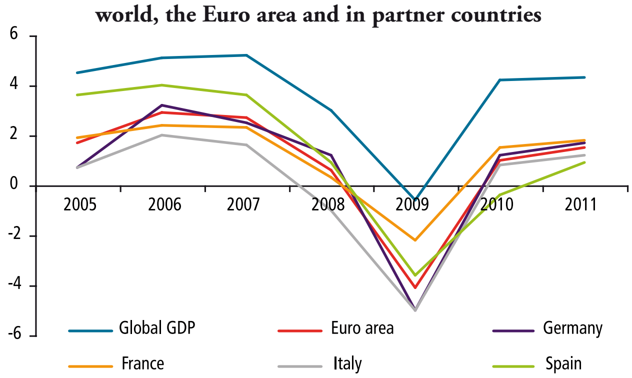
In the euro area, the manufacturing output index increased in April by 57.6 points, its highest level since June 2006, compared with 56.6 percent in March, up 56.5 percent at annual rate. The PMI manufacturing index in the euro area reached its highest growth since August 2007, standing at 57.3 percent in April, after 55.9 percent in March, up 36 percent year-on-year. In addition, recent data show that the advanced composite index of

Chart 3.9: GDP change in emerging countries (Brazil, Russia, India, China) and in Morocco



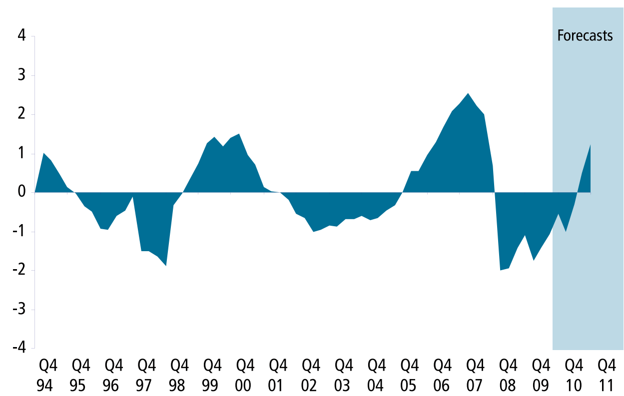
Source: IMF

Chart 3.10: Year-on-year GDP change in the world, the Euro area and in partner countries



Source: IMF

Chart 3.11: Output gap of the main partner countries



Sources: European Commission and BAM calculations

Morocco's European partner countries edged down to 95.5 percent in the third quarter, from 97.5 percent a quarter earlier.

In the United States, the PMI manufacturing index rose to 60.4 points in April, its highest level since July 2004, from 59.6 in March, up 1.3 percent. Similarly, the advanced composite index of the Conference Board survey improved more than expected to 57.9 points, from 52.5 points in March.

Despite these improvements, unemployment rate remained elevated. In the United States, it slightly increased to 9.9 percent in April from 9.7 percent a month earlier, while in the euro area it stabilized in March at 10 percent, with 10.1 percent in France and a 19.1 percent peak in Spain.

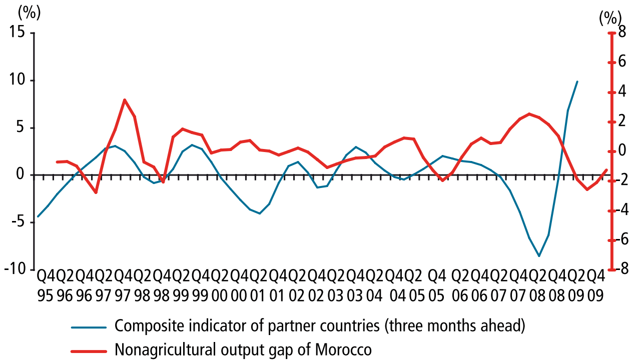
For the coming quarters, the IMF April World Economic Outlook points to an overall improvement compared with the January outlook.

Mindful of the risks surrounding the scope of recovery, the IMF expects the euro area's GDP to increase by 1 percent in 2010, a rate identical to that expected by the January 2010 outlook. The IMF outlook for 2011 was revised downward from 1.6 percent to 1.5 percent. For its turn, the European Commission expects the GDP to grow in 2010 at a rate similar to the IMF's but to increase by 1.75 percent in 2011.

In Morocco's main partners, the IMF outlook for 2010 and 2011 projects the GDP to grow by 1.5 percent and 1.8 percent in France, 1.2 percent and 1.7 percent in Germany, and 0.8 percent and 1.2 percent in Italy. In Spain, however, the IMF expects the GDP to contract by 0.4 percent in 2010 before rising by 0.9 in 2011.

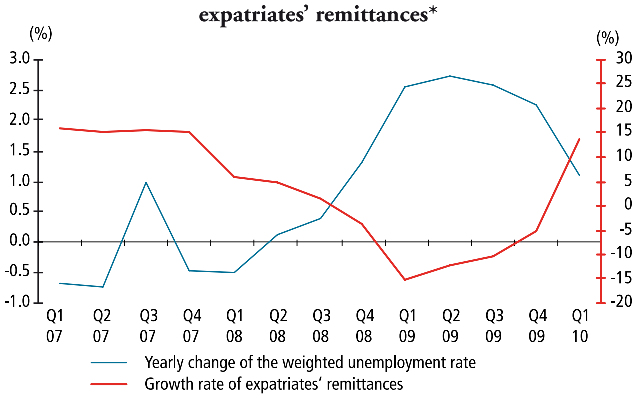
In the United States, the IMF expects the GDP to grow by 3.1 percent and 2.6 percent in 2010 and

Chart 3.12: Weighted Composite Leading Indicator of partner countries*



The Weighted Composite Indicator of partner countries is prepared on the basis of the cyclical component of the OECD Composite Leading Indicator (CLI) 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 3.13: Year-on-year change of main partner countries' weighted unemployment rate and of the growth rate of 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 constitute, by themselves, 90.1percent 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, on a year-on year basis

	Apr. 2009	Feb 2010	March 2010	Apr. 2010	Forecasts 2010	Forecasts 2011
United States	-0.7	2.1	2.3	2.2	2.1	1.7
Euro area*	0.6	0.9	1.4	1.5	1.1	1.3
France	-0.2	0.4	0.9	0.8	0.9	1.0
Germany	0.1	1.3	1.6	1.7	1.2	1.5
Italy	1.2	0.3	0.8	1.0	1.2	1.0
Spain	0.6	0.7	1.0	1.3	1.4	1.7
Japan	0.0	-1.9	-1.7	-1.3	-1.4	-0.5
China	-1.5	0.6	1.9	1.5	3.1	2.4

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

2011, respectively (compared with 2.7 percent and 2.4 percent under the January outlook). In Japan, the GDP is expected by the IMF to grow by 1.9 percent and 2.0 percent in 2010 (compared with 1.7 percent and 2.2 percent under the previous outlook). In Asian emerging economies, China's GDP should increase by 10 percent in 2010 and 9.9 percent in 2011, whereas in India growth is expected to reach 8.8 percent in 2010 and 8.4 percent in 2011. For Morocco, the IMF projects GDP to grow by 3.2 percent in 2010 and 4.5 percent in 2011.

The OECD recent economic outlook at the end of May expects the U.S. GDP to grow by 3.2 percent both in 2010 and in 2011 (compared with 2.5 percent and 2.8 percent in the OECD November 2009 outlook). In the euro area, the OECD projects the GDP to grow by 1.2 percent and 1.8 percent in 2010 and 2011, respectively (compared with 0.9 percent and 1.7 percent in the November 2009 outlook).

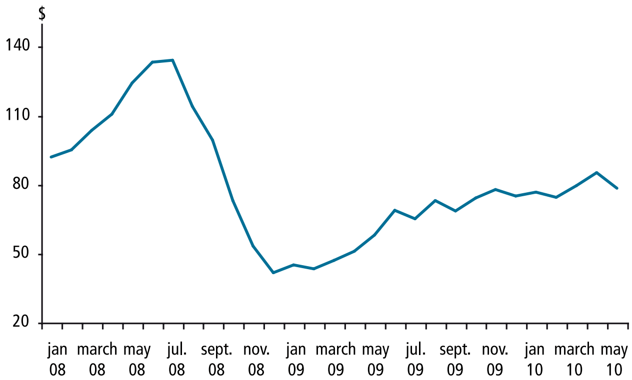
3.2 World inflation

Against a background of economic recovery and renewed surge in commodity prices, the latest April 2010 data indicate that inflation would maintain the upward trend seen in most advanced and emerging countries since last November (Table 3.3).

Inflation in the euro area edged up to 1.5 percent in April, from 1.4 percent in March. In Morocco's partner countries, namely in Spain and Italy, inflation ran at 1.3 percent and 1 percent, respectively (compared with 1 percent and 0.8 percent a month earlier). In France, inflation moved up to 1.7 percent, from 1.6 percent a month earlier, while in Germany it fell to 0.8 percent, from 0.9 percent a month earlier.

Concerning the inflation outlook, the IMF April

Chart 3.14: World oil price (Brent)



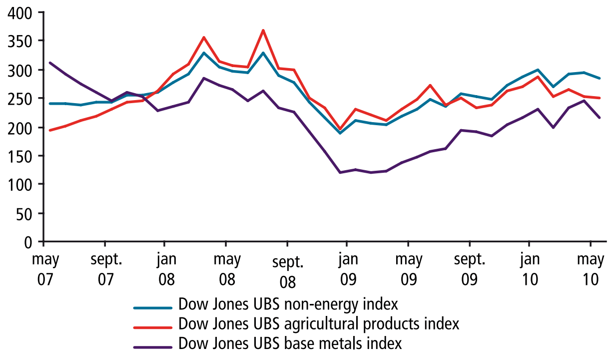
Source: Datastream

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

Q2:10	Q3:10	Q4:10	Q1:11	2010	2011	2012
81.3	75.9	75.4	76.3	77	79.8	81.5

Source : Bloomberg

Chart 3.15: Change of the Dow Jones UBS indices of non-energy commodity prices (base year= 2006)



Source: Datastream

2010 projections show that prices would rise in advanced countries by 1.5 percent in 2010 and 1.4 percent in 2011. In the emerging and developing countries, inflation is expected to reach 6.2 percent in 2010 and 4.7 percent in 2011. The IMF projects inflation in Morocco to stand at 2 percent in 2010 and 2.6 percent in 2011, while the BAM recent forecasts project it to run at 1.2 percent in 2010 and 1.9 percent in 2011.

In light of the latest developments in the global economic situation, inflation in the medium term would continue to move upward in most economies. Inflationary pressures, however, would be generally subdued, since the capacity utilization rate is still relatively weak in the advanced countries.

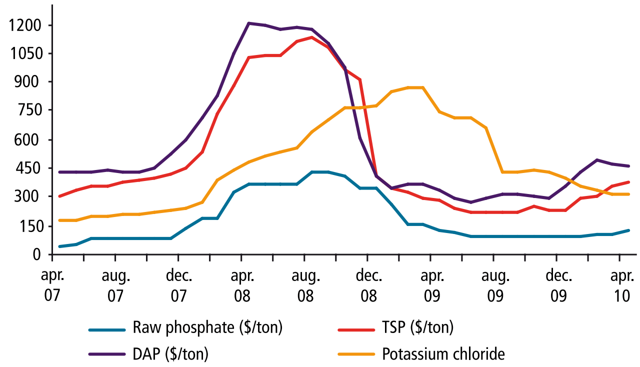
3.3 Oil prices

Oil prices dropped by an 8.7 percent average in the first three weeks of May to $78.2 a barrel, compared with their average level in April, mainly in response to the appreciation of the U.S. dollar.

In April 2010, oil prices increased by a monthly rate of 7.2 percent to an $85 a barrel average. This increase reflects important speculative purchases during that period, declining inventories particularly in the United States and upward revision of world demand for oil in the OPEP recent monthly report. Over the first four months of 2010, Brent prices averaged $78.8 a barrel, compared with $47 a year earlier, up by 67.7 percent year-on-year.

The IMF April 2010 World Economic Outlook expects oil prices to average $80 a barrel in 2010 and $83 a barrel in 2011. In its May report, the U.S. Energy Information Administration

Chart 3.16: Change in the world prices of phosphates and derivatives



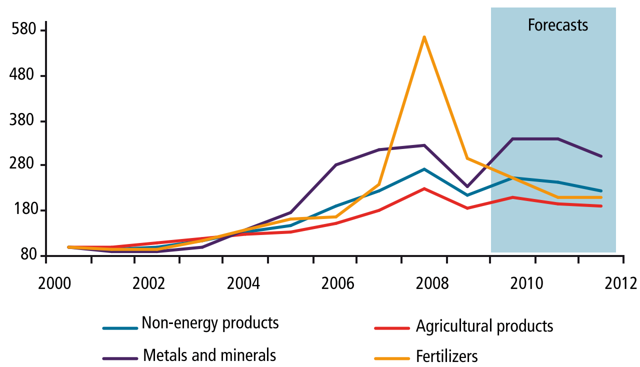
Source: World Bank

Table 3.5: Quarterly change of wheat futures and forecasts

Wheat (USc/ bushel)	Q2:10	Q3:10	Q4:10	Q1:11	2010	2011
Futures	474.78	490.03	522.39	548.90	495.80	583.27
Forecasts	560.00	550.00	570.00	605.00	540.00	622.00

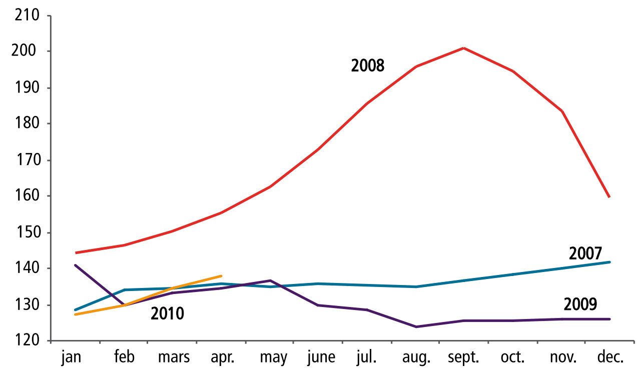
Source: Bloomberg

Chart 3.17: Change perspectives of commodity price indices*



(*) updated on May 11, 2010
Source: World Bank

Chart 3.18: Price index of non-energy products' import (Base year: 1996)



Sources: Foreign Exchange Office, and BAM calculations estimates the crude oil average price to reach $84 a barrel in the second half of 2010 and $87 a barrel in 2011. It also expects world demand to rebound by 1.6 million barrels a day both in 2010 and 2011, after declining for two successive years.

On the futures market, oil prices would stand on average at $77 a barrel in 2010, $79.8 in 2011, and $81.5 in 2012.

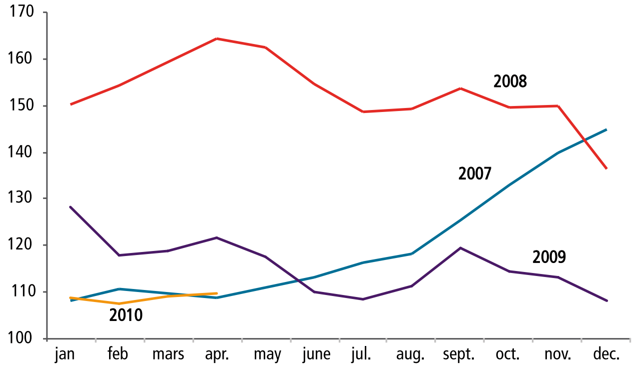
Overall, some international organizations consider that the medium-term outlook for oil market still depends on world economic recovery, the scope of speculative purchases and the movements in global demand in 2010 and 2011. Recent projections of the International Energy Agency and OPEP expect world demand to be driven upward particularly by emerging countries, such as China and India, where growth pace is now viewed as a determining factor of the medium and long term outlook for oil prices.

3.4 Commodity prices excluding energy

For the second successive month, non-energy commodity prices declined in May, reflecting a price drop in base metals, and a less market fall in agricultural products. This continued decline can be attributed to the uncertainties surrounding the outlook for world demand. These prices, however, remained quite higher than in a year earlier. Over the first five months of 2010, the Dow Jones-UBS commodity Index outside energy grew by 34.7 percent compared with the same period a year earlier. In May 2010, however, it posted a 3.3 percent month-to-month decrease.

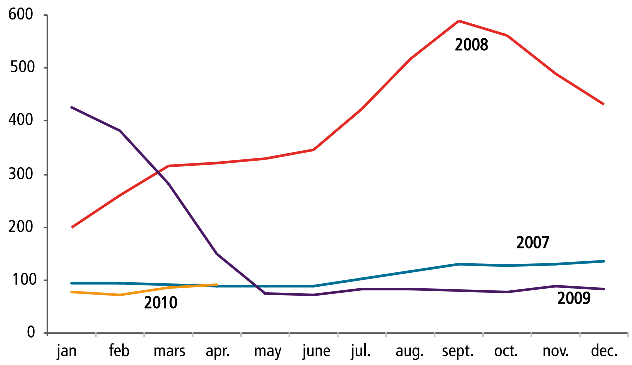
Similarly, the Dow Jones-UBS base-metal index rose by 73.2 percent year-on-year, but dropped by 12 percent month-on-month, mainly in response to the month-on-month decline in

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



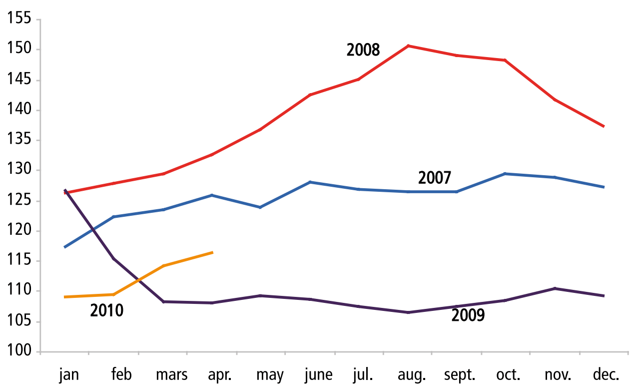
Sources: Foreign Exchange Office and BAM calculations

Chart 3.20: Mining products' import price index (Base year: 1996



Sources: Foreign Exchange Office and BAM calculations

Chart 3.21: Semi-finished products' import price index (Base year: 1996)



Sources: World Bank and Foreign exchange office the prices of zinc and lead (14.7 percent each), nickel (13.7 percent) and copper (11.7 percent), as inventories remain quite high.

The Dow Jones-UBS agricultural Index increased in May 2010 by 14.5 percent year-on-year, but contracted by 1 percent month-on-month. This trend mainly reflects the drop in cereal and sugar prices, in response to favorable inventory levels and supply outlook. After peaking early in 2010, sugar prices started to move down since the beginning of the second quarter of 2010, reflecting the upward revision of world production estimates, and the surplus expected by the International Sugar Organization (ISO) for 2010-2011, after two successive years of record deficits.

Prices of phosphate and its derivatives generally increased in April 2010. Crude phosphate prices rose 19 percent to $125 a ton. DAP prices posted a month-to-month 5.1 percent rise, while Urea and TSP prices fell 9.4 percent and 2.2 percent, respectively.

In the short term, non-energy commodity prices would increase gradually as the recovery and world demand gain traction. This increase would, however, remain limited both for base metals, as their inventories would to be largely sufficient to meet demand, and for agricultural products, as most of their supply for 2010/2011 would run up no deficit.

3.5 Morocco's import unit value index

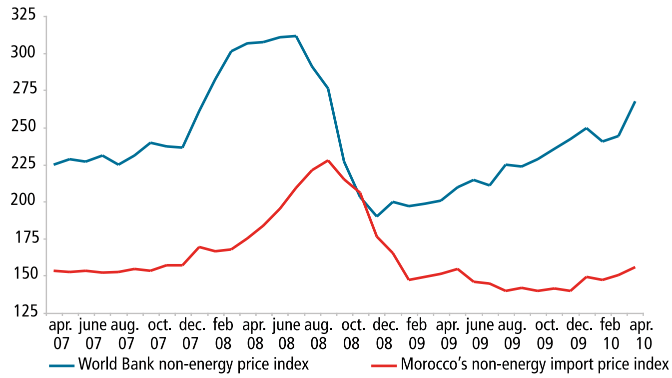
Recent available data indicate that the non-energy import price index (IPI) increased in April 2010 at a monthly rate of 2.5 percent, compared with 3.9 percent in the previous month, reflecting a rise in the import prices of all industries. Food product IPI grew by a month-on-month 0.7 percent, prompted by a rise by similar rate in the unit import price of wheat and by 3 percent in that of sugar.

Similarly, the IPI of mining products grew at a monthly rate of 7.3 percent, mainly reflecting a 27.3 percent increase in the unit import price of crude sulfur. At the same time, semi-finished products' IPI rose at a monthly rate of 1.9 percent, in line with increases by 13.5 percent in the unit import price of wires and bars and 8.8 percent in that of plastics.

Year-on-year non-energy IPI was up 2.7 percent. Semi-finished product IPI rose by 7.7 percent, in response to an increase by 30 percent and 10.8 percent in the unit import prices of plastics and of wires and bars, respectively. Conversely, mining product IPI decreased by 38.9 percent, largely because of a 14.1 percent fall in crude sulfur unit import price. Food product IPI declined 9.8 percent, primarily as wheat unit import price fell 22 percent.

In light of recent developments and the persistent volatility in world commodity prices, import price-driven inflationary pressures, which are still weak, could heighten in the coming quarters.

Chart 3.22: Change of world commodity price index and domestic non-energy import price index (Base year: 2000)



Sources: Foreign Exchange Office and BAM's calculations

4. MONETARY CONDITIONS AND ASSET PRICES

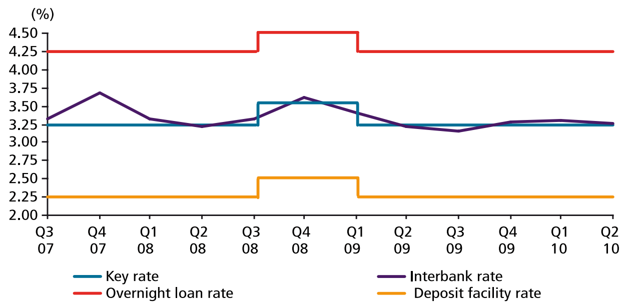
Recent available data point to an ongoing moderation in money creation. Monetary surplus remained below levels seen for many quarters. The M3 grew at a modest annual rate of 3.9 percent in April, after 4.6 percent in the previous quarter, reflecting low monetary holdings along with higher UCITS securities. At the same time, the annual growth rate of bank credit remained sustained in April at 10.2 percent, compared with 11.4 percent in the first quarter of 2010. Concerning lending rates, the BAM survey among banks for the first quarter of 2010 shows that the weighted average lending rate almost stabilized, in response to a decline in its main determinant, rates on cash loans, and in rates on real estate loans, coupled with higher rates of equipment loans. The effective exchange rate of the dirham depreciated by 1 percent in nominal terms quarter-on-quarter and by 0.7 percent in real terms, as inflation rate in Morocco was generally higher than in its main partner countries and competitors. The new real estate price index, calculated by BAM, shows that property prices declined in the first quarter of 2010. Stock exchange prices slightly dropped in May but continue to perform steadily, with a 15.6 percent increase in the MASI over the first five months of the year. Altogether, the outlook for monetary and financial conditions points to slightly upward pressures on inflation in the coming quarters, mainly in light of loan prospects.

4.1 Monetary conditions

4.1.1 Interest rates

In a context where risks are slightly skewed to the upside and inflation central forecast is consistent with the price stability objective, the Board's meeting on March 30, 2010 decided to keep the key rate unchanged at 3.25 percent. Given the scope and sustained nature of liquidity shortfall on the money market and in view of forecasts for liquidity factors, the Board decided to reduce the required reserve ratio by 2 percentage points to 6 percent as of April 1, 2010. Under these circumstances, the interbank overnight rate averaged 3.27 percent in April and May 2010, down by 4 basis points from the previous quarter, a level close to the key rate.

Chart 4.1: Change in the interbank rate*



** Observation of the second quarter of 2010 corresponds to the daily average of the period from April 1 to May 25.*

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

	2008	2009					apr.10
	Q4	Q1	Q2	Q3	Q4	Q1	
13 weeks	3.69	3.58	3.26	3.25	3.25	3.44	3.41
26 weeks	3.77	3.65	3.31	3.27	3.28	3.56	3.48
52 weeks	3.84	3.75	3.35	3.33	3.37	3.62	3.60
2 years	-	3.90	3.44	3.48	3.57	3.73	-
5 years	3.99	4.05	3.69	3.68	3.74	3.95	3.94
10 years	-	-	-	-	-	4.20	4.20
15 years	-	-	-	-	-	4.32	-

Short-term Treasury bills issued on the primary market, which are most correlated with the change in the interbank overnight rate, declined in April after increasing in the first quarter of 2010. Medium and long-term rates remained almost stable between the first quarter and April. On the secondary market, yields on all maturities saw no significant changes in April and May 2010.

The weighted average rate of deposit rates on 6 and 12-month deposits, which moved up by four basis points between the

Chart 4.2: Structure, by maturity, of interest rates on the Treasury's securities Market

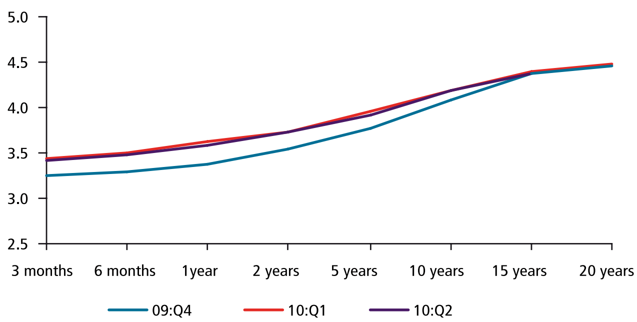


Table 4.2: Rates on time deposits

	2008	2009					
	Q4	Q1	Q2	Q3	Q4	Q1	apr.10
6 months	3.90	3.61	3.52	3.31	3.24	3.32	3.28
12 months	4.23	3.91	3.96	3.68	3.69	3.72	3.64
Weighted average	4.13	3.78	3.78	3.55	3.54	3.58	3.44

Box 4.1: Liquidity and monetary policy implementation

In the first quarter of 2010, banks' liquidity shortage widened further. It moved up on average from 16.6 billion dirhams in the fourth quarter of 2009 to 18.5 billion dirhams in the first quarter of 2010, owing to the restrictive effect of autonomous factors during that period.

Transactions in foreign assets led to a liquidity drain of 2.6 billion dirhams resulting from the difference between purchases of foreign currencies by commercial banks with a total of 7.6 billion dirhams, including 6.8 billion for the transfer of Telefonica's stake in Meditel, and sales of foreign banknotes, which reached 4.9 billion dirhams.

Treasury operations caused a further liquidity drain of 4 billion dirhams, mostly attributable to purchases of Treasury bills at auctions and the collection of the first installment of corporate tax for fiscal 2010.

The drop of currency in circulation reached 2 billion dirhams, following the cash outflows at the end of the year.

Overall, autonomous factors exerted a restrictive effect of 4.7 billion dirhams on banks' liquidity.

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

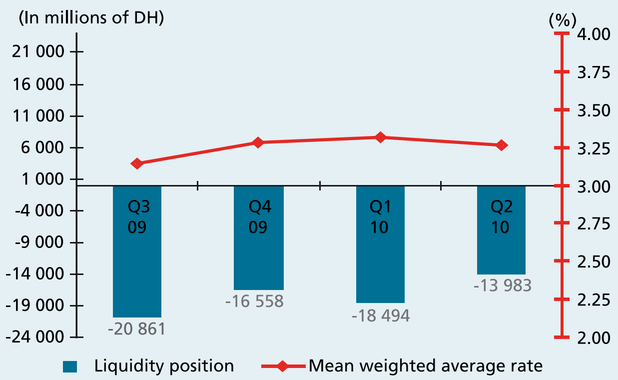
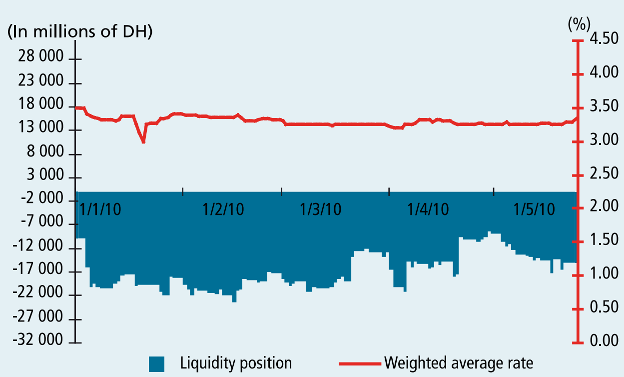


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



Given the tightening of bank liquidity during the first quarter of 2010, the Bank Board decided at its meeting on March 30, 2010 to cut the reserve requirements ratio by 2 percentage points to 6 percent. This cut in the required reserve ratio resulted in an overall liquidity injection of 8.2 billion dirhams (5.2 billion dirhams on March 21, 2010 and 2.9 billion dirhams on April 21, 2010).

Consequently, the average liquidity shortage narrowed from 18.5 billion in the first quarter to 14 billion dirhams, despite the restrictive effect of autonomous factors during this quarter.

Transactions in foreign assets led to a liquidity drain of 2.8 billion dirhams resulting from the difference between purchases of foreign currencies by commercial banks with a total of 5.8 billion dirhams, and sales of foreign banknotes, which reached 3 billion dirhams.

Similarly, Treasury operations have adversely affected banks' liquidity by 1.9 billion dirhams. Treasury resources amounted to 57.5 billion dirhams, including 13.9 billion corresponding to banks' purchases of Treasury bills at auctions. Treasury expenses increased to 55.6 billion dirhams, 13.6 billion of which correspond to the repayment of domestic debt to the banking system. The increase in currency in circulation reached 213 million dirhams.

Altogether, the autonomous factors exerted a restrictive effect of 4.9 billion dirhams on banks liquidity.

Chart B 4.1.3: Change in reserve requirements

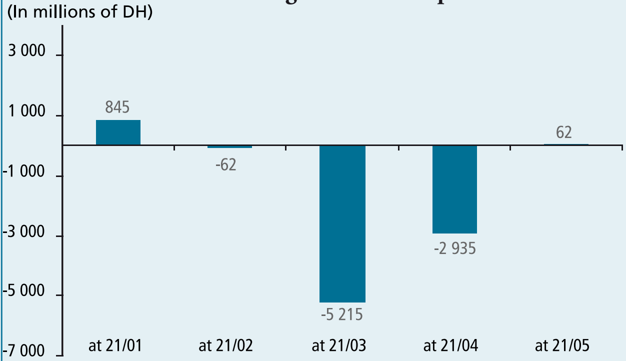
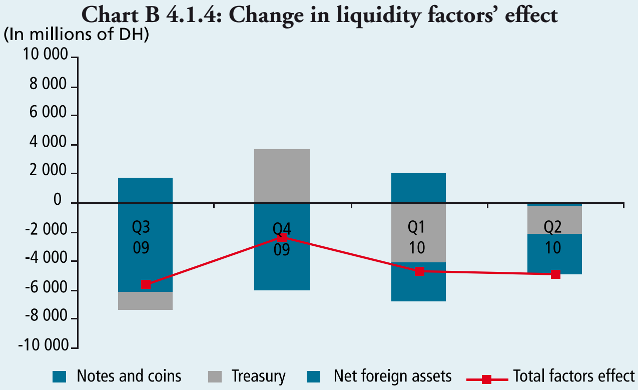


Chart B 4.1.4: Change in liquidity factors' effect



In order to overcome the shortfall in banks' liquidity, which averaged 14 billion dirhams during this quarter, and in light of the structural liquidity injection induced by the drop in the required reserve ratio, Bank Al-Maghrib intervened through the 7-day advances at an average daily amount of 12.3 billion dirhams.

During the second quarter of 2010, the weighted average rate (WAR) stood at 3.27 percent, 4 basis points down from the previous quarter.

The WAR volatility decreased by 4 basis points to 0.03 percent, from 0.07 percent previously, mosltly because of the reduction in banks' liquidity shortfall, the management of WAR volatility by the central bank and the Treasury's presence on the interbank market since February 18, 2010.

Chart B 4.1.5: BAM interventions on the money market

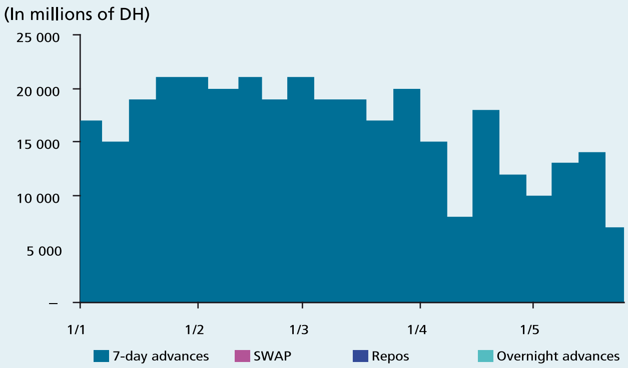
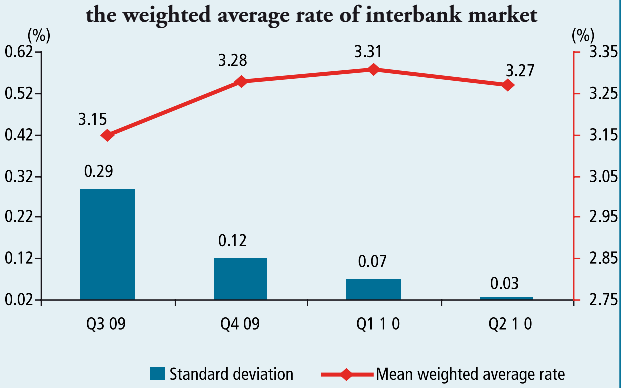


Chart B 4.1.6: Change in the mean and standard deviation of the weighted average rate of interbank market



last quarter of 2009 and the first quarter of 2010, declined 14 basis points to 3.44 percent. This decrease reflects faltering rates both on 6 months and on 12 months deposits.

Concerning lending rates, BAM survey among banks for the first quarter of 2010 indicates that the weighted average rate of bank loans almost stabilized around 6.65 percent. This situation reflects diverging trends per loan categories, however. Rates on cash loans, which constitute the main driver of the overall weighted average rate, continued the downward trend that began in the last quarter of 2009 to stand at 6.52 percent.

Similarly, rates on real estate loans fell 13 basis points to 6.16 percent. Rates on equipment loans, which are usually more volatile, increased to 7.99 percent, after declining 49 basis points in the last quarter of 2009, while consumer loans were up 3 basis points.

4.1.2 Money, credit and liquid investments

M3 growth

The latest data available show further moderation in money supply growth. As a result, monetary surplus remained negative but close to zero.

After standing at 4.6 percent in the first quarter of 2010, the M3 annual growth rate in April fell back to a record low of 3.9 percent. As well as the decline in net foreign assets and the slowdown in bank credit, this trend reflects the adverse effect of the increase in non-money

Chart 4.3 : Change in lending rates

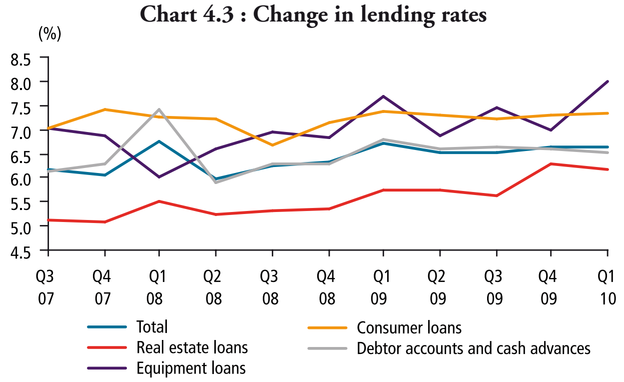


Chart 4.4: Interbank rate and lending rates

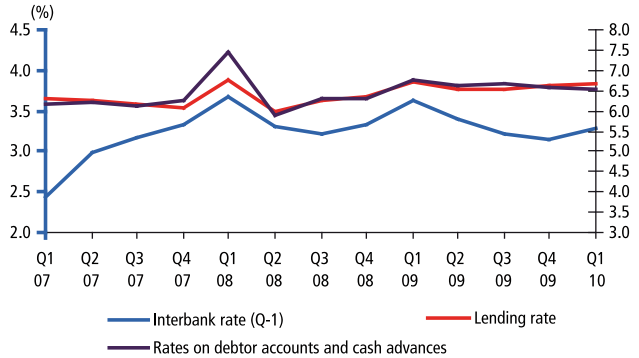


Chart 4.5: M3 annual growth and its year-on-year trend

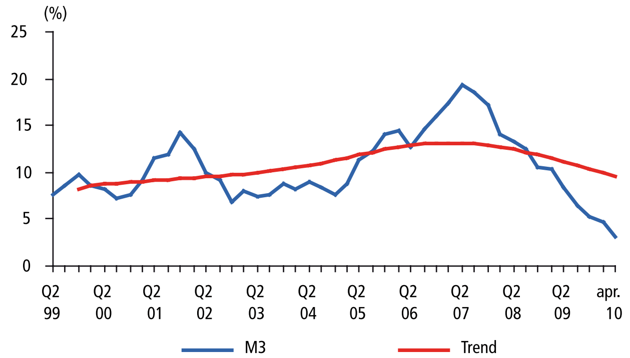
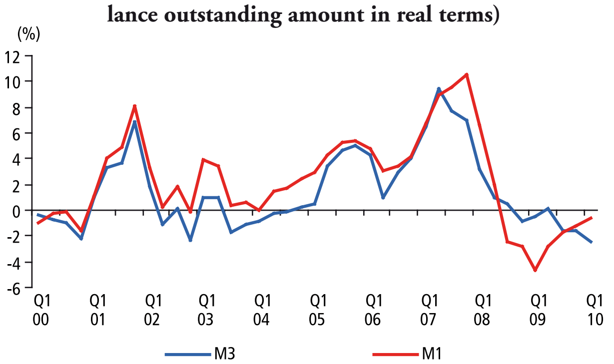


Chart 4.6: Money surplus (in percentage of M3 and M1 balance outstanding amount in real terms)



resources[1], particularly borrowings by banks. The trend also suggests the continued reallocation of nonfinancial agents' portfolios away from monetary holdings.

Analysis of M3 components shows that the annual growth of bank money decelerated to 5.5 percent in April from 6.5 percent in the first quarter of 2010. Time deposits declined 3.6 percent in April, from a 3.2 percent average a quarter earlier. Demand deposits and currency in circulation decelerated only slightly.

By economic agent, there was a moderate growth in deposits under the M3 aggregate, due to a weak contribution by all nonfinancial agents, expect for remittances by Moroccan expatriates, which almost stabilized.

Taken as a whole, deposits of nonfinancial businesses in April were 2 percent lower than in the previous year, owing to the decline in their time deposits. The annual growth rate of private individuals' deposits slowed somewhat to 2.8 percent, from 3.7 percent a quarter earlier, marking an increase in demand deposits and a contraction in time deposits. Public sector deposits with banks continued the downward trend that began several months before.

1 The «non-money resources» heading includes loans approved for banks, provisions and net equity. By applying the double-entry bookkeeping system, an increase in any of these elements implies a monetary destruction which is not reflected by the other components of M3.

Chart 4.7: Contribution of the major components to money supply growth, year-on-year

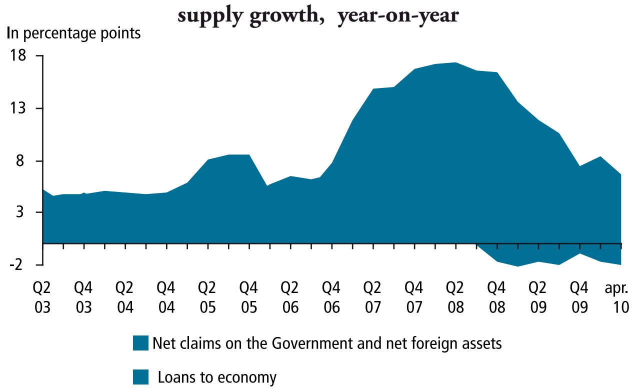


Chart 4.8: Year-on-year change of M3 components

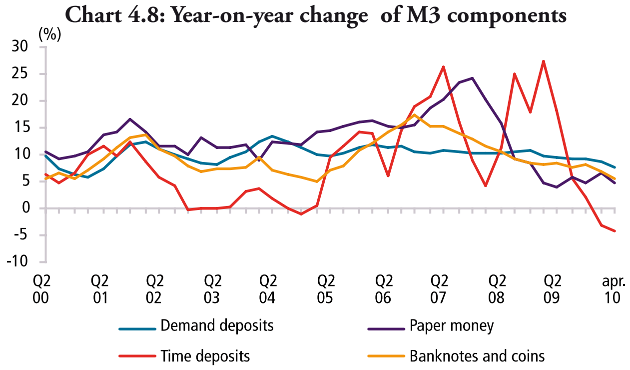


Chart 4.9: contribution of non-financial agents to the growth of total deposits included in M3

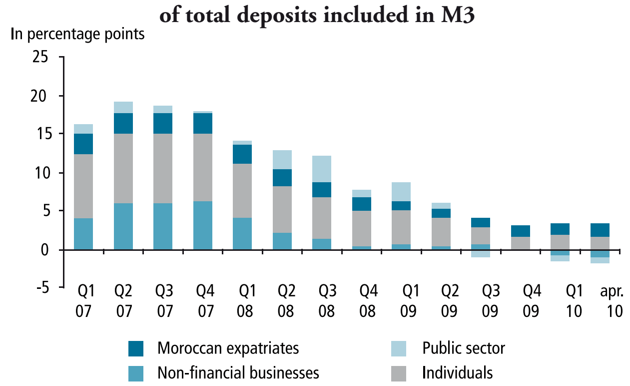
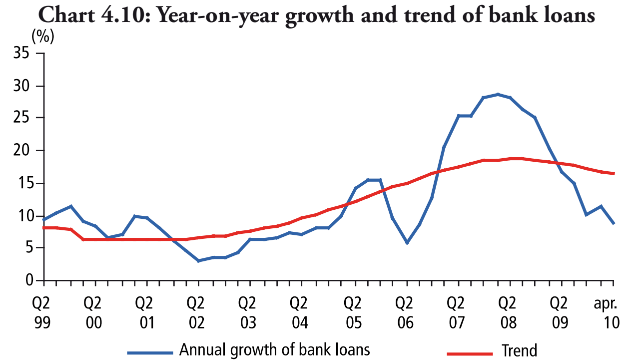


Chart 4.10: Year-on-year growth and trend of bank loans



Bank loans

Bank credit in April 2010 continued its gradual deceleration that began in the second quarter of 2008. Credit annual growth in the first quarter of 2010 stood at 11.4 percent, then at 10.2 percent in April, after a 28.7 percent peak in the first quarter of 2008.

By economic agent, the credit slowdown was more marked in loans to corporations. As these loans account for more than 60 percent of total loans, their absolute contribution to overall credit growth fell to 5.6 percentage points in April, from 6.7 percentage points in the first quarter and a 10.1 percentage points average in 2009. Loans to private individuals contributed 2.7 percentage points, a rate slightly higher than in the previous quarter.

By economic purpose, credit growth points to diverging trends in the various categories. Cash advances, mostly granted to corporations, increased by 3.4 percent in April after having almost stagnated in the first quarter of 2010. Real estate loans grew at 12.8 percent, the same average rate of the past three months, reflecting a surge in housing loans and a slight deceleration in loans to developers.

The annual growth of equipment loans reached 25.4 percent in the first quarter of 2010, mainly owing to the rising loans granted to some corporations in the sectors of the production and distribution of electricity, gas and water. In April, however, their month-on-month decline

Chart 4.11: Year-on-year growth of bank credit major categories

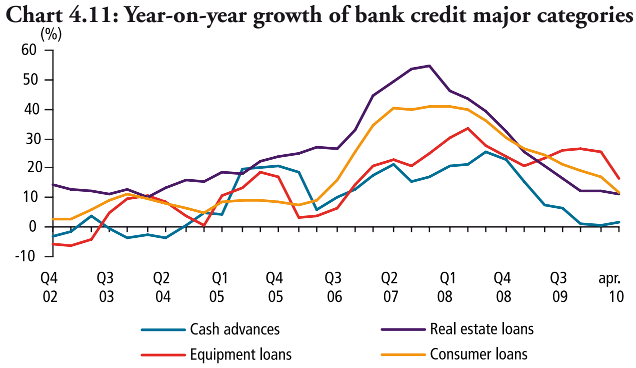


Chart 4.12: Contribution of the various loan categories to the growth of bank loans (year-on-year)

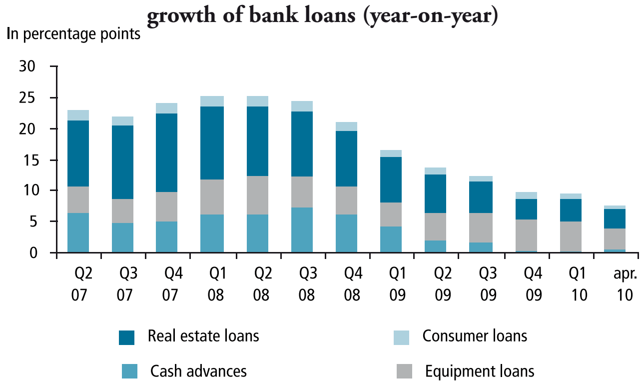


Chart 4.13: Contribution of non-financial agents to the growth of bank loans

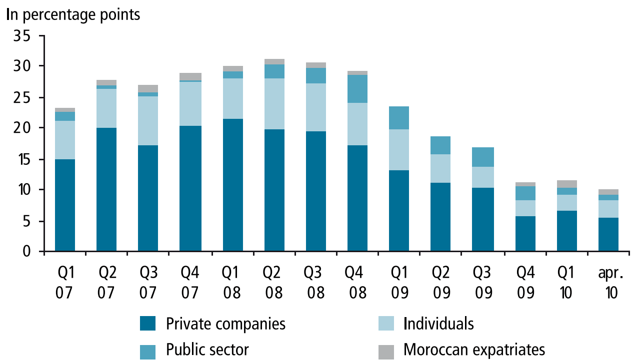
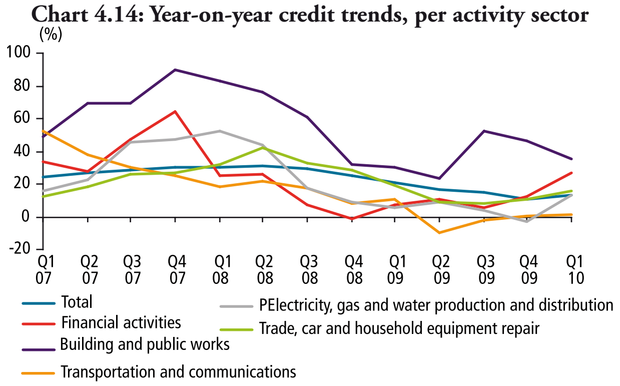


Chart 4.14: Year-on-year credit trends, per activity sector



caused their annual growth rate to slow to 17.5 percent. Consumer loans during the same month did not change significantly, but continued their downward trend that began many quarters before.

Other sources of money creation

Net foreign assets in the first quarter generally declined by 4.8 percent, compared with a quarter earlier, and by 9.1 percent compared with the same period in 2009. This decline is mostly driven by the widening trade deficit and falling travel receipts and revenues from private foreign investments and loans. Despite a moderate 0.4 percent increase in April, the overall outstanding amount of foreign exchange reserves was 7.1 percent lower than in the same month a year earlier. This trend mainly reflects a 5.3 percent decrease in BAM net foreign assets.

Net claims on the Government were down 3 percent, after rising 6.9 percent year-on-year in the first quarter. The fall is mostly attributable to the decreasing purchases by banks of Treasury bills.

Liquid investments

At the same time as monetary holdings grow slowly, analyses point to an ongoing momentum in liquid investments, mainly supported by demand from nonfinancial agents. During the first quarter of 2010, liquid investments rose by around 26 percent year-on-year, bringing their outstanding amount to 58 billion dirhams.

This trend reflects a sustained rebound in securities of money market UCITS whose outstanding amount increased to 27 billion dirhams, from 21 billion dirhams in the previous year, mostly in response to the

Chart 4.15: Year-on-year growth of net foreign assets

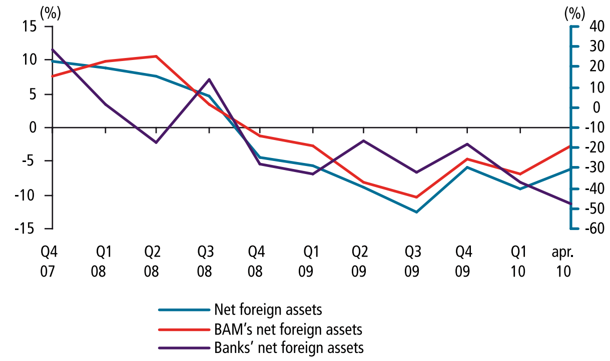


Chart 4.16: Quarterly change of the outstanding amount of net claims on the Government

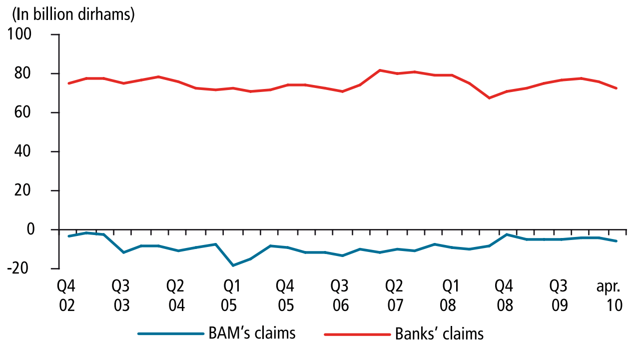


Chart 4.17: Year-on-year change of liquid investments and time deposits

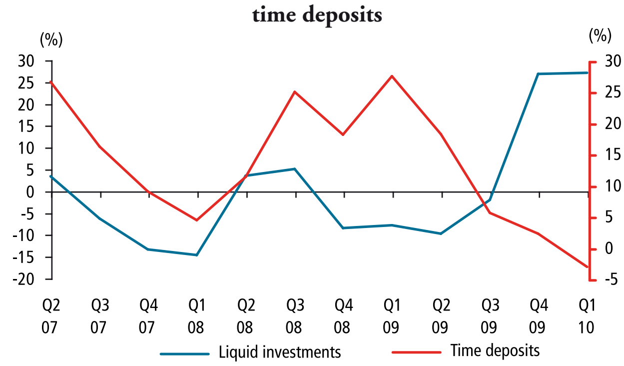
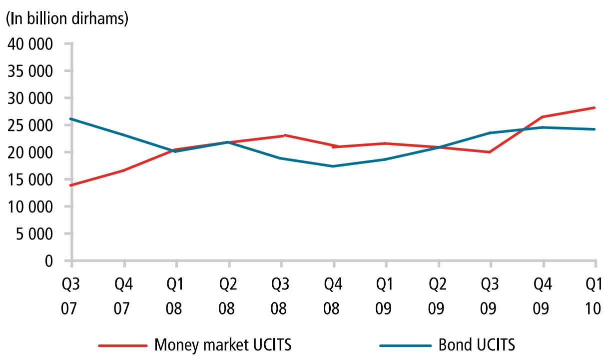


Chart 4.18: Change in money market and bond UCITS securities



growing demand from nonfinancial corporations. Securities of bond UCITS, however, slowed down somewhat with the rise in secondary market TB yields during the first quarter of 2010.

Securities of equity and diversified UCITS declined further, though less markedly, as prices on the Casablanca stock market recovered gradually.

Exchange rates

Over the first quarter of 2010 and compared with the previous quarter, the dirham depreciated by 5.33 percent against the US dollar, after several quarters of appreciation. Similarly, it traded against the Japanese yen, the Swiss franc and the pound sterling at rates lower than the averages reported in the previous quarter, at 4.38 percent, 1.88 percent and 0.91 percent, respectively. By contrast, the dirham appreciated 1.13 percent against the euro. The same trend continued through April and May, as the dirham was up 1.12 percent against the euro and down 4.95 percent against the dollar.

The dirham's nominal effective exchange rate, based on bilateral exchange rates with Morocco's major partners and competitors, decreased by 1 percent quarter-on-quarter. In real terms, the dirham depreciated by a modest 0.7 percent, owing to the fact that inflation rate in Morocco is generally higher than in the main partner countries and competitors.

4.2. Asset prices

4.2.1 Real estate assets

The world recovery in property prices, which started in the fourth quarter of 2009, continued through the first quarter of 2010.

Chart 4.19: Year-on-year growth of LI4 and MASI

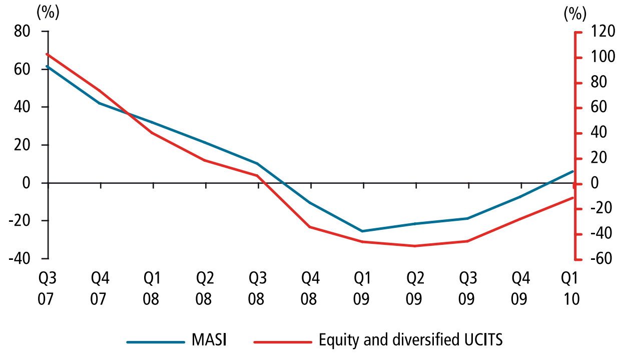
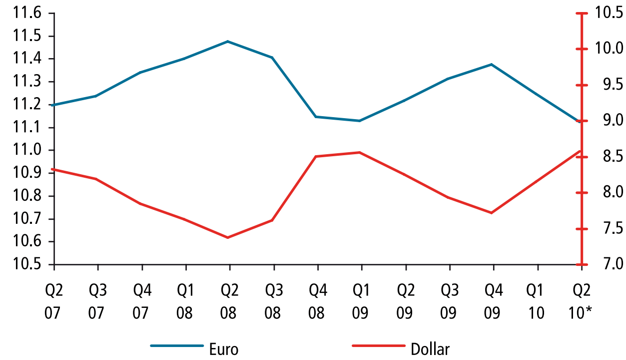
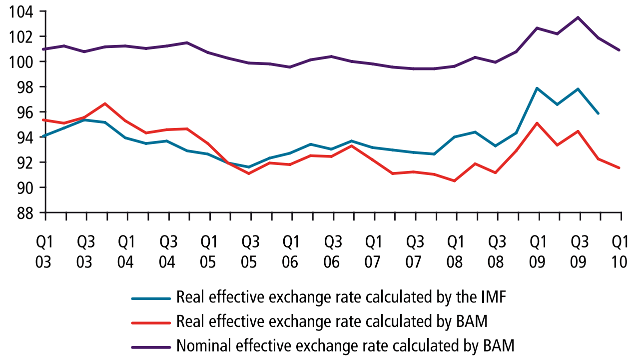


Chart 4.20: exchange rate of the Dirham *



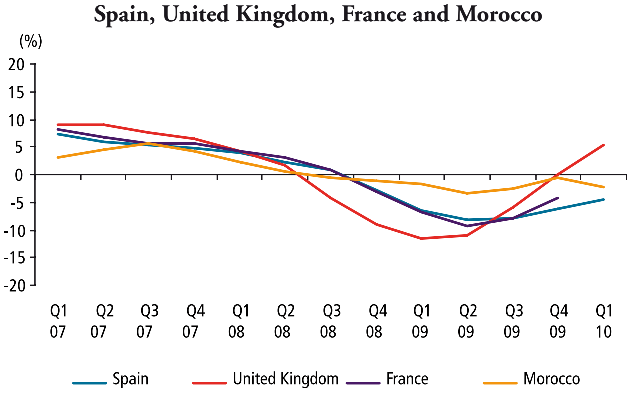
**Observation of the second quarter of 2010 corresponds to the arithmetic average of data from April 1 to May 25*

Chart 4.21: Effective exchange rate (Base year= 2000)



Sources: IMF and BAM

Chart 4.22: Year-on-year change in the real estate price index in Spain, United Kingdom, France and Morocco



In the United Kingdom, property prices increased by 5.3 percent year-on-year, while in Spain their declining pace was contained at 4.5 percent.

The real estate price index (REPI) in the first quarter of 2010 points to a 3.3 percent quarter-on-quarter decline, compared with a positive growth during the previous two quarters. On a year-to-year basis, the REPI further declined by 2.2 percent, after 0.5 percent in the previous quarter.

Meanwhile, sales of residential property registered at the Land Registry Office declined in the first quarter of 2010 at an annual rate of 1.4 percent to 15,520 transactions. This decrease in sales volume affected both apartments and houses, albeit at different proportions.

Over the first quarter 2010, housing loans (see chart 4.25) increased by 12.6 percent year-on-year, breaking their aligned trend with the REPI, which lasted over the previous quarters. An identical trend was observed in the stock exchange property index (see chart 4.26), which has shown a negative correlation with the REPI since the fourth quarter, posting a 3.2 percent increase.

4.2.2 Stock prices

In the first quarter of 2010, the Moroccan All Share Index (MASI) increased markedly by 9.3 percent. This upward trend was reversed, however, in May when the index lost nearly 2 percent, bringing its year-to-date performance to 15.6 percent. Likewise, the stock market property index increased by 11.3 percent over of the first quarter, but decreased in May at a monthly rate of 2 percent.

Chart 4.23: Real estate price index

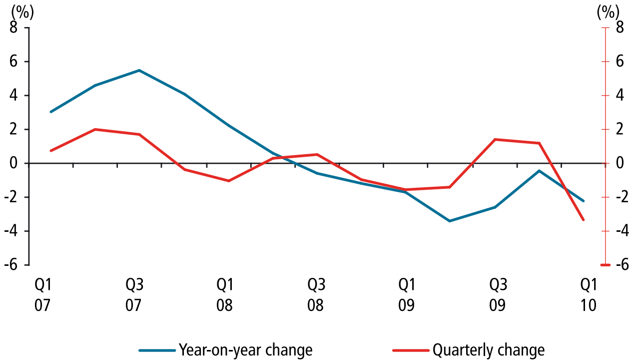


Chart 4.24: Real estate price index and number of transactions

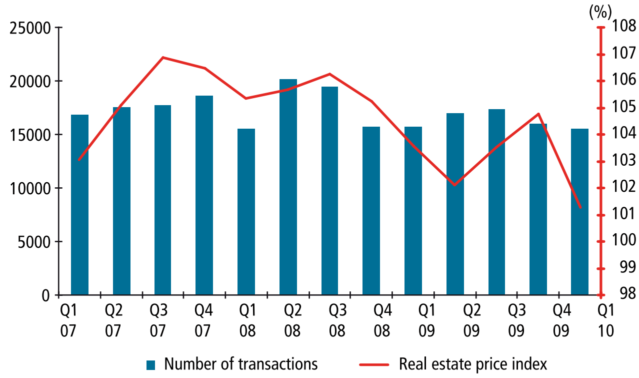
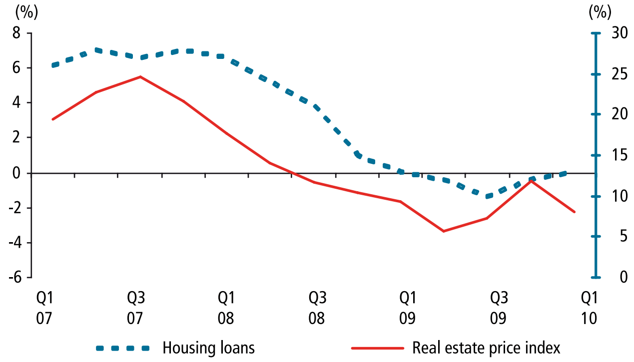
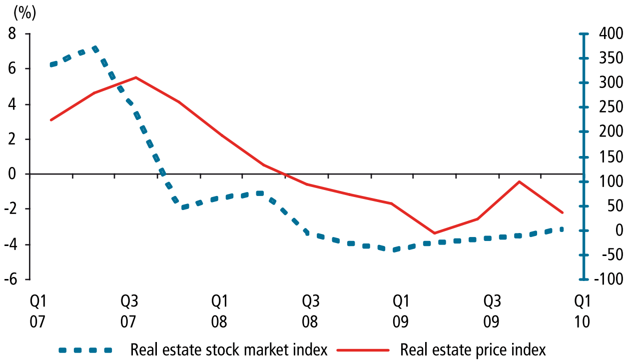


Chart 4.25: Real estate price index and housing loans*, year-on-year



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

Chart 4.26: Real estate price index and real estate stock market index, year-on-year



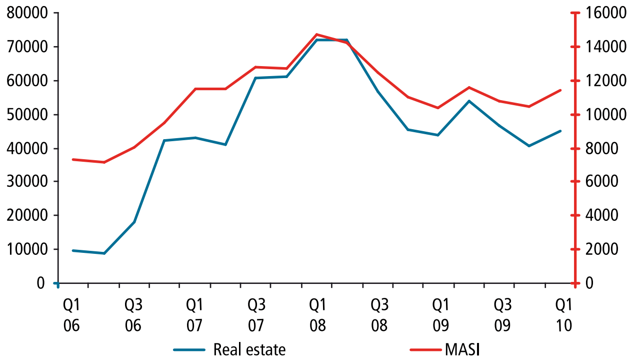
Owing to price appreciation, the PER[1] of the Casablanca stock market moved up quarter-on-quarter from 15.7 percent to 18.1 percent at the end of May, while remaining higher than in other stock markets of similar size. The price to book ratio[2] stood at 3.3 in May. Based on these two indicators, the levels of PER in Morocco's stock market are higher than in other stock markets.

Moreover, the volume of transactions shrank by 17 percent to nearly 42 billion dirhams, from 50.5 billion dirhams a quarter earlier.

However, market capitalization increased by 10.1 percent in the first quarter to 560.5 billion dirhams. Data at the end of May also show that the Casablanca stock market capitalization further appreciated to 586.4 billion dirhams.

Most sectoral indexes went up over the first three months of 2010, except for a limited number of sectors with declining activity. The stock market index of mining sector increased markedly by 38.6 percent. The indexes of telecommunications, buildings and construction materials, and real estate sectors appreciated by 17.3 percent, 12.1 percent and 11.3 percent, respectively. The indexes of finance companies, insurance, and banks were also up 10.5 percent, 8.1 percent and 3.8 percent, respectively.

Chart 4.27: Stock market indexes



**Data at the end of May 2010*

1 The price earnings ratio (PER) is a valuation ratio of a current share price compared to per-share earnings.

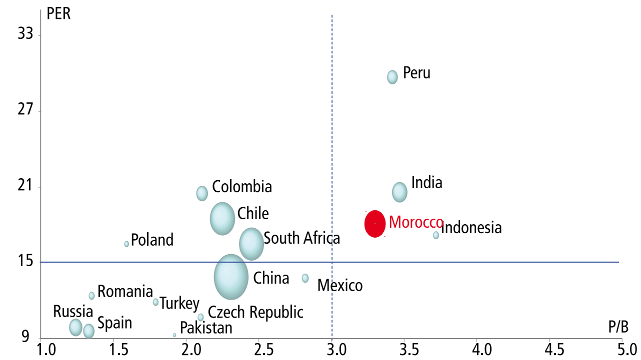
2 Price to book ratio (P/B) is the ratio of the stock's market value (market capitalization) compared to its book value.

Table 4.3: Equity market's PER

PER	Q1:09	Q2 :09	Q3 :09	Q4 :09	Q1 :10	Q2 :10
Argentina	8.5	8.0	13.9	17.3	14.0	9.5
Brazil	9.0	9.7	11.1	13.1	17.4	15.2
Mexico	11.6	16.6	18.1	20	17.3	13.8
Turkey	5.3	8.5	10.8	9.9	12.4	11.9
Morocco	**14.4**	**16.4**	**15.8**	**15.7**	**16.9**	**18.1**

** Data at the end of May 2010*
Sources: Bloomberg and CFG

Chart 4.28: Equity market's PER in Morocco and in some emerging countries at the end of May 2010**



(**) The size of bubbles depends on the ratio: Market capitalization/ GDP
Sources: Datastream, CFG Gestion, and BAM calculations

Chart 4.29: Quarterly change in sectoral indexes

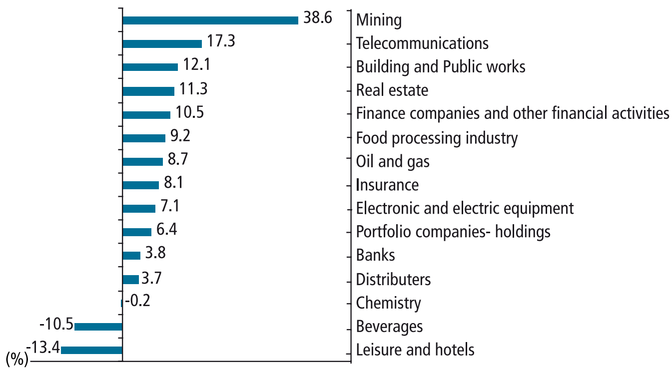
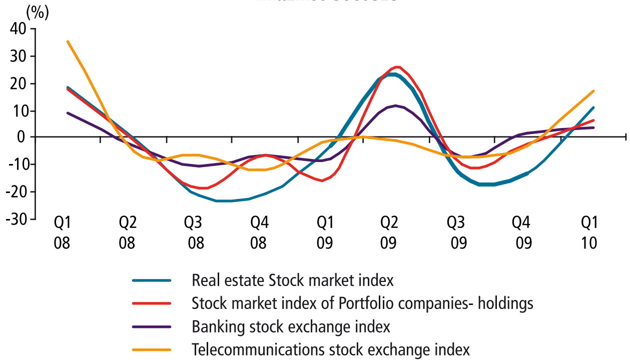


Chart 4.30: Quarterly change of indexes of the major stock market sectors



5. RECENT INFLATION TRENDS

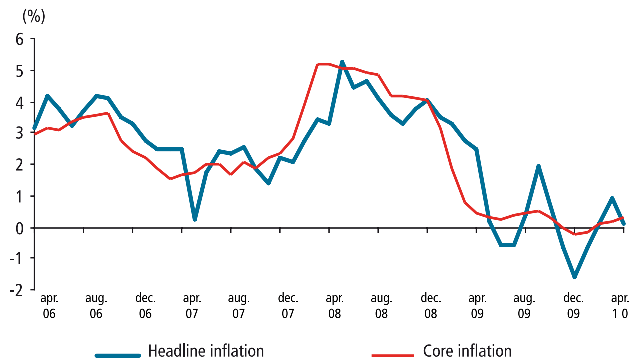
In line with the forecasts published in the previous monetary policy reports, the underlying trend of prices remained moderate. Some fluctuations with an average close to zero were observed from one period to another, reflecting either the volatility of some food prices or one-off base effects. However, pressure on prices remains generally subdued, with the ongoing easing in price rises internationally and weak pressures from demand. Annual inflation remained stable between the first quarter and April at 0.1 percent, compared with -0.5 percent in the fourth quarter of 2009. Core inflation increased at a modest 0.3 percent in April, after averaging 0 percent in the last two quarters. These moderate inflation rates resulted from the quasi-stagnation in nontradable goods prices at 0.9 percent in April and the declining inflation of tradable goods from 1 percent to -0.7 percent in the same period. It is worth noting that the recent hike in commodity prices, notably oil, in part passed through industrial output prices, which again rose at an annual rate of 11.3 percent in April.

5.1 Inflation trends

With a relatively subdued inflation in our main partner countries and the absence of any significant pressure on domestic demand, headline inflation remained at low levels. Having fallen below 2 percent since May, it continues to hover around 0 percent under the one-off effect of price changes in the "volatile food products" component. Excluding that component and administered products, core inflation slightly increased during the last three months but remained at a low record, owing mainly to the continued annual decline in the prices of "cereal-based products" and "oils and fats".

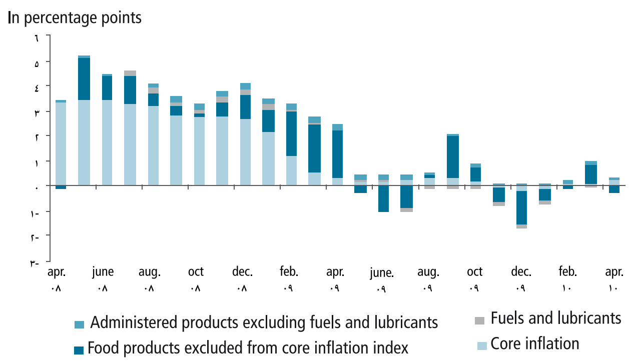
Headline inflation, as measured by the annual change in the consumer price index (CPI), stood at 0.1 percent in April, compared with an identical rate in February and 0.9 percent in March. This trend mainly reflects a 1.7 percent decline in the prices of "volatile food products", following a 5.3 percent increase in the previous month, coupled with a significant slowdown in

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

vegetables prices, from 18 percent to 5.6 percent, and a 3.0 percent drop in prices of " fish and seafood".

Non-food prices generally grew at the same rate of 0.9 percent reported in March. Prices for fuels and lubricants, by contrast, posted an annual variation of 0.2 percent, up from -1.2 percent, despite their month-on-month stability. This change was driven by the decline in the fuel average price in April 2009, following the lining up of diesel 50PPM and ordinary diesel prices at 7.15 Dh/L (see Table 5.2). Altogether, the moderate prices under this heading, amid the upturn in oil prices, are attributable to the freezing of the indexation mechanism which insulates the national market from fluctuations abroad. The burden of oil price changes falls however on the State's budget, through the Subsidization Fund. Administered products excluding fuels and lubricants increased by 0.6 percent, a rate similar to that recorded in March.

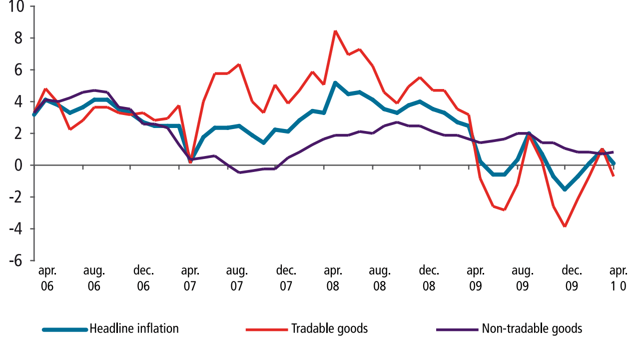
The one-off inflation changes in recent months are confirmed by data on core inflation, which continues to move slowly since January 2010, but remains low in the absence of fundamental and significant pressure on prices. Core inflation in April stood at 0.3 percent, after 0.2 percent in March and 0.1 percent in February. The absolute gap between headline inflation and core inflation shrank in April to 0.2 percent, from 0.8 percent in March.

Table 5.1: Inflation and its components

	Monthly change (%)			Year-on-year (%)		
	feb. 10	march 10	apr. 10	feb. 10	march 10	apr. 10
Headline inflation	**0.9**	**1.4**	**-0.3**	**0.1**	**0.9**	**0.1**
Including: - Food products excluded from core inflation	7.7	10.7	-2.3	-0.8	5.3	-1.7
- Fuels and lubricants	0.0	0.0	0.0	-1.2	-1.2	0.2
- Administered products except fuels and lubricants	0.0	0.0	0.1	0.5	0.5	0.6
Core inflation	**-0.1**	**-0.1**	**0.1**	**0.1**	**0.2**	**0.3**
Including: - Food products	-0.5	0.1	0.1	-1.6	-1.3	-0.8
- Clothing and shoes	0.0	-0.2	-0.1	0.7	0.7	0.5
- Housing, water, gas, electricity and other fuels*	0.0	0.1	0.0	1.1	1.0	0.8
- Furniture, household and house cleaning goods	0.0	0.1	-0.1	0.8	0.9	0.7
- Health*	0.2	-0.4	-0.8	1.0	0.4	-0.6
- Transportation*	0.3	-0.2	0.0	1.3	1.2	0.7
- Communication	0.0	0.0	-0.3	-1.8	-1.8	-0.3
- Leisure activities and culture	0.1	-0.2	-0.2	-0.4	-0.7	-0.5
- Teaching	0.0	0.0	0.0	3.8	3.8	3.8
- Restaurants and hotels	0.2	0.2	0.6	2.7	2.7	3.3
- Miscellaneous goods and services	0.2	0.0	0.1	1.8	1.7	1.5

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

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



Sources: HCP, and BAM calculations

Box 5.1: Calculation of the core inflation index by Bank Al-Maghrib

The Bank Al-Maghrib monetary policy relies on a broad analytical framework that helps to monitor and analyze inflation and its main determinants. These analyses, along with forecasts for six quarters, relate to headline inflation, which is measured on the basis of the consumer price index (CPI) that is developed and published by the High Commission for Planning. However, headline inflation involves high short-term volatility, due to changes in the prices of products vulnerable to one-off supply shocks. It may register changes in levels, in response to the government's decisions to revise the prices of administered goods. Therefore, in common with central banks in many advanced and emerging countries, Bank Al-Maghrib has reinforced its inflation analysis mechanisms by developing core inflation indexes (see box 6.1 of December 2006 MPR and the 2005 Annual Report).

The index built on the exclusion method is analyzed internally. For the sake of transparence, it has now become part of the various publications of the Bank, notably the Monetary Policy Report.

This index, used by many central banks, is based on the exclusion of volatile food products and administered goods.

Other alternatives have been developed to complete the analysis of the underlying trend of inflation. These include the trimmed means which excludes, in each month, different CPI components based on a predetermined statistical criterion. Another alternative is the double-weighted indicator which does not disregard the CPI components, but regularly adjusts their weights according to their historical volatility. To check the solidity of these measures and classify them by order of relevance, statistical tests and quantitative analyses have been conducted. The latter show that the three indicators are unbiased, less volatile than inflation and well capable to predict inflation. The exclusion index proves however to be better adapted for wide circulation to the public thanks to its transparence, simplicity and comparability with indexes published by most central banks and international statistical bodies.

Chart B 5.1: Year-on-year change in headline inflation and core inflation

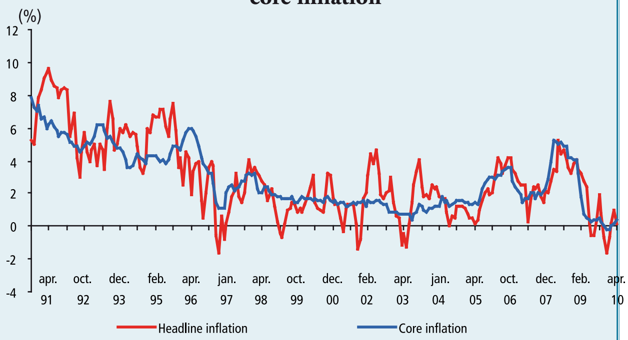


Table B 5.1: Weight of products excluded from core inflation index in Morocco compared with a sample of countries

Country	Weight of products excluded from core inflation
Poland	33
Morocco	**33**
Egypt	28
Chile	27
Thailand	25
United States	22
Euro area	17
Bank of Canada	16
South Africa	12
Australia	10

It is worth noting that the more detailed breakdown of the new CPI relative to the old cost of living index has allowed better identification of the features of each component in the consumption basket, leading to a significant improvement in core inflation measurement.

Table B 5.2: Comparative analysis of components excluded from core inflation index, based on the consumer price index (CPI) and the cost of living index (CLI)

Components excluded from CPI in %	**Poultry and rabbits**	**Fresh fish**	**Citrus fruits**	**Fruits frais**	**Fresh vegetables**	**Sugar**	**Tobacco**	**Fuels and lubricants for private cars**	**Unprocessed cereals**	**Eggs**	**Other aromatic plants**	**Other administered products**	**Total**
	2.5	1.8	0.5	1.4	4.1	1.2	2.1	2.4	0.7	0.8	0.2	15.2	32.9
Components excluded from CLI in %	**Meat**	**Fresh fish**	**Fresh fruits**	**Fresh vegetables**	**Sugar and sugar products**	**Tobacco and cigarettes**	**Private transportation**						
	11.9	1.4	2.0	4.8	1.8	2.9	2.7						27.5

Sources: HCP, and BAM calculations

5.2 Tradable and nontradable goods

Inflation trends can also be measured through the breakdown of consumer price index into an index of tradable goods and another of nontradable goods. These two indexes point to respective weights of 49 percent and 51 percent of the overall index. Prior to May 2010, prices for tradable goods contributed positively and significantly to headline inflation, while prices for nontradable goods moved at a moderate, quasi-stable pace. Subsequently, prices for tradable goods started to decline under the impact of strong volatility in fresh food prices. In April, the index of tradable goods receded by 0.7 percent, after its 1 percent increase in March, thereby contributing -0.3 percentage point to headline inflation, compared with 0.5 percentage point in the previous month. The generally low prices of tradable goods for many months also resulted from the continued year-to-year decline in the prices of some staple food, particularly cereals and oils.

Inflation of nontradable goods, by contrast, increased to 0.9 percent from 0.8 percent in the previous month, contributing 0.4 percentage point to headline inflation. While the prices of fresh meat and food services industry increased, poultry prices posted a sharper decrease.

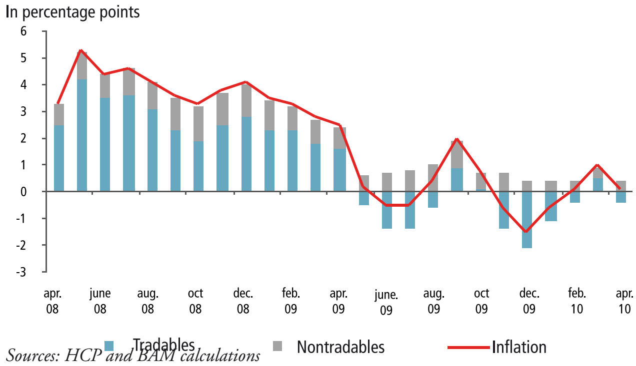
Except for "volatile food products" and "administered goods", tradable goods prices have been declining since March 2009, on a year-to-year basis. The inflation of tradable goods appears to be more correlated with

Table 5.2 : Domestic selling prices of oil products

Products (Dh/Liter)	Dec. 08	Feb. 09	Apr. 09	Jul. 09	Jan. 10	Apr. 10
Premium gasoline	11.25	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
Industrial fuel (Dh/Ton)	3374	3074	3074	3074	3074	3074

(*) The Diesel 50PPM replaced the diesel 350 in February 2009 and the ordinary diesel in April2009.
Source: Ministry of Energy and Mining

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



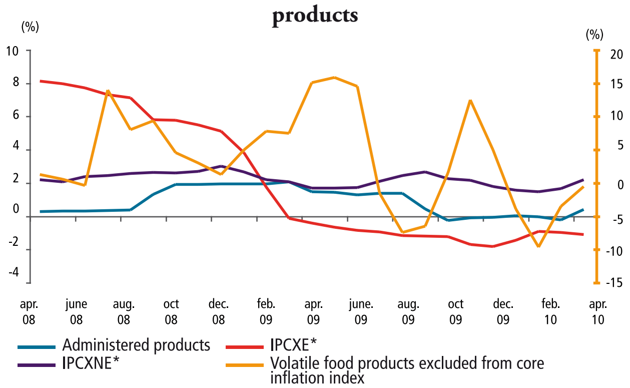
Sources: HCP and BAM calculations

Table 5.3: Change in the price indexes of tradable and nontradable goods

	Monthly change (%)			Year-to-year change (%)			
	Feb. 10	March 10	Apr. 10	Feb. 10	March 10	Apr. 10	Feb. 10
Tradables	1.8	2.6	-0.8	-0.8	1.0	-0.7	-0.8
Nontradables	0.0	0.2	0.2	0.8	0.8	0.9	0.9

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

world price fluctuations (see Box 5.2). It stood at -1.2 percent in April and -1.1 percent in March, in response to the decrease in the prices of cereals, oils and pulses. This inflation trend stems in part from the decline in the prices of durable goods, particularly home appliances and audiovisual devices, both in Morocco and abroad, owing to the easing pressures from demand in a highly competitive market. The index of nontradable goods, excluding volatile and administered products, which is particularly relevant to the assessment of domestic inflationary risks and second-round effects of tradabales prices, has nearly averaged 2 percent since early 2009, after moving up almost steadily in 2008. In April, it increased from 1.5 percent to 2.1 percent, with the rise in the prices for fresh meat, food services industry, domestic services and tourism packages.

5.3 Goods and services

The breakdown by goods and services indicates that the fall in inflation in April was caused by the decline in the prices of unprocessed goods, which dropped 0.4 percent after increasing 3.4 percent in March, thus reducing their contribution from 0.8 percentage point to -0.1 percentage point in April. Prices for processed goods, excluding fuels and lubricants, fell at an annual rate of 0.9 percent in April, from 0.8 percent in March, and had no impact on the month-on-month inflation dynamics as their contribution to headline inflation stood at -0.4 percentage point.

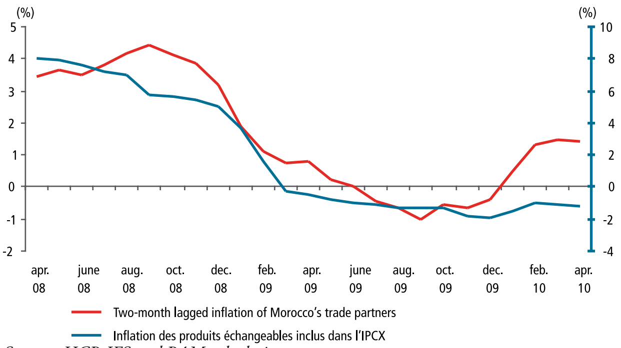
Likewise, the contribution of services to headline inflation has stabilized at 0.5

Table 5.4: Price indexes of tradable and non-tradable goods excluding volatile and administered products

	Contributions à l'inflation en variation mensuel		Contributions à l'inflation en glissement annuel	
	March 10	Apr. 10	march 10	Apr.10
Products excluded from core inflation index Of which:	1.4	-0.3	0.8	-0.1
Administered products	0.0	0.0	0.1	0.1
Volatile food products	1.4	-0.3	0.7	-0.2
IPCXE	-0.1	0.0	-0.4	-0.4
IPCXNE	0.0	0.1	0.5	0.6

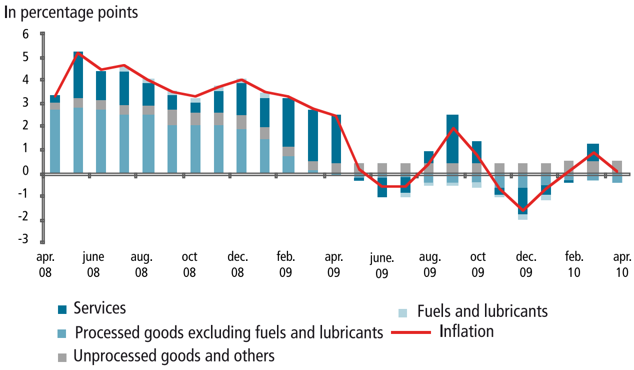
Sources: HCP and BAM calculations

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



Sources: HCP, IFS and BAM calculations

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



Sources: HCP and BAM calculations

Table 5.5: Price indexes for goods and services

	Monthly change (%)			Year-on-year change (%)		
	Feb. 10	March 10	Apr. 10	Feb. 09	March 09	Apr. 10
Processed* goods	-0.1	-0.1	-0.1	-0.7	-0.8	-0.9
Unprocessed goods and others	4.2	6.6	-1.3	-0.7	3.4	-0.4
Services	0.1	0.1	0.1	1.5	1.5	1.7
Fuels and lubricants	0.0	0.0	0.0	-1.2	-1.2	0.2

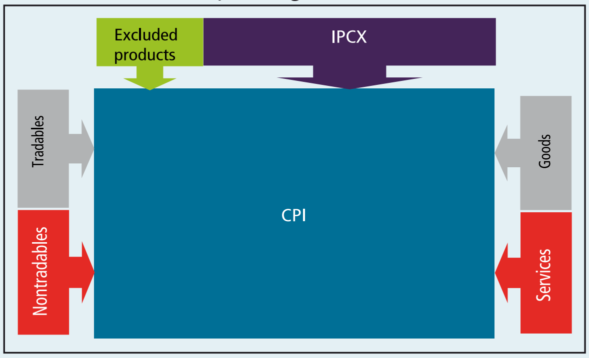
** Excluding fuels and lubricants*
Sources: HCP and BAM calculations

Box 5.2: Price index for tradable and nontradable goods included in core inflation

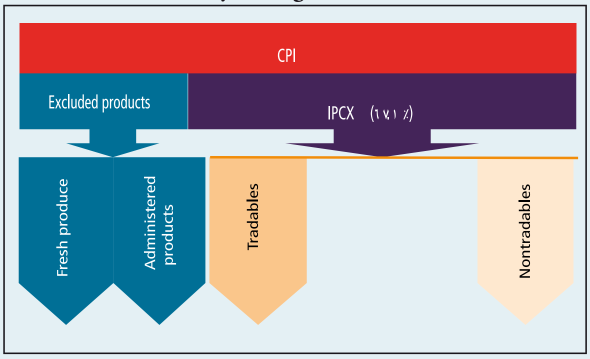
Through its inflation analysis framework, Bank Al-Maghrib establishes a number of analytical indicators based on data released by the High Commission for Planning on the CPI, the official index for inflation measurement in Morocco. The development of these indicators seeks, through follow-up of homogenous sub-indexes, to better analyze inflation determinants according to their nature (supply and demand) and their origin (internal or external).

In addition to core inflation measurement and the breakdown into goods and services, Bank Al-Maghrib provides a breakdown of the CPI into tradable and nontradable goods and services (see Box 5.3, March 2008 MPR). The index of tradables includes goods which are either imported or exposed to international competition on domestic and foreign markets. The index of nontradables includes goods and services whose prices are not subjected to foreign competition. This breakdown helps to distinguish changes in prices involving shocks on the exchange rate and/or international prices from other changes stemming from the conditions of domestic supply and demand.

Old analysis diagram of inflation



New analysis diagram of inflation



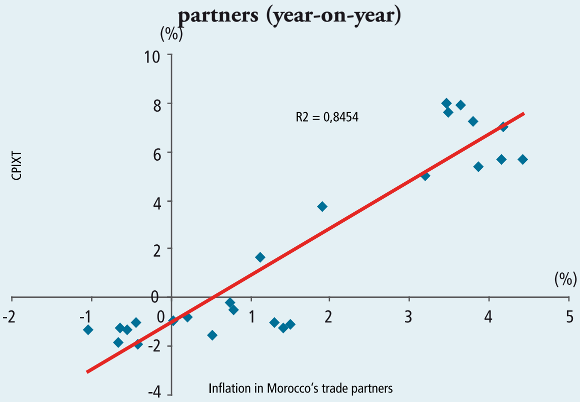
In the absence of any correspondence between the components of the statement of source and application of funds and that of the CPI, the two indexes of tradable and nontradable goods and services are calculated in the following manner:

- All services are classified under the heading of nontradables, except for air transportation of passengers;

- The remaining goods are classified either as tradables or nontradables depending on their contribution to the trade balance.

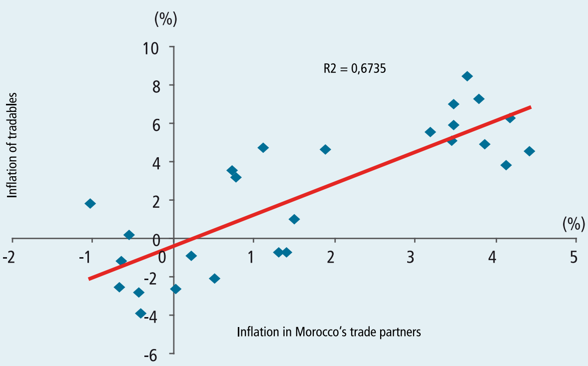
In Morocco, the weight of food products in the CPI is significant (41.5 percent) and the prices of many goods are highly volatile as they are vulnerable to domestic supply shocks, particularly of weather nature. Being classified as tradables under the standard definition, their changes from one period to another governs changes in other goods and makes it difficult to appreciate the scale of international prices transmission and the exchange-rate movements to the index of domestic tradable goods prices. Under these circumstances, the development of new sub-indexes which disregard goods excluded from core inflation proved to be necessary.

Chart B 5.2.1: CPIXT and headline inflation of Morocco's trade partners (year-on-year)



Sources: HCP, IFS and BAM calculations

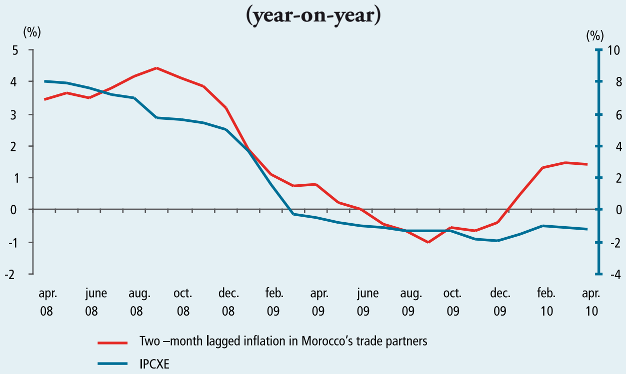
Chart B5.2.2: Inflation of tradable goods (old index) and inflation in Morocco's trade partners (year-on-year)



Sources: HCP, IFS and BAM calculations

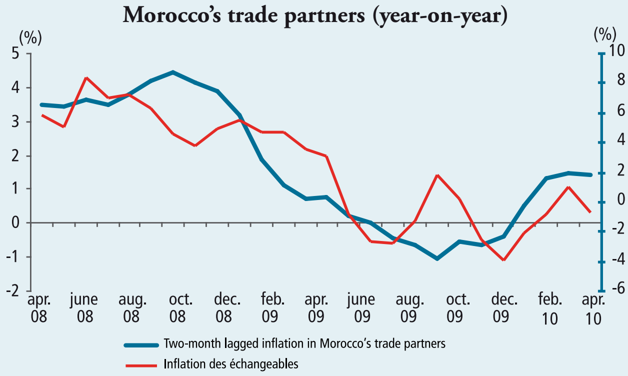
While there is no significant impact on the nontradables index, this new breakdown allows to better capture the correlation and adjustment delays between the inflation of tradables in Morocco and price changes in trade partners. It is to be noted that starting this MPR, the new indexes will be referred to in all BAM publications as CPIXT and CPIXNT.

Chart B5.2.3: CPIXT and inflation in Morocco's trade partners (year-on-year)



Sources: HCP, IFS and BAM calculations

Chart B5.2.4: Inflation of tradables (old index) and in Morocco's trade partners (year-on-year)



Sources: HCP, IFS and BAM calculations

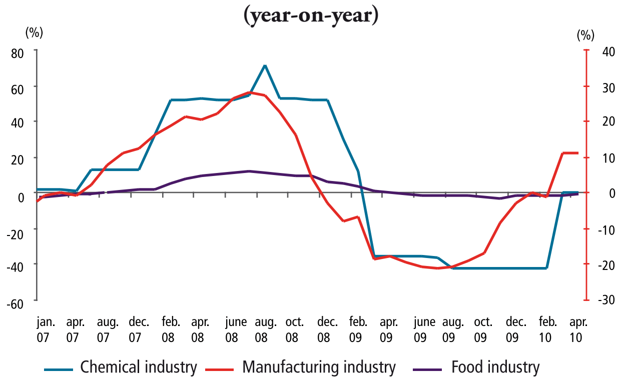
percentage point for four months, despite the acceleration in the prices of these products from 1.5 percent in March to 1.7 percent in April.

5.4 Industrial producer price index

While consumer prices remain generally subdued, the industrial producer price index has moved up almost steadily since April 2009, driven by the rise in commodity prices that began many months before. However, owing to its exceptionally high level until the first quarter of 2009, the index maintained its downward trend on a year-to-year basis, before increasing markedly by 11.3 percent in March through April. With an annual growth rate of 52.4 percent, after 61.2 percent in March, the prices of this industry contributed 11.1 percentage points to the increase in the general index.

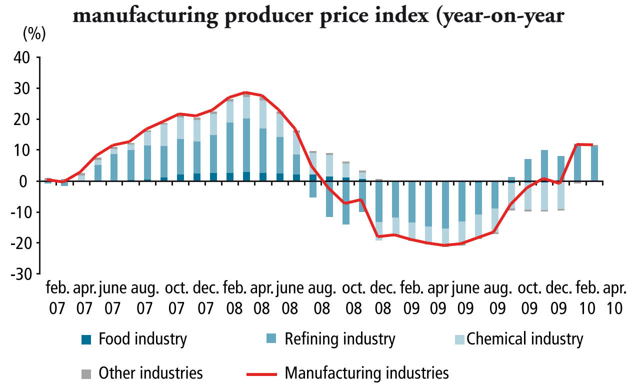
Excluding the coking and refining industry, the variation in the producer price index stood at 0.1 percent, contributing 0.1 percentage

Chart 5.8: Change in industrial producer price indexes (year-on-year)



Sources: HCP, and BAM calculations

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



Sources: HCP, and BAM calculations

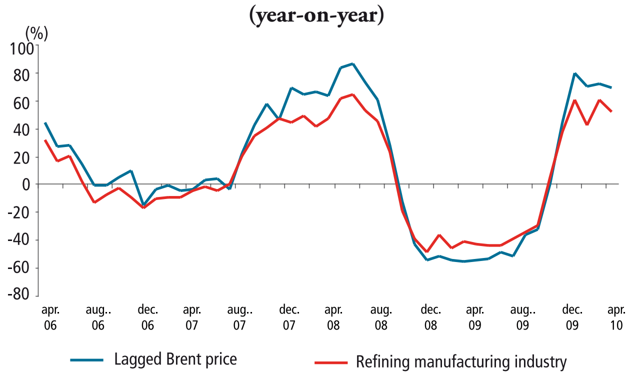
point to the increase in the overall index. Prices of the "chemical industry" grew at an annual rate of 0.4 percent, up from 0.3 percent in March. At the same time, the annual growth of production costs ranged between -2.4 percent for "metals working" and 7.3 percent for "paper and carton industry".

5.5 Inflation expectations

Inflation expectations are assessed on the basis of BAM business survey. The latter indicates that in April the percentage of corporate managers anticipating stagnant inflation continued the decline that began in February, but remained high. For the three coming months, the percentage of manufacturers who expect a rise in inflation has moved up slightly (see Chart 5.12).

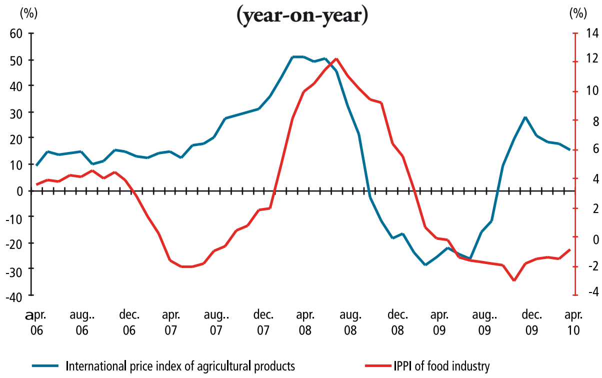
The survey also expects the upward trend in the producer prices of finished goods to continue in the three coming months in all industries except for textile and leather, and mechanical and metallurgical industries (see Chart 5.13).

Chart 5.10: Refining industry price index and Brent price (year-on-year)



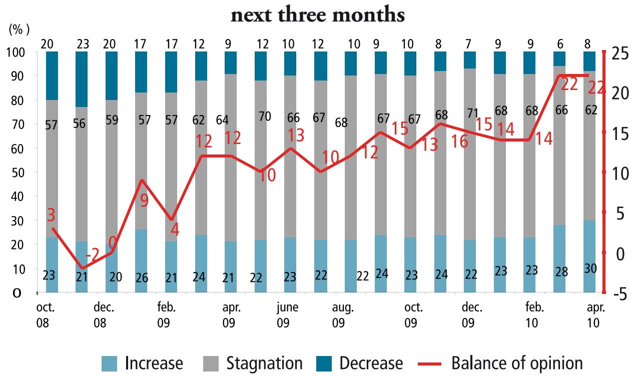
Sources: IMF, HCP, and BAM calculations

Chart 5.11: Change in domestic and international food prices (year-on-year)



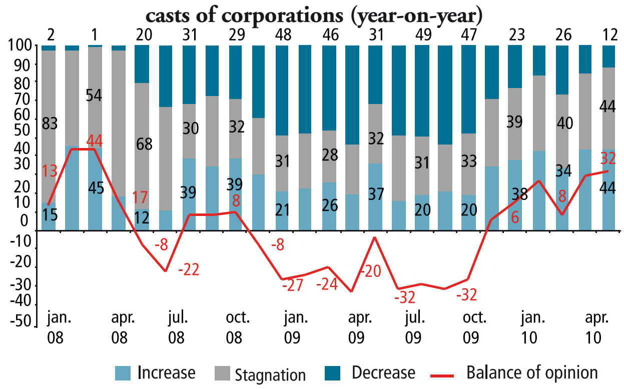
Sources: World Bank, HCP and BAM calculations

Chart 5.12: Corporate managers' perception of inflation for the next three months



Source: BAM monthly business survey

Chart 5.13: 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, the inflation trend over the coming six quarters remains in line with the price stability objective, with an average forecast of about 1.7 percent. This projection was adjusted upward (from 1.4 percent earlier) in comparison with the March MPR. In 2010, headline inflation should hover around 1.2 percent, slightly above the level projected in the last MPR (1.0 percent). The balance of risks surrounding the present forecast is slightly skewed to the upside. At the external level, these risks are particularly linked to higher import prices. Internally, they are related to the future trend of bank credit.

6.1 Baseline scenario assumptions

6.1.1 International environment

The world economy continued to recover over the last two quarters, after a steep fall early last year. Government support in the form of expansionary fiscal stimulus plans and accommodative monetary policies was essential to prevent the debt-deflation spiral and to moderate the adverse interactions between the financial system and the real sector. Moreover, the world economic recovery has benefited from a better-than-expected improvement in the financial markets and a turn in the inventory cycle, which had to be rebuilt after the output collapse in the fourth quarter of 2008 and the first quarter of 2009.

Economic recovery seems to proceed at varying speeds- steadily in emerging countries and tepidly in most developed countries. For developed countries, the U.S. economy, despite being the epicenter of the crisis, seems to show more favorable outlook than the Japanese and European economies which witness an uneven recovery. In the United States, fiscal stimulus was more significant, with financial companies less dependent on bank credit and the balance sheets of nonfinancial companies stronger and subject to faster restructuring. In Japan, by contrast, the economy suffered both from the sharp yen appreciation, which frustrated exports significantly, and from renewed deflation, which led notably to the rise in real lending rates. In the euro area, exports contracted with the slump in demand from European emerging economies and the economies of the Commonwealth of Independent States (CIS), which remain heavily affected by the crisis.

In this context, the International Monetary Fund (IMF) revised up its forecast for U.S. economic growth to 3.1 percent in 2010 and 2.6 percent in 2011, from the 2.7 percent and 2.4 percent, respectively, which had been announced in its January report. The IMF's projections for the euro area have not seen substantial changes, since growth rate in this area is expected to stand at 1 percent in 2010, followed by a slight rise to 1.5 percent in 2011.

The uncertainties weighing on these prospects remain sizable and generally trending downward, although a number of risks were mitigated, particularly after the ratification of Greece aid plan. A key concern was the weight of accumulated public debt in this country, which could involve a risk of contagion. Nevertheless, a persistent risk that could even undermine economic recovery is that the room for policy maneuver in many advanced economies is being exhausted, making the recovery very vulnerable to new shocks. In addition, bank exposures to the real estate sector continue to pose downside risks to the U.S. and European economies. Finally, new hikes in oil and other commodity prices may adversely affect demand and thereby the world's economic recovery.

In view of these developments, the baseline scenario for this MPR expects the weighted growth rate of our main partners (France, Germany, Italy and Spain) to stand at 1 percent in 2010 and 1.5 percent in 2011. These assumptions are identical to those of the previous MPR. This rate is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

Although inflation in the euro area has moved up from its levels in 2009, it should remain subdued however, since inflationary expectations remain well anchored, and the recovery of domestic and foreign demand are still slow and insufficient to exert strong pressures on output capacities. Consequently, the European Central Bank projects an inflation rate of 1.2 percent in 2010. In 2011, with economic recovery and possible associated pressures, prices are expected to increase slightly and therefore to raise inflation to 1.4 percent.

Risks to the inflation outlook in the euro area remain generally balanced. Concerns over the rise of commodity prices were dampened by the weak capacity-utilization rate, which is expected to keep prices and wages at moderate levels.

In this context, the ECB would keep its key rate on the short-term unchanged at 1 percent. The baseline scenario for this MPR points to a Euribor rate of 0.99 percent in the second half of the current year. This rate should then gradually rise to 1.07 percent in the first half of the year 2011.

Finally, the surge in commodity prices on international markets, mainly because of the expansion in demand from emerging economies, should lead to a significant rise in import prices. As a result, the central scenario of this forecasting exercise expects import price indicators included in the forecast models to trend upward, but more moderately than projected in the March MPR.

6.1.2 National environment

In line with the projections presented in the March MPR, the national economic outlook for 2010 remains positive. This optimism is mainly driven by an expected good crop for this year and continued gradual recovery of nonagricultural activities. However, economic recovery, which depends on foreign demand, remains susceptible to recent developments in the euro area.

In comparison with the previous MPR, the cereal production projected for the 2009-2010 crop year was revised upward. Bank Al-Maghrib now expects cereal production to reach 76 million quintals, consistent with the estimates of the Ministry of Agriculture and Fisheries. This forecast is higher than the level of the average year usually taken into account at the beginning of the crop year (60-65 million quintals). In view of the base effect related to the exceptional crops of 2009, the central scenario expects agricultural value added to contract by 4 to 5 percent.

For its part, the growth rate of nonagricultural activity should be more favorable than the 2.2 percent rate projected for 2009. This stronger growth would be supported mainly by domestic demand, which should benefit from the measures taken under the 2010 Finance Act, particularly in terms of support to household purchasing power and reinforcement of public investment budget. Moreover, the better, yet modest, foreign demand would also prop up the recovery of nonagricultural activity. However, this expected growth remains lower than the 6.5 percent historical average registered between 2000 and 2007, due to the uneven prospects for economic recovery in Morocco's main trade partners.

Against this backdrop, the national economic activity is expected to slow down in 2010, with growth standing between 3 percent and 4 percent.

According to the latest data available on the labor market, dating back to the first quarter of 2010, unemployment rate reached 10 percent, up 0.4 percent compared with the same quarter a year earlier. This rise is mostly due to the urban unemployment rate, at 14.7 percent, mainly in connection with the job losses in the services sector. Nonetheless, net job creations have been recorded in the sectors of agriculture, forestry and fisheries, building and public works, and industry. For its part, rural unemployment rate remained almost stable compared with the same period a year earlier.

The Bank Al-Maghrib's April 2010 quarterly business survey indicates that Moroccan manufacturers expect, however, an increase in the numbers of labor force for the current quarter in most sectors, except for the textile and leather industries. Furthermore, the supportive national economic outlook, which continues to be driven by prospects for a good crop year, suggests an improvement in the labor market.

However, these changes would not weigh down on wage development. Therefore, the central scenario does not project any raise of the minimum wage in the six quarters of the forecasting horizon.

The world economic recovery should impact oil products prices. The IMF revised upward its forecasts concerning barrel prices (basket) to $80 a barrel in 2010 and $83 a barrel in 2011. On the futures market, oil prices would stand at $77 a barrel in 2010 and $79.8 in 2011. This upward trend reflects a possibly sustained demand recovery from emerging economies, notably from China, as well as an economic upturn in developed countries, mainly the United States. Nevertheless, these forecasts indicate that the subsidization system would remain sustainable, given the expenditure items scheduled under the Finance Act based on a $75/barrel scenario. In this context, the central scenario expects fuel pump price to stagnate at 7.15 dirham/liter.

The inflationary risks stemming from the national environment should remain subdued over the upcoming quarters. This situation can be attributed to the weak pressures on wages, the moderate capacity-utilization rate which stood at 73 percent in April (Bank Al-Maghrib's monthly business survey) and the slowdown in the annual growth of bank credit. Finally, the same survey indicates that the percentage of corporate managers anticipating stagnant inflation for the three coming months would remain high.

6.2 Inflation outlook and balance of risks

In case the main risks do not materialize, the central forecast for the coming six quarters would run at 1.7 percent, a level in line with the objective of price stability. Compared with the forecast published in the previous MPR, headline inflation rate expected in 2010 was slightly revised upward from 1.0 percent to 1.2 percent. This revision is mainly due to the fact that effective inflation in the first quarter of current year, 0.1 percent, proved to be higher than the expected -0.3 percent predicted in the MPR of March 2010 (as floods contributed to a rise in fresh food prices).

As for the quarterly projections over the coming six quarters, inflation would in a first time rise significantly to reach 1.2 percent at the end of this quarter. This uptrend should continue over the following two quarters of 2010, with an inflation rate going up from 1.3 percent in the third quarter to 2.1 percent in the fourth (similar forecasts compared to the March 2010 MPR). For its part, the year 2011 should be marked by moderate inflation, albeit more important that that of 2010. Consequently, over the first three quarters of the coming year, inflation would hover around an average 1.9 percent, at 1.9 percent, 2.0 percent, and 1.8 percent, respectively (compared with 2.1 percent and 1.9 percent published in the last MPR for the overlapping quarters: Q1-2011 and Q2-2011).

These forecasts are made on the basis of the hypotheses deemed most probable. Yet many uncertainties stemming from the future development of exogenous variables as well as from the forecasting models used might lower or increase the expected inflation rate. Analysis of the balance of risks shows an asymmetrical 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 shows a slight upward asymmetry. The latter is due to the potential risks issuing from the international environment (stronger growth rate of import prices), as well as to risks emanating from the national environment (future development of bank credit). The materialization of one or more 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.

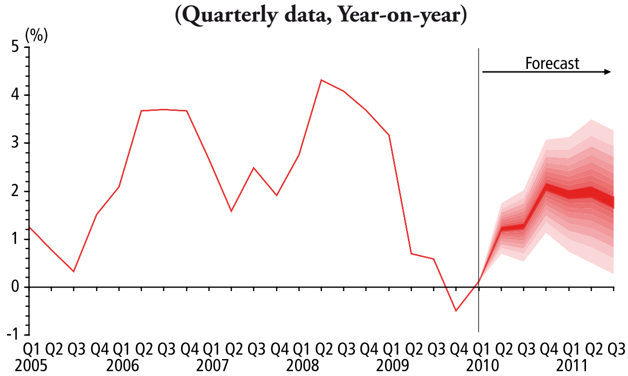
Table 6.1: Inflation outlook for Q2 2010- Q3 2011

	2010			2011			Average	
	Q2	Q3	Q4	Q1	Q2	Q3	2010	HP*
Central forecast (%)	1,2	1,3	2,1	1,9	2,0	1,8	1,2	1,7

Year-on-year

**Forecast horizon*

Chart 6.1: Inflation forecast, Q2 2010- Q3 2011 (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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