بنك المغرب
BANK AL MAGHRIB

MONETARY POLICY REPORT

N° 14 / 2010

Document prepared for
the Bank Board
March 30, 2010

Monetary Policy Report

Document prepared for
the Bank Board

March 30, 2010

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 (Morroccan 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

LIST OF TABLES

LIST OF BOXES

بنك المغرب

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 30, 2010

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, March 30, 2010.

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

3.The Board noted that headline inflation has been hovering around 0 percent for several months, standing at 0.1 percent in February, up from -0.7 percent in January 2010. Core inflation, reflecting the underlying trend of prices, has remained stable at around 0 percent. Beyond the monthly price fluctuations of volatile products, particularly fresh products, this trend is mostly attributable to the decline in staple food prices, compared to the very sharp rises in the same period of last year. At the same time, industrial producer prices, which are closely linked to the change in world commodity prices, reported a very slight increase of 0.2 percent in January 2010, the first in twelve months.

4. Global economic conditions continued improvement, as shown by the trend in the latest available indicators. However, the extent and pace of this improvement in the coming quarters are still surrounded by uncertainties mostly arising from high unemployment rate, sluggish credit and ways to withdraw fiscal stimulus. If the gradual reduction in the negative as a As output gap of our main partners continues, this will contribute to strengthening foreign demand for Moroccan exports.

5. In this context and considering the sustained domestic demand, the progressive improvement in nonagricultural activity is expected to continue. As a result, nonagricultural output gap, relevant for the assessment of inflationary pressures and which has been negative for several quarters, would decrease. Overall GDP growth in 2010 would be lower than 2009, between 3 percent and 4 percent, mainly due to the expected decline in agricultural activity.

6. Analysis of monetary conditions suggests the continued moderate growth of money creation. The M3 aggregate indeed moved up 4.8 percent in February 2010, compared to 5 percent in January and 5.3 percent in the fourth quarter of 2009. Demand for bank credit maintains momentum, with a year-on-year increase of 11.6 percent in January and 12 percent in February 2010.

7. On the basis of these data, the central inflation forecast was revised downward to 1.4 percent on average over the coming six quarters, from 1.9 percent published in the Monetary Policy Report of December 2009. Nonetheless, at the end of this horizon, i.e. the second quarter of 2011, headline inflation would be around 2 percent. Core inflation would also remain moderate, not exceeding 2 percent.

8. Risks surrounding inflation forecasts will be slightly tilted to the upside during the next quarters, because of the uncertainties linked to the trend in world commodity prices as well as to the growth rate of domestic demand.

9. In this context where risks are slightly skewed to the upside and inflation central forecast is consistent with the price stability objective, the Board decided to keep the key rate unchanged at 3.25 percent.

10. Considering the scope and sustained nature of liquidity shortfall on the money market and in view of forecasts concerning the change in liquidity factors, the Board decided to reduce the required reserve ratio by 2 percentage points to 6 percent as of April 1, 2010.

11. The Board analyzed and approved the Bank's accounts and the allocation of profits for fiscal 2009.

12. The Board also examined and approved the internal audit program for 2010.

OVERVIEW

As forecasted in the December 2009 Monetary Policy Report (MPR), inflation continued to ease according to the data of the fourth quarter of 2009 and January 2010. On the score of the exceptional rise in fresh produce prices, headline inflation stood at 0.1 percent in February, up from -0.7 percent in January 2010, year-on-year. Core inflation, reflecting the underlying trend of prices, remained stable at around 0 percent since many months. Inflation development in February covers a 0.8 percent fall in tradable prices and a slim rise (0.8 percent) in nontradable prices. Industrial producer prices, closely dependent on changes in world commodity prices, reported a very slight increase of 0.2 percent in January 2010, the first in twelve months.

At world level, economic activity is continuously reviving according to the main indicators, especially in emerging and developing countries, as well as in the USA. The euro zone economy is moderately recovering, though. The economic situation is expected to go on improving, although important uncertainties continue to weigh down on world economic outlook. They are mostly arising from high unemployment rate, sluggish credit and ways to withdraw fiscal stimulus.

World inflation, on a downtrend since early 2009, has started to go up again, albeit at varying paces depending on regions. The increase of world consumer prices remains modest, but inflationary tensions are expected in the next quarters, especially if the surge of primary products accelerates.

At national level, the latest data back up the growth estimates and forecasts of the December 2009 MPR. As a result of the recent trends in the main partners' economy and the strengthening of domestic demand, nonagricultural activities turned up anew in the fourth quarter of 2009 and are projected to gain about 4 percent in the first quarter of 2010, compared to 2-3 percent over 2009. However, overall growth should range between 3 percent and 4 percent in the first quarter, compared to more than 5 percent at the end of 2009, according to provisional data, due to falling agricultural value added after the exceptional crop registered in 2009. The gradual recovery of industrial activity should get confirmed. In the fourth quarter of 2009 and January 2010, this sector's output capacity utilization rate was at the same levels as before August 2008. Concerning the job market, unemployment rate was down in the fourth quarter of 2009, on a year-on-year basis.

Over the year 2010, overall economic growth is projected to slow down to 3-4 percent, with a considerable change in the different sectors' contribution. The primary sector, while posting good results, should register a much lower value added in comparison with the exceptional results of 2009, while the secondary and tertiary sectors should continue to recover progressively. Against this background, the nonagricultural output gap should decrease, having remained negative during many quarters.

Data relative to the monetary conditions as of end-January suggest a new moderation of M3 growth, down to 5 percent from 5.3 percent in the fourth quarter of 2009, the monetary surplus projected to be virtually nil. In the meantime, bank credit, boosted by all credit categories except cash loans, remained buoyant, gaining 10.6 percent in the fourth quarter of 2009, 11.6 percent in January and 12 percent in February. As to lending rates, the average weighed rate posted a slight increase in the fourth quarter of 2009 according to Bank Al-Maghrib survey of banks.

Based on the recent developments and the most likely hypotheses concerning the different inflation variables, the central forecast for inflation in the six coming quarters was marked down to an average 1.4 percent over the forecasting horizon. In the second quarter of 2011, the end of this horizon, inflation would reach 2 percent approximately. Core inflation is also expected to hover around 2 percent over the forecasting horizon. The balance of risks surrounding the central forecast is slightly tilted to the upside, as uncertainties persist over the future development of world commodity prices and the growth rate of domestic demand.

1. AGGREGATE SUPPLY AND DEMAND

In the fourth quarter of 2009, and throughout the year, national economy continued its sustained growth, driven essentially by the increase in agricultural value added and the good performance of consumption and public investment. On the other hand, nonagricultural growth gradually improved starting from the second quarter, but remained limited within a range of 2 percent to 3 percent all the year long. This slowdown was mainly induced by the weak foreign demand, as evidenced by the crunch of goods and services' exports by over 19 percent in 2009. Nonetheless, the net foreign demand's negative contribution to growth was less significant than in 2008, as imports' decrease in value was more substantial compared to exports'. In 2010, however, foreign demand is expected to recover, favored by the progressive rebound of the international economic activity, namely in Morocco's main partner countries, which will contribute to speeding up the growth of nonagricultural activities. On the contrary, the agricultural value added, despite the sector's good performance, would decrease markedly after the exceptional level recorded in 2009. Therefore, overall growth is expected to range between 3 percent and 4 percent in 2010.

1.1 Output

At the same time as signs of global economic recovery are being confirmed and domestic demand is trending well, growth of nonagricultural activities improved again in the fourth quarter of 2009, while remaining below its trend pace. At the end of 2009, nonagricultural growth is expected to range between 2 percent and 3 percent. Despite the significant slowdown in nonagricultural growth, overall GDP may have increased by around 5 percent in 2009, owing to the expansion of agricultural activities by over 25 percent.

In the very short run, agricultural value added is expected to lose 7.1 percent in the first quarter of 2010. Data as at the end of February show that the 2009-2010 crop year continues to register abundant rainfalls. Despite the damages caused to cereals, market gardening and sugar crops (Box 1.1), these rainfalls are projected to maintain the agricultural activity at a level close to the average crop year. As concerns the secondary sector, the recent trend in sectoral indicators reveal a better performance in the different industries, thus suggesting the continued recovery that started in the fourth quarter of 2009 (Chart 1.5).

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

Activity sectors, in%	2008		2009				2010
	QIII	QIV	QI	QII	QIII	QIV(F)	QI(F)
Agriculture	16.1	16.6	26.8	27.8	26.0	27.4	-7.1
Nonagricultural VA	**4.3**	**1.2**	**0.6**	**2.0**	**2.6**	**3.1**	**4.4**
Industry*	1.6	-6.7	-7.3	-3.7	-2.0	0.4	4.3
Electricity and water	4.1	3.4	6.1	1.4	2.5	2.8	3.1
Building and public works	11.8	5.1	-0.2	1.0	-0.1	-1.2	0.3
Trade	3.6	1.0	0.7	0.2	0.4	0.8	0.8
Hotels and restaurants	1.1	0.2	-7.8	-4.0	-2.1	-0.6	0.6
Transports	2.1	-0.1	0.3	1.9	1.3	1.5	3.5
Posts and telecommunications	8.1	4.1	2.0	2.6	3.1	3.8	4.1
General government and social security	4.2	4.9	6.0	6.7	7.5	7.7	7.7
Other services**	3.5	1.5	5.0	5.3	5.7	5.9	5.4
Taxes on products net of subsidies	5.1	3.0	0.6	3.1	3.1	3.2	4.0
Gross Domestic Product	**5.7**	**3.1**	**3.7**	**5.4**	**5.6**	**6.1**	**3.1**

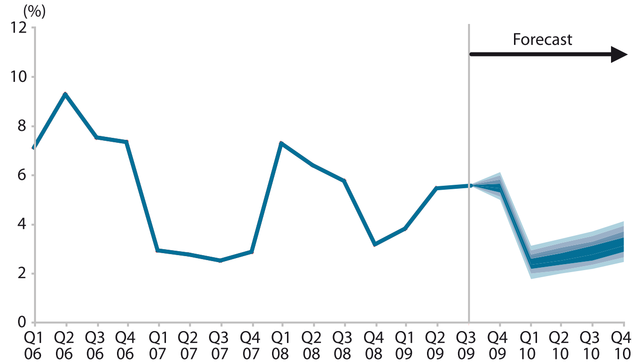
(*) Including extractive industry, and refining and non refining industry

(**) 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 extractive industry value added fell less rapidly in the fourth quarter of 2009, mainly due to the less marked decrease of the OCP saleable output. The industry's value added is expected to continue improving during the first quarter of 2010, as revealed by the significant increases recorded in January and February in the exports of phosphates, phosphoric acid, and natural and chemical fertilizers.

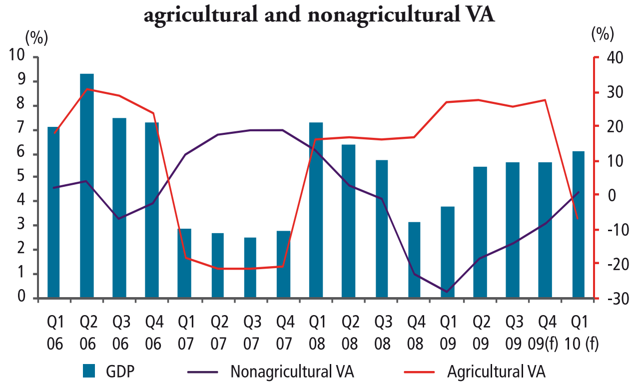
Chart 1.1: Growth forecasts Q4 2009-Q4 2010*



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

The processing industry, one of the most vulnerable sectors to foreign demand variation, is expected to continue its gradual recovery, with a 2.4 percent increase in the first quarter of 2010, up from 1.1 percent in the fourth quarter of 2009. According to the January 2010 BAM business survey, industrial output increased from the previous month, although orders remain below their ordinary level and stocks of finished products are considered above their usual level. The output capacity utilization rate stood at 72 percent for the second month running, and its very short-term outlook seems generally positive, according to professionals' assessment.

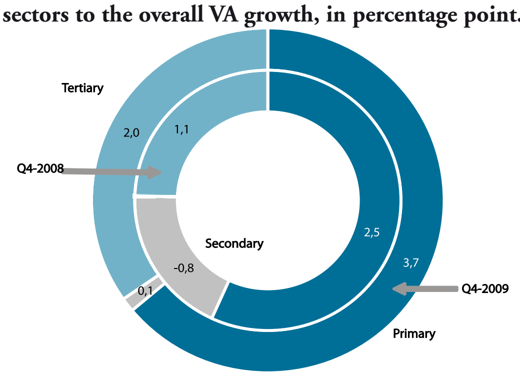
Chart 1.2: Quarterly evolution of the GDP and of the agricultural and nonagricultural VA



Sources: HCP, and BAM calculations and forecasts

Hit by the recessionary effects since the fourth quarter of 2008, the value added of the building and public works sector is not expected to witness any notable growth in the first quarter of 2010, with a mere 0.3 percent increase. In fact, sales of cement, a considerable indicator for evaluating the sector's condition, decreased by 3.3 percent in January while real estate loans increased at the same pace as in December 2009, by about 13 percent.

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



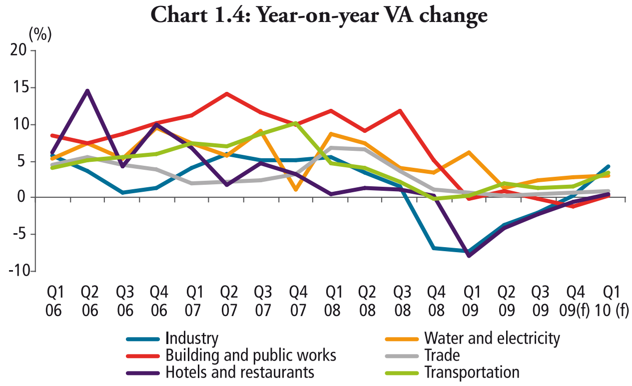
Sources: HCP, ONE, and BAM calculations and forecasts

Energy activity grew by 2.9 percent in the fourth quarter of 2009. In fact, the decrease recorded in the refining sector output was limited to 20.7 percent compared to 27.6 percent in the third quarter of 2009, owing to the launching of the new Mohammedia refinery as a supplement to the hydro-cracking unit launched recently. In the same way, overall sales of the National Electricity Office (ONE), one of the most crucial factors of the sector's performance, increased by 3.1 percent in the fourth quarter of 2009 compared to 1.9 percent one quarter before. In the first quarter of 2010, growth of energy activities is expected to speed up and reach 3.5 percent, as a result of the gradual improvement of both the oil refining activity and the «electricity and water» sector.

The value added of tertiary activities would gain 4.3 percent in the first quarter of 2010, thus consolidating the recovery started in the first quarter of 2009. This growth will be observed in different services, namely «hotels and restaurants» and «post and telecommunications», in addition to commerce and transport. Actually, according to the January 2010 statistics of tourism, tourist flow increased by 15 percent, and the overnight stays declared by classified hotels grew by 2 percent, after several months of decrease. As a consequence, travel receipts went up to 3.6 billion dirhams. In view of that, and considering the signs of progressive recovery in the main markets, the outlook for the tourist sector remains positive.

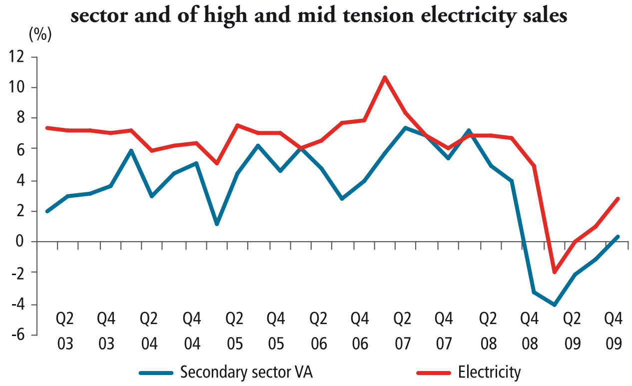
The transport sector is expected to improve; the growth of its value added, closely depending on other sectors, is

Chart 1.4: Year-on-year VA change



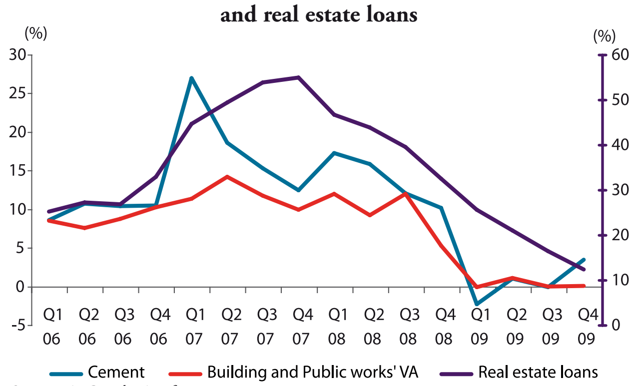
Sources: HCP and BAM forecasts

Chart 1.5: Year-on-year VA change of the secondary sector and of high and mid tension electricity sales



Sources: HCP, ONE and BAM calculations and forecasts

Chart 1.6: Year-on-year change in the value added of Building and public works, cements quarterly cumulative sales and real estate loans

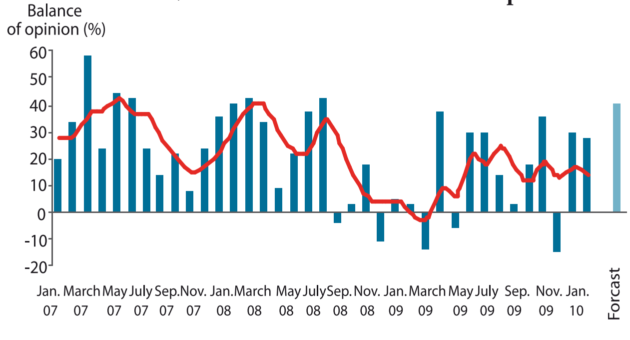


Sources: APC and BAM forecasts

expected to reach 3.5 percent in the first quarter of 2010, instead of 1.5 percent one quarter before. Likewise, the post and telecommunications sector is forecasted to increase by 4.1 percent in the first quarter of 2010, after having risen by 3.8 percent in the fourth quarter of 2009. This growth is chiefly due to the improvement of different indicators in this sector, mainly the expanding number of phone and internet subscribers.

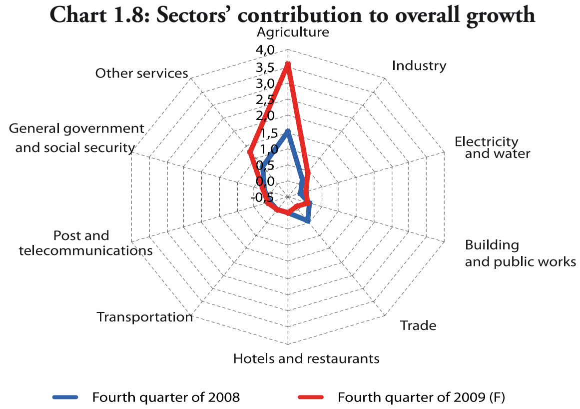
Throughout the year 2010, the primary sector's value added is expected to remain vigorous, though lower than the exceptional expansion observed in 2009. Secondary and tertiary activities are expected to converge progressively to their potential performance and boost overall growth, following the confirmed recovery of economic activity in European countries and the strengthening of domestic demand.

Chart 1.7: Past and forecast industrial output



Sources: BAM monthly business survey in the industry

Chart 1.8: Sectors' contribution to overall growth



Sources: HCP and BAM calculations and forecasts

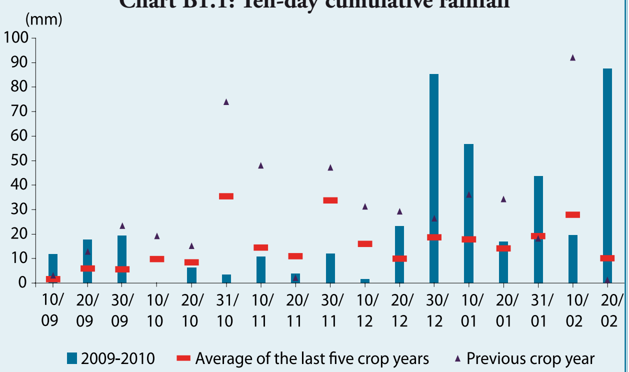
Box 1.1: Cereal production forecast of 2010 based on the data available as at February 20, 2010

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

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

Despite the improvement observed since the beginning of January, these conditions affected the vegetation cover, which is now considered similar, if not slightly poorer, compared to the average of the last ten years in most regions, as indicated by the vegetation index

Chart B1.1: Ten-day cumulative rainfall



Sources: National Directorate of meteorology prepared by the Centre royal de télédetection spatiale (Royal Center for Remote Sensing).

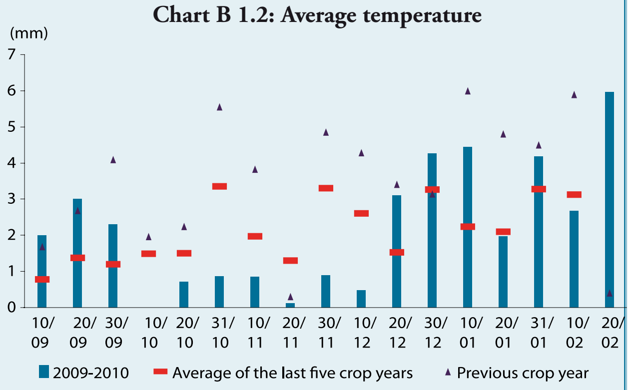
Using the ten-day data relative to nine climate variables[1] allows refining the forecast econometric model and the similar crop years' method. Hence, based on the data available at the second ten-day period of February 2010, the econometric model provides a forecast of cereal production for the current crop year, setting it at 64.8 million quintals. This forecast concerns soft wheat, durum wheat and barley output, which reached levels slightly over their averages of the last five crop years, and estimated at 31, 17, and 17 million quintals, respectively.

By comparing the outputs of similar crop years, based on the climatic conditions, one can identify an important effect of adjustment, started many years ago. Hence, we may consider that the production potential for the current crop year is preserved. Using the similar-campaign method, based on the comparison of historical climatic conditions, cereal production is estimated at 65.4 million quintals, including 19 million quintals of barley, 26 million quintals of soft wheat and 14 million quintal of durum wheat.

As for the rainfall indicator method, its application allows a preliminary forecast of cereal production of 73.8 million quintals at the national level.

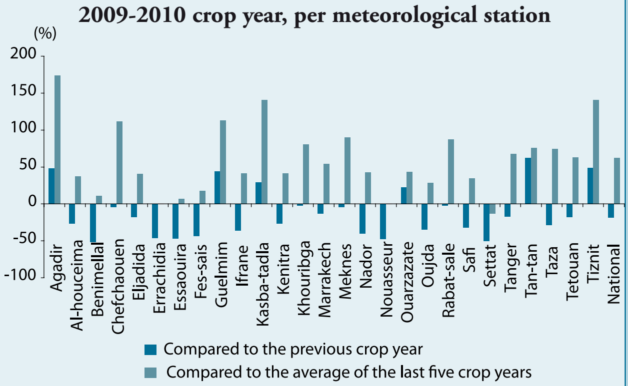
Using all three methods, the average forecast stands at around 68 million quintals, a level close to the one published in the MPR of December 2009.

Chart B 1.2: Average temperature



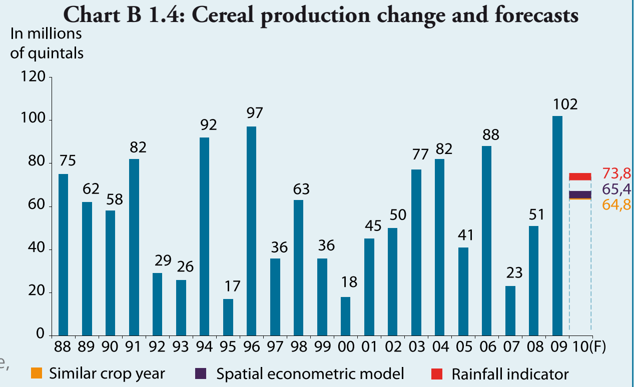
Source: : National Directorate of meteorology

Chart B 1.3: Rainfall deficit of the first three months of the 2009-2010 crop year, per meteorological station



Source : National Directorate of meteorology

Chart B 1.4: Cereal production change and forecasts



Sources: Ministry of Agriculture and marine 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.

1.2 Consumption

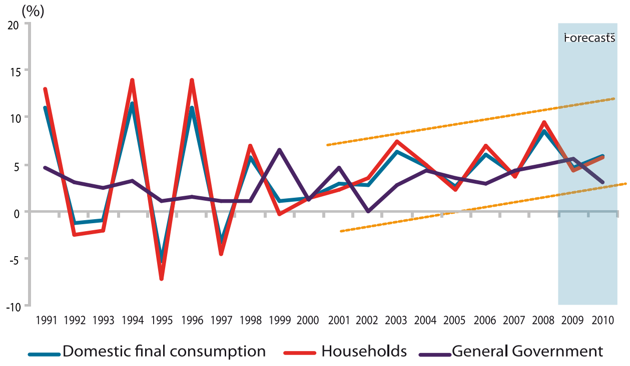
As confirmed by the latest data available, consumption slackened in 2009, especially in households. However, the overall dynamic of the domestic consumption remained sustained as its real growth reached 4.6 percent and its contribution to the GDP's growth equaled 3.5 percentage points.

For the year 2010, the Bank staff forecast a 5.2 percent growth in volume, reflecting the accelerating pace of household consumption and the slower rise in general Government consumption. In fact, household consumption's real growth, whose volatility has largely declined during the last decade, is expected to reach 5.7 percent in 2010.

Such a growth is the result of many factors, mainly the expansion of the purchase power, owing to the tax revenue reduction and to the positive change in gainful work. Also, remittances of Moroccans living abroad and travel receipts, up by 2.9 percent and 6.1 percent, respectively, at the end of January, are projected to improve all through the year 2010, and therefore largely contribute to the strength of private consumption.

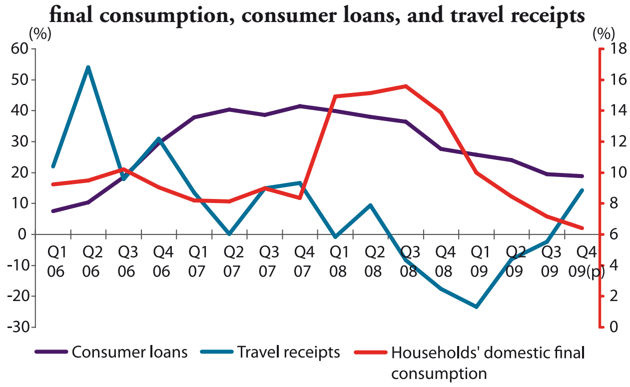
On the other hand, the volume of public consumption is expected to grow by 3.5 percent compared to 5.6 percent one year earlier. In fact, operating expenses shall, according to the Finance Act, increase by 2.5 percent after their 13.5 percent increase in 2009. The change in the wage bill will be driven by the allocation of 23,820 new positions under the Finance Act, bearing in mind that vacant posts which remain unexploited as to December 31st of each year shall be, from now on, cancelled.

Chart 1.9: Volume change of the domestic final consumption



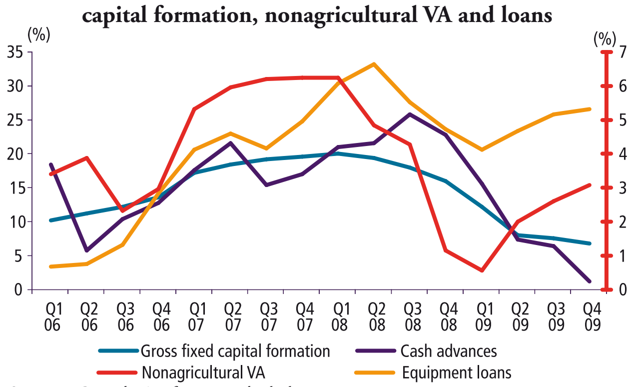
Sources: HCP and BAM forecasts and calculations

Chart 1.10: Year-on-year quarterly evolution of households' final consumption, consumer loans, and travel receipts



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

Chart 1.11: Year-on-year quarterly change of Gross fixed capital formation, nonagricultural VA and loans



Sources: HCP and BAM forecasts and calculations

1.3 Investment

In 2009, investment decelerated subsequently to the slowdown in private investment, linked to the drop of foreign demand. Overall, investment rate fell from 36.3 percent in 2008 to 35.1 percent in 2009.

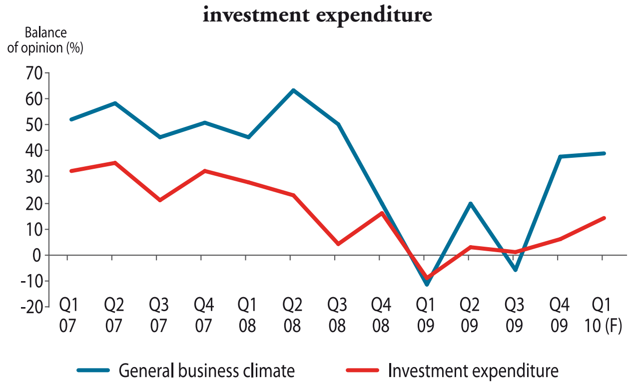
Private investment growth rate is expected to observe a gradual recovery in the next quarters, favored by the continuous efforts encouraging public investment, by the progressive rebound of nonagricultural activities, and by the improvement of the general business climate in the industrial sector.

Based on the monthly indicators as to the end of January 2010, imports of industrial equipments' finished products have increased by 0.4 percent after having decreased by 6.6 percent at the end of December 2009. Also, equipment loans seem to continue their dynamism, according to the same indicators.

In addition, the results of Bank Al-Maghrib's industrial business survey indicate that, in parallel with the production increase and the business climate improvement, investment expenses are projected to go up during the next quarters, financed by bank loans and internal financing.

Public investment is projected to preserve its dynamism, with the Treasury's equipment expenses constituting 6 percent of the GDP in 2010 after it recorded an average of 4.9 percent during the last five years. The main projects concern the sectors of education, infrastructure and transportation, agriculture, as well as the fields of security, water, and health.

Chart 1.12: Evolution of the general business climate and of investment expenditure



Source: BAM monthly business survey in the industry

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

	January	January	Change	
(In millions of dirhams)	2009	2010*	Amount	%
Total exports	**8 326.5**	**9 725.4**	**1 399.4**	**16.8**
Phosphate and derivatives' exports	786.7	2 473.5	1 686.8	214.4
Exports excluding phosphates and derivatives	**7 539.3**	**7 251.9**	**-287.4**	**-3.8**
Ready-made garments	1 802	1 272.2	-529.8	-29.4
Hosiery items	650.7	479.5	-171.2	-26.3
Citrus fruit	462.7	444.2	-18.5	-4
Total imports	**18 243.7**	**21 499.4**	**3 255.7**	**17.8**
Energy products' imports	2 483	5 520.8	3 037.8	122.3
Imports excluding energy products	15 760.7	15 978.6	217.9	1.4
Food products	2 258.7	2 025.1	-233.6	-10.3
Wheat	462.5	192.9	-269.5	-58.3
Equipment goods	5 199.7	5 082.7	-117	-2.3
Consumer goods	3 836	3 630.7	-205.3	-5.4
Trade balance	**-9 917.7**	**-11 774**	**1 856.3**	**18.7**

** Provisional data*
Source: Foreign Exchange Office

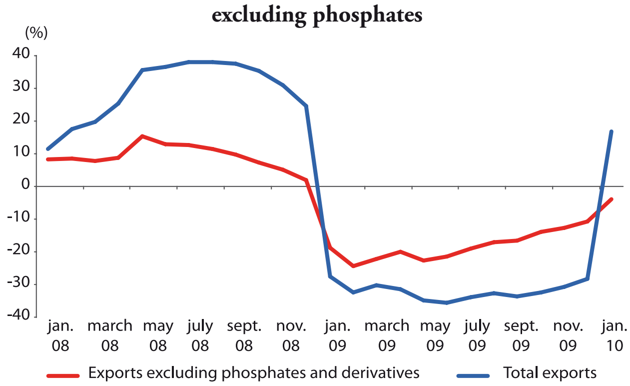
1.4 Foreign trade

In an international context marked by uncertainties surrounding the degree of the economic recovery, the data available at the end of January 2010 reveal that the trade deficit is worsening consequently to the important rise in imports compared to exports. However, the variations observed in the trade balance components in January 2010 are essentially related to commodity exchanges.

Indeed, at the end of the first month of the year, trade balance turned negative at 11.8 billion dirhams, widening by 18.7 percent compared with a 21.6 percent decrease during the same period of the preceding year. This deterioration has mainly resulted from the 17.8 percent growth of imports, or 3.3 billion dirhams. Similarly, exports rose by 16.8 percent, or 1.4 billion dirhams. Accordingly, the coverage ratio remained, in one year, in almost the same level, namely 45.2 percent.

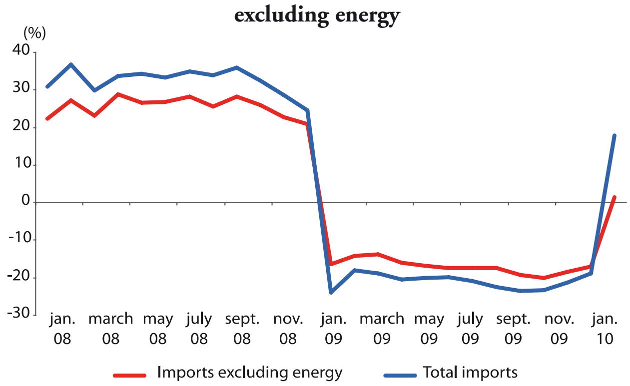
However, exports' increase is merely attributable to the considerable growth of phosphates and derivatives' exports, which reached 2.5 billion compared to 786.7 million dirhams during the same period, while the other exports decreased by 3.8 percent. Accordingly, exports of electricity wires and cables dropped by 68.9 percent. Similarly, exports of ready-made garments and hosiery items moved down by 29.4 percent and 26.3 percent, respectively, while citrus fruits' exports fell by 4 percent. On the other hand, sales of sea products rose by more than one third.

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



Source: Foreign Exchange Office

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



Source: Foreign Exchange Office

On the contrary, imports' increase is mainly due to the 122.3 percent rise in the energy bill, which reached 5.5 billion dirhams, as well as to the growth of crude products and semi-finished products' imports by 8.8 percent and 19.4 percent, respectively. As for purchases of food products, consumer goods, and capital goods, they recorded respective decreases of 10.3 percent, 5.4 percent, and 2.3 percent.

The rise of oil products' imports is due to the increase in the volume of imported raw oil and of its average price per ton by 78.9 percent and 73.3 percent, respectively. Hence, the average price of the imported ton stood at 4,481 dh/ton at the end of January 2010, compared to 2,585 dh/ton during the same month the previous year. Purchases of other energy products generally followed the same trend in terms of price and quantity.

At about 16 billion dirhams, non-energy imports remained almost stable, thus reflecting the diverging evolutions of the main products' categories. As a matter of fact, purchases of semi finished products went up by 19.4 percent, essentially owing to the purchases of iron, steel and plastics. Similarly, imports of crude products rose by 8.8 percent, due to the increase observed in purchases of rough timber and pure vegetable oil. On the other hand, purchases of agricultural capital goods slumped by 45.4 percent, due to the decreasing purchases of tractors and agricultural machines and devices. As for imports of industrial finished products, they remained almost unchanged, whereas imports of consumer goods fell by 5.4 percent, impacted by the drop in purchases of fiber fabric and cotton fabric by 24.5 percent and 22.5 percent, respectively. Food purchases declined by 10.3 percent, mainly in response to the decrease in wheat and sugar imports by 58.3 percent and 68.6 percent, respectively.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

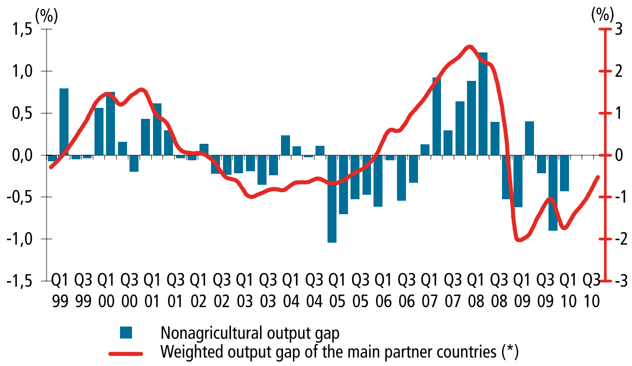
In connection with the still fragile economic condition in our main partner countries, nonagricultural output gap again turned negative in the fourth quarter of 2009. The gradual recovery of the international economy in the next quarters is expected to foster nonagricultural growth and therefore contribute to reducing this output gap. More particularly, the output capacity utilization rate in the industrial sector improved substantially in the last months, and reached, at the end of 2009, a record high since August 2008. The job market in the fourth quarter of 2009 was characterized by the decrease in the national unemployment rate compared to the same period last year, reflecting the drop of unemployment rate in urban areas and its stability in rural areas. The sector of building and public works and that of services registered a decline in the net job creation while the industrial sector is still witnessing continuous job losses as a result of the weak foreign demand. Based on the wage indicators on hand, private sector wages increased somewhat in real terms during the fourth quarter of 2009. Altogether, the different indicators confirm that economic conditions are improving, and show no significant pressure of demand on prices.

2.1 Pressures on output capacity

According to the latest available data and BAM estimates, nonagricultural output gap has remained negative until the end of 2009 and is expected to shrink in the first quarter of 2010. The improvement projected for the next quarters in the economic activity of our main partner countries should lead to a gradual contraction of this output gap, thus suggesting the easing off of the global economic situation's negative effects on nonagricultural activities.

Considering the data of BAM's industrial business survey for January 2010, the output capacity utilization rate remained unchanged at a monthly rate of 72 percent, therefore converging to the average trend observed since the start of the survey. At the sectoral level, output capacity utilization rate of electric and electronic industries and of food processing industries increased, respectively, from 66 percent to 81 percent and from 74 percent to 77 percent, on a month-to-month basis. In the other industries, this rate stabilized at 68 percent for textile and leather industries and at 77 percent for chemical and parachemical industries, whereas it stood at

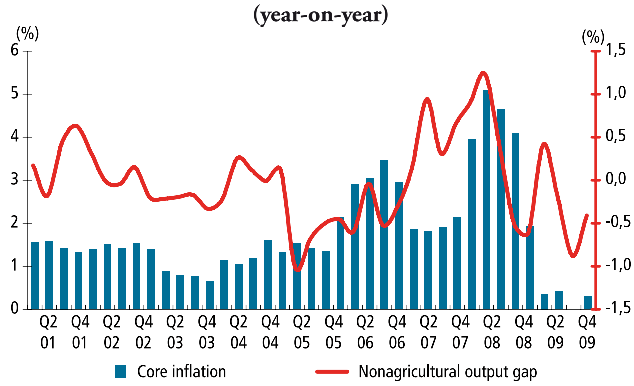
Chart 2.1: Nonagricultural output gap



(*)Calculated based on the GDP of the 5 main economic partners of Morocco, weighted by their respective shares in Morocco's total exports.

Sources: HCP and BAM's estimates

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



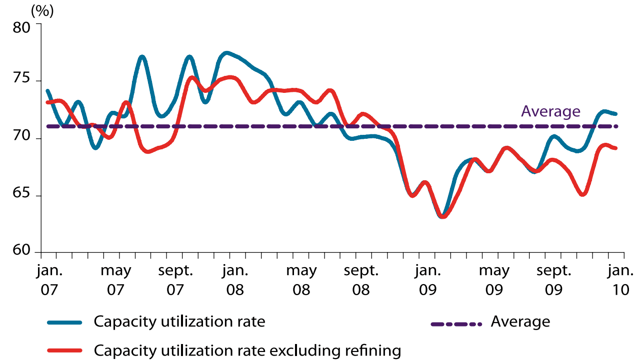
Sources: HCP and BAM's estimates

57 percent in mechanical and metallurgical industries, down by 4 percentage points. On the other hand, the index of apparent labor productivity[1] in nonagricultural activities stood at around 110.2 in the last quarter of 2009, up by 1 percent year-on-year. This change is explained by the fact that nonagricultural GDP increased at a more rapid pace compared to urban employment.

Based on the results of BAM monthly industrial business survey, the output unit cost rose in the fourth quarter of 2009, with a balance of opinion standing at 19 percent, up by 5 percentage points from one quarter to the next. Energy and commodity costs constitute the main reasons behind this growth, in view of the upward trend of commodity prices at the international level. This increase involved all sectors of activity, particularly mechanical and metallurgical industries and food processing industries. Financial and energy costs lie at the root of the output unit costs' rise in chemical and parachemical industries and in mechanical and metallurgical ones. In the food processing industries, non-energy commodity costs and wage costs both constitute the main factors defining the output unit costs. Overall, the main sources of the output unit costs' change are both internal, considering the rise of financial and wage costs, and external, given the increase of world commodity prices.

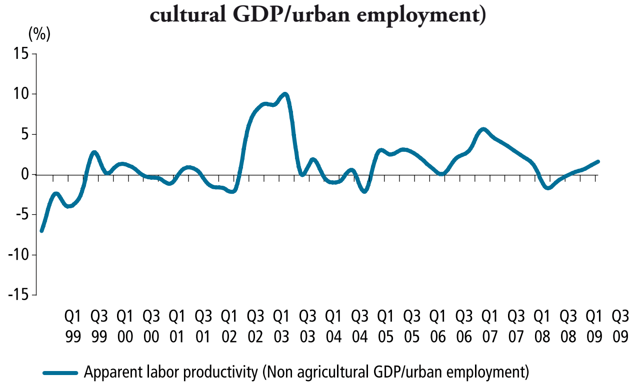
1 Apparent labor productivity is measured by the ratio between output and employed labor force. This indicator must be interpreted with caution, as it does not take into account the efficiency with which labor force is used in production..

Chart 2.3: Industrial output capacity utilization rate



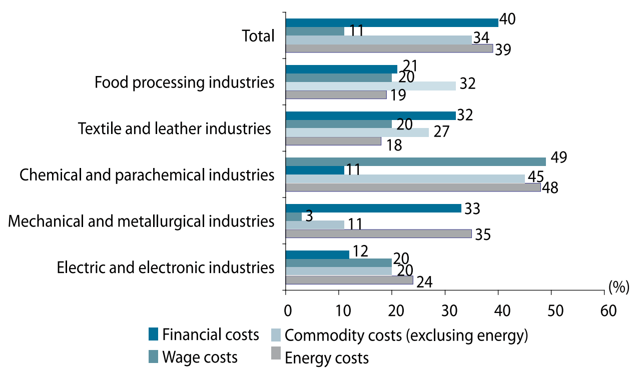
Source: BAM monthly business survey

Chart 2.4: Year-on-year apparent labor productivity (Nonagricultural GDP/urban employment)



Sources : HCP, and BAM estimates

Chart 2.5: Change in components of unit production costs per sector (Balances of opinion in %, in Q4 of 2009)



Source: BAM monthly business survey

2.2 Pressures on labor market

In the fourth quarter of 2009, labor force aged 15 and more reached 11,245,000 persons, recording a slight decline of 0.2 percent compared with the same period of the year 2008. This change was brought about by the 1.1 percent decrease in rural labor force, while urban one increased by 0.7 percent.

As a result, labor force participation rate stood at 49.3 percent, down by 0.9 percentage point. At the same time, employed labor force increased by 0.3 percent compared with the same period of last year. On the other hand, employment rate dropped by 0.7 percentage point to 44.8 percent, as the number of jobs progressed at a somewhat slower pace compared to the growth of labor force aged 15 years and more. Per place of residence, urban employment rate remained almost stable at 37.7 percent, while the rural one declined by 1 percentage point to 55.3 percent.

In the fourth quarter of 2009, labor market witnessed the creation of 8,000 gainful jobs, while unpaid labor moved up by 25,000, attributable to the creation of 68,000 jobs in rural areas and the loss of 43,000 jobs in urban areas.

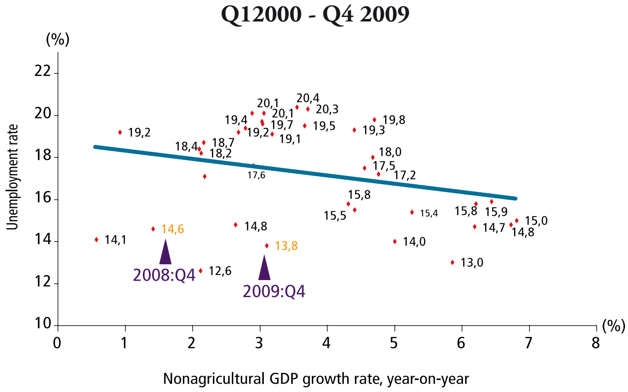
At the sectoral level, job creation chiefly concerned the services sector with 140,000 new jobs (+3.7 percent) and the building and public works sector with 92,000 jobs (+9.9 percent). As for the industrial sector, it witnessed a net loss of 83,000 jobs in the fourth quarter of 2009. Similarly, the sector of «Agriculture, forestry, and

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

In millions	Q4 - 2008			Q4 - 2009		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (2)	5.9	5.4	**11.3**	5.9	5.3	**11.2**
Labor force participation rate (%) (3)	44.4	58.6	**50,2**	43.7	57.4	**49.3**
Employed labor force	5.0	5.2	**10,2**	5.1	5.1	**10.2**
Employment rate (%) (4)	37.9	56.3	**45.5**	37.7	55.3	**44.8**
Unemployment						
Unemployed labor force	0.9	0.2	**1.0**	0.8	0.2	**1.0**
Unemployment rate (in %) (5)	14.6	3.8	**9.5**	13.8	3.7	**9.0**
By degree						
. Non-graduates	7.9	2.7	**4.6**	7.6	2.2	**4.2**
. Graduates	20.2	10.7	**18.4**	18.6	11.7	**17.2**

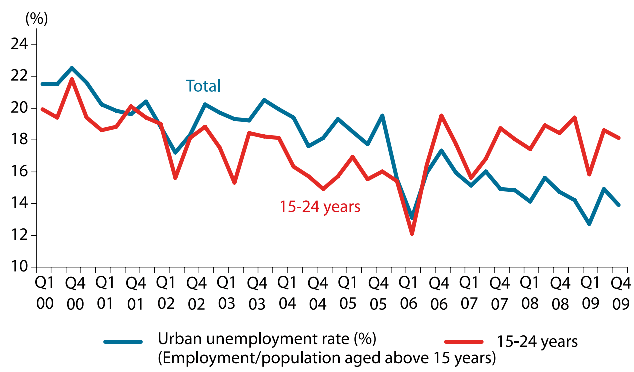
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and over (in millions of persons)
(3) Occupied labor force/total population aged 15 years and more.
(4) Occupied labor force/total population aged 15 years and more.
(5) Unemployed labor force/Labor force aged 15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

Chart 2.6: Nonagricultural growth and urban unemployment Q12000 - Q4 2009



Source: HCP

Chart 2.7: Urban unemployment rate



Source: HCP

fisheries» lost 115,000 jobs, reflecting a base effect related to the exceptional 2008-2009 crop year.

Against this background, overall unemployment rate reached 9 percent in the fourth quarter of 2009, down by 0.5 percentage point. Urban unemployment rate decreased significantly from 14.6 percent to 13.8 percent, thus breaking its trend line, which has been negatively correlated with nonagricultural growth. In rural areas, this rate almost stagnated at 3.7 percent.

Urban unemployment rate decreased in the age groups of 15-24 (-0.9 percentage point), 35-44 (-0.8 percentage point) and 45 years and more (-0.1 percentage point), while it almost stagnated in the 25-34 age group, at 19.7 percent.

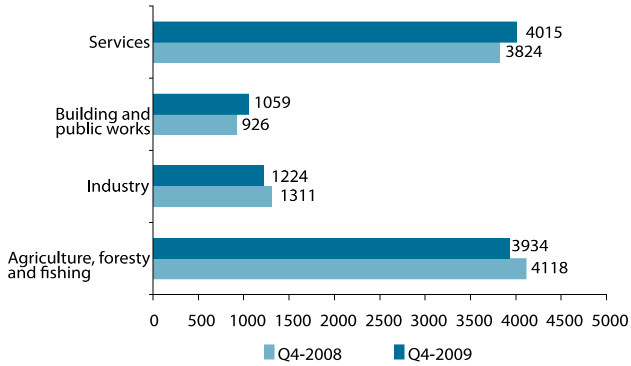
Based on the findings of BAM industrial business survey for the fourth quarter of 2009, total labor force employed in the industry almost stagnated from one quarter to the next. This situation resulted, on the one hand, from the labor force reinforcement in food processing industries, chemical and parachemical industries, and electric and electronic ones, and, on the other hand, from the workforce drop in the other industries. As for the outlook, corporate managers interviewed forecast the same trend in the first quarter of 2010.

In terms of wage cost, the relative unit labor cost of the manufacturing sector is still rising at a higher pace than productivity gains. As a matter of fact, relative unit labor cost moved up during the fourth quarter of 2009 by 2.8 percent, compared to the same quarter of the

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

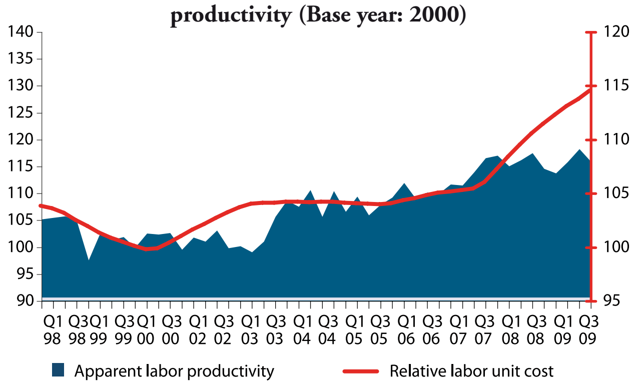
Source: HCP

Chart 2.9: Change in employment by sector (labor force in thousands)



Source: HCP

Chart 2.10: Relative labor unit cost and apparent labor productivity (Base year: 2000)



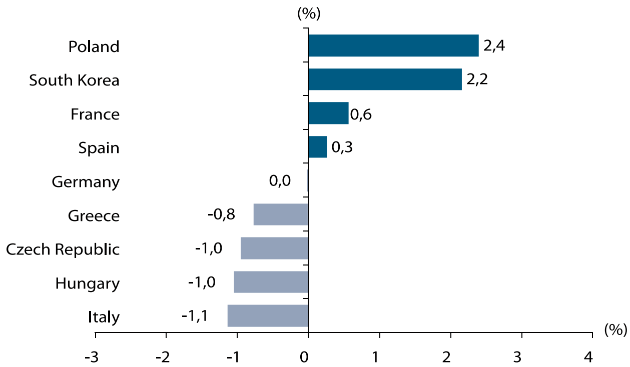
Source: BAM calculations

previous year, coupled with the decline in labor apparent productivity. In addition, the growth of the Moroccan relative unit labor cost exceeded that of Poland, France and Spain by 2.4 percent, 0.6 percent and 0.3 percent, respectively, in the fourth quarter of 2009, while it increased at a slightly slower pace compared to the Czech Republic, Hungary, Greece and Italy.

Regarding the average wage index in the private sector for the fourth quarter of 2009, calculated on the basis of the CNSS data, it grew by a mere 0.9 percent in real and nominal terms, after a considerable rise of 11.6 percent in the third quarter of 2009, probably owing to the second operation of minimum wage readjustment on July 1, 2009. Moreover, BAM business survey in the industry confirms the wages' increase, with a balance of opinion at 11 percent.

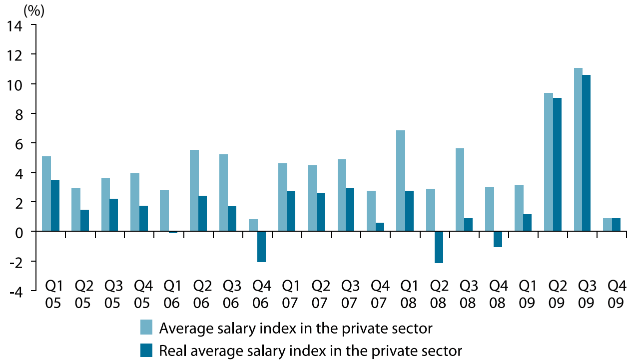
Chart 2.11: Morocco's Competitiveness-costs

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



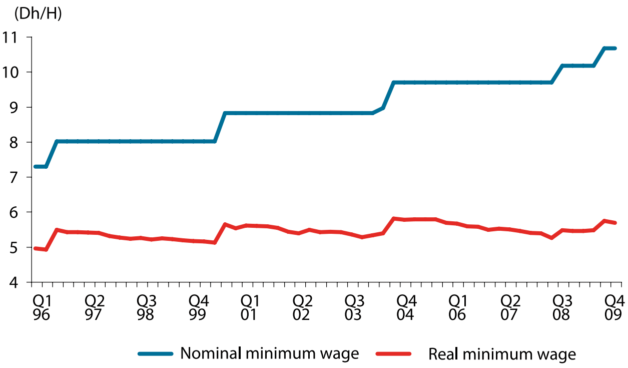
Sources: Datastream and BAM calculations

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



Sources: CNSS and BAM estimates

Chart 2.13: Real and nominal minimum wage, quarter-to-quarter



Sources: Ministry of labor and BAM calculations

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

Global economic conditions improved once again as evidenced by national accounts results of the fourth quarter of 2009 and high frequency indicators of January and February 2010. The recovery is stronger though in emerging and developing countries. While being increasingly confirmed in the United States, it remains, however, modest in other advanced economies, notably the eurozone. In addition, significant uncertainties remain which are linked to unemployment rates and lending contraction in developed economies, as well as to the changes in sovereign debt which point to fragile public finances in many economies. Risks associated with the withdrawal of recovery plans also represent a major source of uncertainty in some countries and particularly in Morocco's partner countries. Despite taking these various risk factors into consideration, growth forecasts for 2010 and 2011 were revised upwards in many developed and emerging countries. As concerns inflation, and in a context of rising commodity prices, global consumer prices trended again upwards, registering in February 2010 a new annual rise in the majority of developed economies. This trend would probably continue in 2010, owing to the improvement of the economic outlook, which may induce a new rise in Morocco's import price indexes. Overall, recent developments suggest an easing in the unfavorable shock of external demand which was impacting the national economy for many quarters. They also indicate that if the increase in global commodity and consumer prices was to continue, external inflationary risks would be less moderate over the forthcoming quarters.

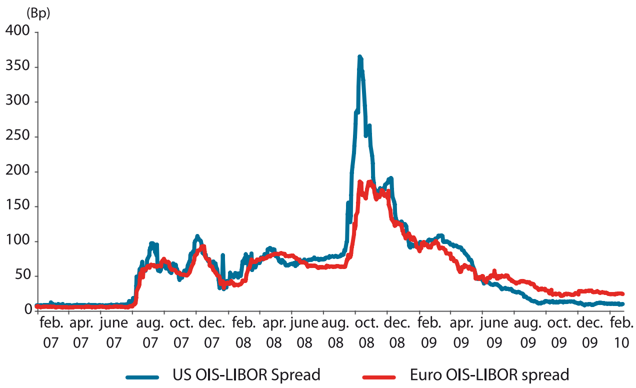
3.1 Global financial conditions and economic activity

As financial conditions started coming back to normal, some signs of unsoundness sprung up, notably with regard to risk premium on the sovereign debt of some developed countries. As to economic activity, the recovery seems to be confirmed while some uncertainties continue to weigh on its scope and sustainability.

3.1.1 Financial conditions

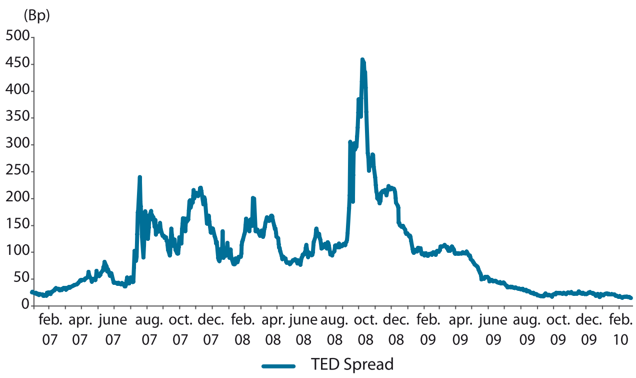
Interbank market developments were characterized by narrowing OIS-Libor[1] spreads, both in the United States and the Euro zone. These spreads did not however resume their pre-crisis levels as they stood respectively at 9.6 basis points in the United States and 24 basis points in the Euro zone compared to 7 basis points and 3 basis points before the crisis.

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

Chart 3.2: Change in the TED spread[2]



Source: Datastream

1 OIS-LIBOR spread corresponds to the difference between the three-month interbank rate (LIBOR Eurodollar) and the overnight index swap with the same maturity. Its change is supposed to reflect the financing conditions on the money market.

2 The TED spread represents the difference between the interest rate on three month Treasury bills and the three-month interbank rate in US dollars. This spread reflects the confidence degree between banks and the degree of bank loans' tightening

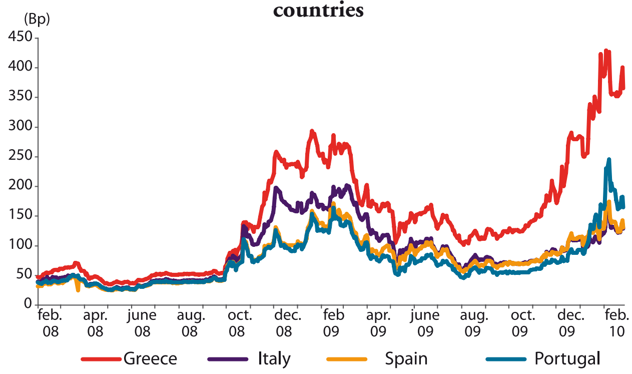
Similarly, pressures started easing on the debt markets where interest rate spreads markedly diminished as a result of lower short-term government bond yields. Nonetheless, the significant and continuous deterioration of fiscal balances, especially in some eurozone countries, would increase pressures on these markets and tighten access to financing. The unfavorable repercussions of these imbalances have already materialized in the form of credit default swaps (CDS)[1] which markedly rose over the last weeks, especially those of Greece, Spain, Portugal and Ireland. Conversely, financing conditions in emerging economies remain favorable, their CDS standing during the first two months of 2010 at 125 basis points compared to 220 points in 2009.

The gradual normalization of financial conditions was also reflected on the equity markets which continued their upward trend observed since March 2009. Accordingly, stock exchange indexes in developed economies grew within a range of 11 percent and 17 percent, and those of emerging economies at 26 percent over the first two months of 2010, year-on-year.

In addition, the gradual improvement in the financial situation encouraged central banks in the main developed countries to start, at different paces, withdrawing the exceptional financial sector support measures. Indeed, the US Federal Reserve raised its main interest rate from 0.50 percent to 0.75 percent on February 18, 2010, for the first time since the beginning of the crisis, in conjunction with the observed improvement in liquidity. In turn, the European Central Bank began a gradual withdrawal of its unconventional lending facilities through reducing the frequency and maturities of its open market operations.

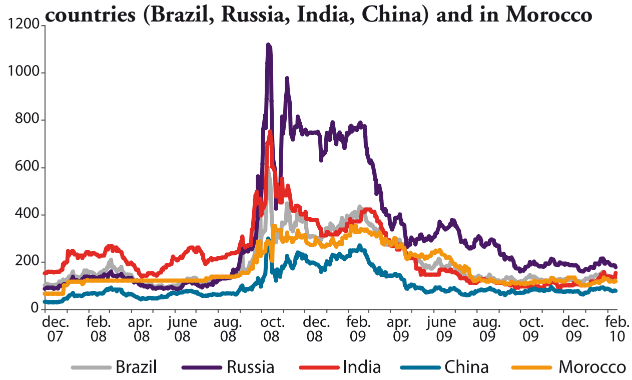
1 CDS correspond to insurance premiums against default risk on a sovereign debt. Their change measures the extent of investors' risk aversion with regard to the capacity of these countries to honor their liabilities.

Chart 3.3: Change in Credit Default Swaps in some Euro area countries



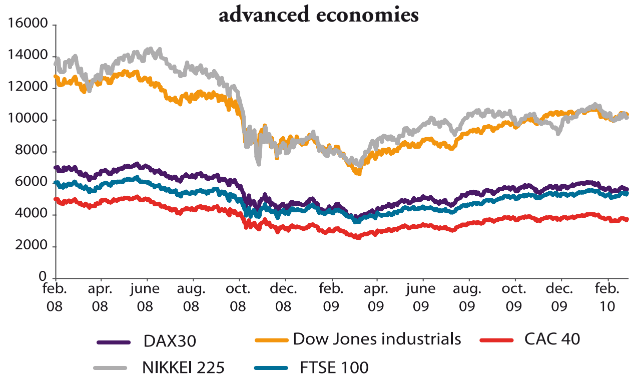
Source: Datastream

Chart 3.4: Change in Credit Default Swaps in emerging countries (Brazil, Russia, India, China) and in Morocco



Source: Datastream

Chart 3.5: Change in the main stock market indexes in advanced economies

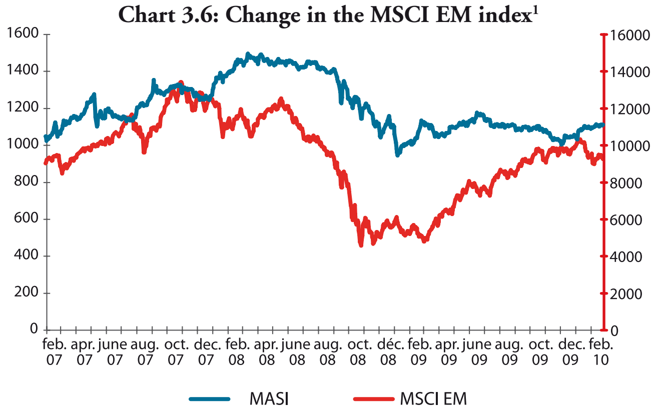


Source: Datastream

Credit markets were characterized in February 2010 by an increased contraction in credit growth both on a year-to-year and monthly bases. This trend reflects both the persistence of tight conditions for granting loans and a weak demand. Thus, lending growth rate in the United States stood at -0,6 percent in January 2010, compared to -0,1 percent in the preceding month while in the Eurozone it stood at -3,6 percent instead of -3 percent.

Overall, financial systems would remain fragile in many developed and emerging countries that were severely hit by the crisis. Indeed, the main risk factors would result from especially credit markets, which would remain less buoyant, the transfer of financial risks to governments' balance sheets and higher public indebtedness levels.

Chart 3.6: Change in the MSCI EM index[1]



Source: Datastream

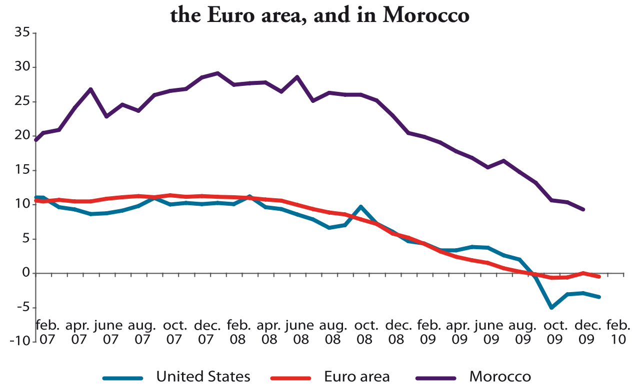
3.1.2 Global economic activity

The latest indicators of global economic situation suggest and overall recovery driven by an on-going sustainable growth in emerging countries, notably in Asia, and by signs of improved activity in some developed countries and moderate recovery in the other countries.

In addition, the results of the national accounts for the fourth quarter of 2009, the high frequency indicators of January and February, as well as the most updated global growth forecasts of the majority of international institutions confirm the overall recovery of the economy.

In the fourth quarter of 2009, economic activity remained particularly strong in emerging countries like China, and even saw a recovery in some developed countries as in the United

Chart 3.7: Year-on-year change of loans in the United States, the Euro area, and in Morocco



Source: Datastream

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).

States. However, the rebound was still moderate in other developed countries, as shown by the last growth developments in the eurozone and particularly in Morocco's partner countries.

In the United States, GDP growth in the fourth quarter of 2009 rose by 5.9 percent year-on-year, based on a second estimation carried out by the U.S Commerce Department, compared to 2.2 percent in the preceding quarter. In spite of the improvements registered in the national accounts of the fourth quarter, the developments of the advanced indicators at the end of January remain mixed. Accordingly, the advanced composite index of consumer confidence dropped 18.6 percent to stand at 46 points, compared to 56.6 points in the preceding month.

In the eurozone, our main partner, economic growth slowed down in the fourth quarter of 2009, as GDP grew by only 0.1 percent quarter-on-quarter (a 2.1 percent drop on an annual basis), compared to a 0.4 percent rise in the preceding quarter.

Regarding Morocco's main partners, particularly Spain and Italy, growth in the fourth quarter dropped 0.1 percent and 0.2 percent on a quarterly basis, compared to a 0.3 percent drop and 0.6 percent rise respectively in the preceding quarter. In Germany, GDP stabilized after rising 0.7 percent in the third quarter. Only France recorded a 0.6 percent growth in GDP following a similar 0.2 percent rise in the preceding quarter.

The high-frequency indicators of January and February 2010 suggest the continuation of economic recovery.

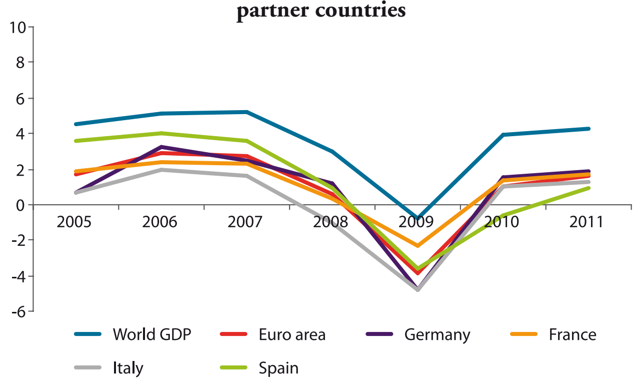
The PMI manufacturing index reached its highest level for 30 months, standing at 54.2 compared to 52.4 in January, rising thereby 3.4 percent. In turn, the flash PMI composite

Table 3.1: Global growth change

	Forecasts					
	World Bank		OECD		IMF	
	2010	2011	2010	2011	2010	2011
Global GDP	2.7	3.2	-	-	3.9	4.2
United States	2.5	2.7	2.5	2.8	2.7	2.4
Euro area	1.0	1.7	0.9	1.7	1.0	1.6
Germany	1.6	1.9	1.4	1.9	1.5	1.9
France	1.6	1.9	1.4	1.7	1.4	1.7
Italy	0.8	1.4	1.1	1.5	1.0	1.3
Spain	-0.6	1.0	-0.3	0.9	-0.6	0.9
United Kingdom	1.0	1.8	1.2	2.2	1.3	2.7
China	9.0	9.0	10.2	9.3	10.0	9.7
India	7.5	8.0	7.3	7.6	7.7	7.8
Brazil	3.6	3.9	4.8	4.5	4.7	3.7
Russia	3.2	3.0	4.9	4.2	3.6	3.4

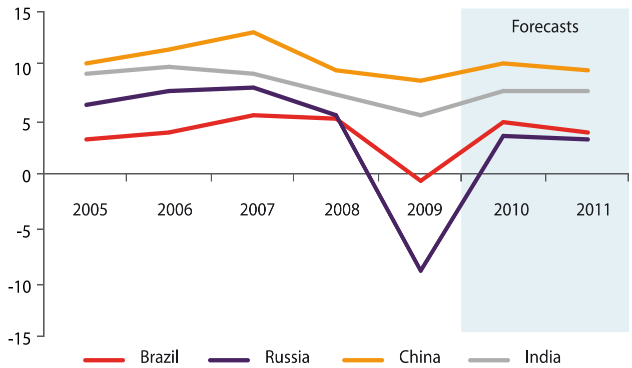
Sources: IMF, World Bank and OECD.

Chart 3.8: GDP change in the world, the Euro area and in partner countries



Source: IMF

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



Source: IMF

output index in the eurozone, which stood at 53.7 points, remained at the same level for the seven month in a row.

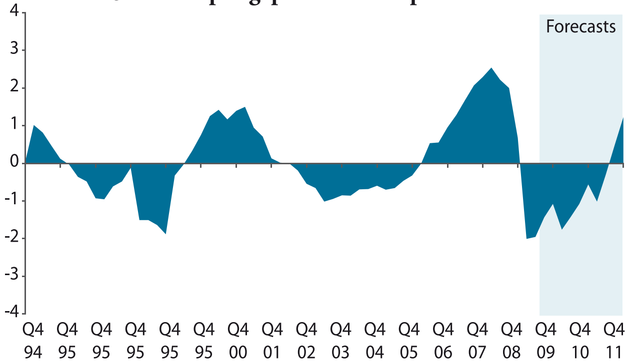
In addition, the advanced composite index of partner countries, elaborated by Bank Al-Maghrib, stood at 95.5 in the fourth quarter compared to 97.5 in the previous quarter.

In spite of the confirmation of recovery signs, the persistence of high unemployment levels, lending contraction and the impact of unsustainable public indebtedness, represent risk factors to the momentum of cyclical rebound in some countries. In January 2010, unemployment rate dropped nonetheless to 9.7 percent in the United States compared to 10 percent in the preceding month and remained at 9.9 percent, from one month to the next, in the eurozone, with notably a 10.1 percent in France and a maximum of 18.8 percent in Spain.

Regarding the short-term growth outlook, based on IMF forecasts for January 2010, GDP in the United States would rise by 2.7 percent and 2.4 percent in 2010 and 2011. GDP in the eurozone would grow 1 percent in 2010 and 1.6 percent in 2011 compared to a rise by 0.9 percent and 1 percent in 2010 and by 1.5 percent and 1.7 percent in 2011, according to the World bank, the OECD and the ECB. In France, Germany and Spain, GDP growth is expected to stand at 1.4 percent, 1.5 percent and -0.6 percent in 2010, followed in 2011 by a 1.7 percent rise in both France and Germany and by 0.9 percent in Spain.

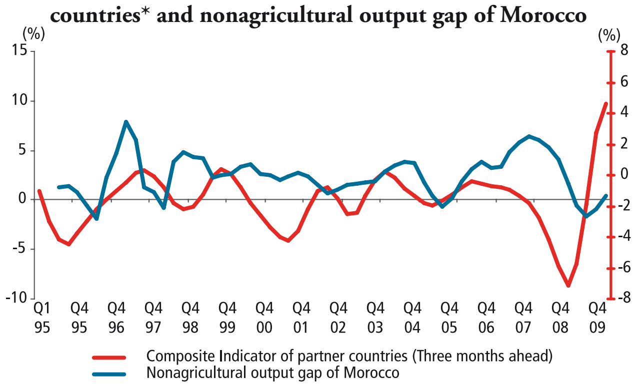
In emerging countries, particularly China and India, GDP in 2010 is expected to grow 10 percent and 9.7 percent, according to the IMF, and 9 percent and 7.5 percent for the World Bank. As to Brazil and Russia, their GDP is expected to grow by 4.7 percent and 3.6 percent in 2010.

Chart 3.10: Output gap of the main partner countries



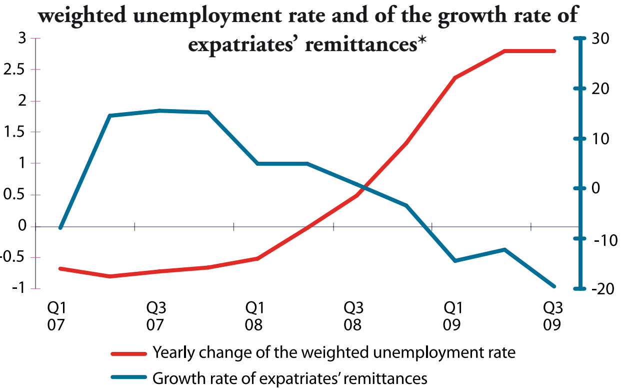
Sources: European commission and BAM calculations

Chart 3.11: Weighted Composite Leading Indicator of partner countries* and nonagricultural output gap of Morocco



** The Weighted Composite Indicator of partener 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 3.12: 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, OC and BAM calculations

3.2 World inflation

Against a background of gradual economic recovery, world inflation saw a new rise in February 2010 year-on-year. In fact, the preliminary data published by Eurostat show that inflation in the eurozone rose 0.9 percent in February 2010, compared to a 1 percent rise in the preceding quarter.

In the partner countries, data available as at end-January 2010 show a continuation of the upward trend in inflation observed since last November. Accordingly, headline inflation reached 1.3 percent and 1 percent respectively in Italy and Spain against 1 percent and 0.8 percent in the preceding month. In Germany and France, headline inflation edged upwards to 0.8 percent and 1.1 percent compared to 0.9 percent and -0.9 percent a month earlier.

Following a drop in consumer prices since August 2008, the rise in headline inflation registered since November 2009, continued in January, and is mainly attributable to the recent increase in international commodity prices.

Concerning the inflation outlook, IMF projections for January 2010 point to a price rise in the developed countries by 1.3 percent and 1.5 percent in 2010 and 2011 compared to 1.1 percent and 1.3 percent forecast last October. In emerging and developing countries, inflation is expected to reach 6.2 percent and 4.6 percent in 2010 and 2011 instead of 4.9 percent and 4.5 percent last October.

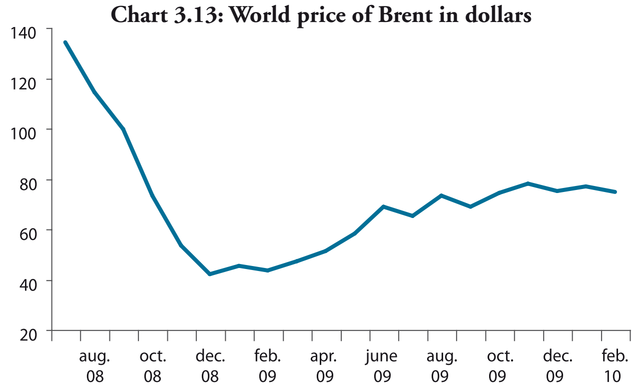
In the mid-term, and in light of the latest developments in the global economic situation, inflation would continue to edge upwards in most economies. This trend is closely linked to the global economic recovery, the notable improvements in the developed countries' growth outlook and the new surge in commodity prices. However, the low output

Table 3.2: Recent trend in world inflation, on a year-on year basis

	Jan. 2009	Nov. 2009	Dec. 2009	Jan. 2010	Forecasts 2010	Forecasts 2011
United States	0.0	1.8	2.7	2.6	1.7	1.3
Euro area*	1.1	0.5	0.9	1.0	0.9	0.7
Germany	1.0	0.4	0.9	0.8	1.0	0.8
France	0.7	0.4	-0.9	1.1	1.0	0.6
Spain	0.9	0.3	0.8	1.0	0.8	-0.1
Italy	1.6	0.7	1.0	1.3	0.9	0.8
Japan	0.0	-1.9	-1.7	-1.3	-0.9	-0.5
China	1.0	0.6	1.9	1.5	0.1	1.0

(*) Harmonized indexes
Sources: IMF, Eurostat, and OECD for the other countries

Chart 3.13: World price of Brent in dollars



Source: Datastream

Table 3.3: Forecasts of the current price of oil (Brent) in the futures market (in US dollars)

Q1:10	Q2:10	Q3:10	Q4:10	2010	2011	2012
78.4	80.9	82.1	83.1	81	84.9	86.6

Source : Bloomberg

capacity utilization rates in the majority of countries are expected to lessen inflationary pressures in the short term.

3.3 Oil prices

In February 2010, Brent oil prices dropped 3.1 percent on a monthly basis, to reach on average 77 dollars a barrel. Such a drop in oil prices is attributable to the rise of the dollar and to the massive sales by speculative funds. The registered rise was linked to the global economic recovery, the weakness of the dollar, which facilitated the massive speculative purchase operations and the decline in world stocks particularly in the United States during the winter period. Over the whole of 2009, Brent oil prices stood on average at $61.9 a barrel compared to $97.7 a barrel during the same period of last year, down 57.8 percent year-on-year.

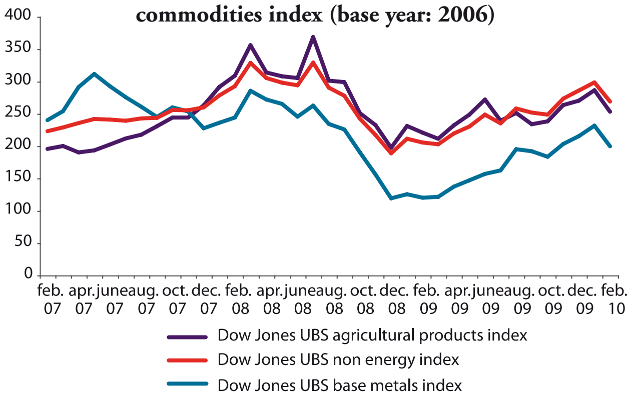
Concerning the world economic outlook prepared by the IMF for January 2010, oil prices are expected to reach $76 a barrel on average in 2010 and $82 a barrel in 2011, a sharp increase compared to last October's forecasts.

Based on the latest forecasts of the World Bank, average oil price would remain around $76 a barrel in 2010 and 2011. On the futures market, oil prices would stand on average at $81 a barrel in 2010 and $84.9 in 2011. Overall, according to most global operators, oil market development forecasts incorporate mainly the rebound in global economy and the upward adjustments in global demand in 2010 and 2011, according to the last report of the International Energy Agency and OPEC.

3.4 Commodity prices excluding energy

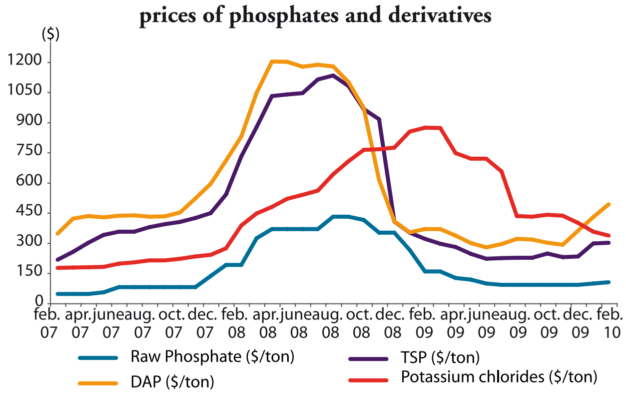
After a period of continued rise since the beginning of 2009, commodity prices excluding energy registered a drop in February, which concerns agricultural products as well as base

Chart 3.14: Change of the Dow Jones UBS non- energy commodities index (base year: 2006)



Source: Datastream

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



Sources: Datastream and BAM calculations

Table 3.4: Quarterly change of wheat futures and forecasts

Wheat (USc/ bushel)	Q1:10	Q2:10	Q3:10	Q4:10	2010	2011
Futures	496	499.73	523.12	550.01	519.00	418.20
Forecasts	550.00	590.00	575.00	600.00	540.00	498.00

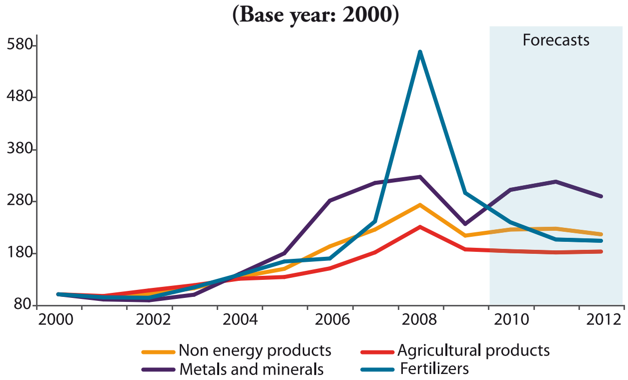
Source: Bloomberg

metals. This development was facilitated by the appreciation of the dollar. However, these prices remain at quite higher levels compared to those registered a year earlier. Accordingly, over the first two months of 2010, the Dow Jones-UBS[1] commodity index excluding energy grew 36.1 percent, compared to the same period of last year. Nonetheless, it dropped 9.9 percent in February 2010, from month-to-month.

Similarly, the Dow Jones-UBS agricultural index[2] rose 19.3 percent, year-on-year, and dropped 11.6 percent from one moth to the next. Such a development was mainly due to the drop in cereal prices, subsequent to particularly the upward adjustment of the harvest outlook in the main producer countries and the rise of the dollar. Accordingly, wheat, corn and barely prices dropped in February 2010 respectively by 3.6 percent, 3.3 percent and 6.2 percent from one month to the next. Conversely, sugar price continued its upward trend started at the beginning of 2009, subsequent mainly to the supply shortfall in the main producer countries, especially Brazil and India. As a result, sugar price reached a record 89 cents a kilo in February 2010, up 104 percent on an annual basis.

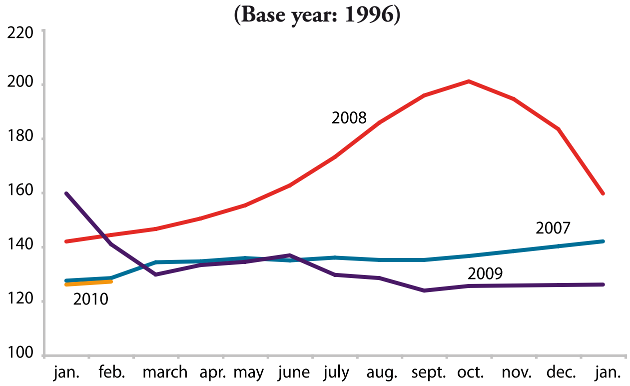
The Dow Jones-UBS base metals[3] index rose 75.6 percent, year-on-year, and dropped 13.8 percent from one month to the next. Prices of copper, zinc, and lead dropped respectively 7.3 percent, 11.4 percent and 10.3 percent from one month to the next, as a result especially of higher stock levels.

Chart 3.16: Change perspectives of commodity prices indexes (Base year: 2000)



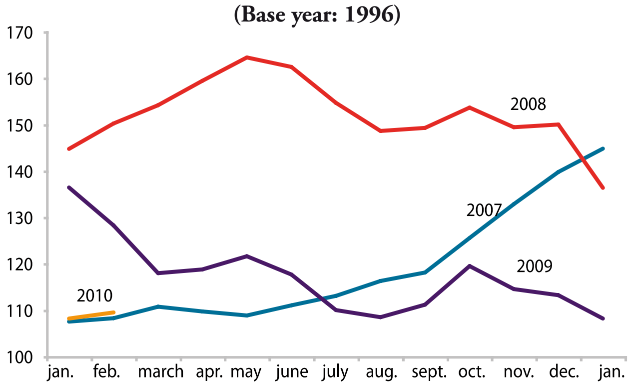
Source: World Bank

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



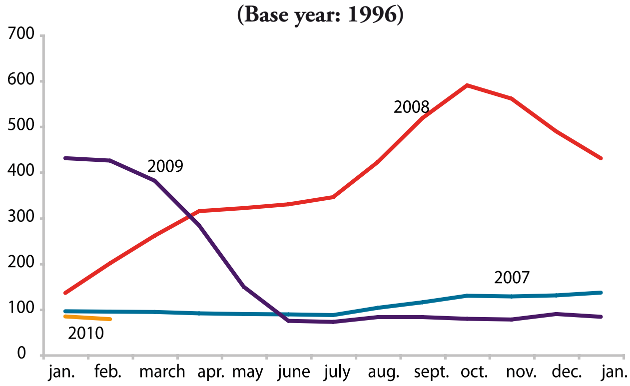
Sources: Foreign Exchange Office, and BAM calculations

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



Sources: Foreign Exchange Office and BAM calculations

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



Sources: Foreign Exchange Office and BAM calculations

1 The Dow Jones-UBS non-energy index includes the following commodities: Wheat, corn, sugar, cotton, coffee, soybean, aluminium, copper, zinc, nickel, gold, silver, live cattle and soybean oil.
2 The Dow Jones-UBS agricultural index is composed of wheat, corn, soybean, sugar, cotton, coffee and soybean oil.
3 the Dow Jones-UBS base metals index is composed of : Aluminium, copper, zinc and nickel.

Conversely, phosphates and derivatives prices edged overall on an upward trend. Phosphates price increased by 6.5 percent from one month to the next, to reach $490.5 dollars a ton. DAP, UREA and TSP prices rose by 14.7 percent, 4.6 percent and 1.2 percent respectively. Meanwhile, potassium chloride price fell 5.5 percent.

In the short term, non-energy commodity prices would increase moderately, the demand would hinge on the global economic recovery and the stock levels are expected to remain quite high. Accordingly, the majority of international bodies expect a rise in commodity prices excluding energy in the range of 5.3 percent to 5.8 percent, with a more substantial increase in metals prices, between 0.7 percent to 1.6 percent in 2011.

3.5 Morocco's import unit value index

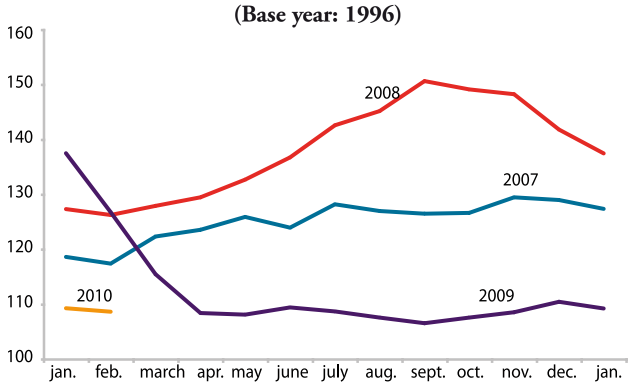
According to the latest available data, import price index (IPI) excluding energy rose 0.8 percent in January 2010, on a monthly basis, following an increase by 0.2 percent last December. This development mainly reflects a 1.1 percent rise in food products IPM compared to the preceding month, owing particularly to the surge by 13.5 percent in import unitary price of butter and by 15.6 percent of tea price.

Conversely, semi finished products IPI dropped 0.6 percent, on a monthly basis, due to the decline by 6.9 percent and 5.1 percent respectively in the import prices of plastics and that of wires and bars. At the same time, mining products IPI dropped 6.6 percent, on a monthly basis, as a result mainly of the 59 percent decline in the import unitary price of sulphur and 2.5 percent drop in iron and steel import unitary price.

Year-on-year IPI excluding energy dropped 9.8 percent. Indeed, food products IPI dropped 14.7 percent, due to the decline by 27.5 percent and 7.9 percent respectively in import unitary prices of wheat and pure vegetable oils. Similarly, semi finished products IPI dropped 14.3 percent, as a result of the decline in import prices of papers and cartons as well as of wires and bars. As to mining IPM, it dropped 81.6 percent, mainly due to the 93.4 percent decline in the import unitary price of crude sulphur.

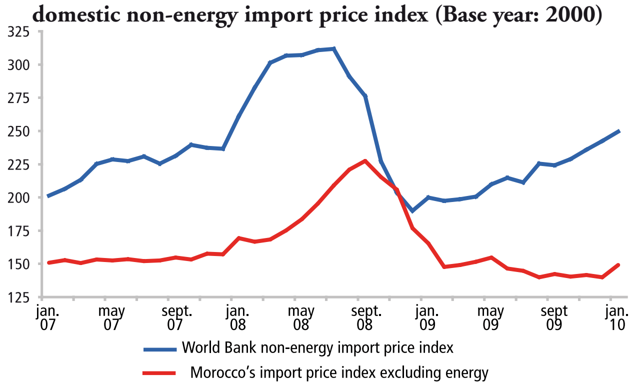
In a global context marked by some volatility in world commodity prices, inflationary pressures arising from import prices, which remain weak, may gradually resume over the forthcoming quarters.

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



Sources: Foreign Exchange Office, and BAM calculations

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



Sources: World Bank and Foreign Exchange Office

4. MONETARY CONDITIONS AND ASSET PRICES

Analysis of monetary conditions, similarly to the analysis made in the Monetary Policy Report of December 2009, suggests a slowdown in money creation. Money supply indeed grew by 5.3 percent in the fourth quarter of 2009 and 5 percent in January 2010, down from 8.1 percent in the first nine months of 2009. Monetary surplus has remained at a level close to zero during the last quarters. At the same time, despite a slowdown from third quarter 2009, bank lending continued to grow at a relatively steady pace of 10.2 percent in the fourth quarter of 2009 and 11.6 percent in January 2010, boosted by the gradual improvement in nonagricultural growth. Concerning lending rates, Bank Al-Maghrib's survey among banks for the fourth quarter shows a slight increase in the weighted average lending rate, mainly due to higher rates on real estate loans. The effective exchange rate of the dirham depreciated by 1.52 percent in nominal terms in fourth quarter 2009, and 2.34 percent in real terms, owing to the positive inflation differential of Morocco. The new real estate price index, calculated by BAM, shows a slight year-on-year decrease of 0.5 percent in property prices in the last quarter 2009. Stock exchange prices continued the downward trend that began early 2008. Altogether, recent monetary and financial developments confirm the continued moderation in inflationary pressures in the coming quarters.

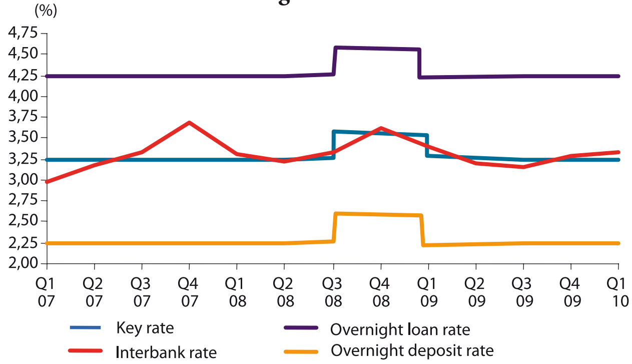
4.1 Monetary conditions

4.1.1 Interest rates

In a context where risks are skewed to the downside and central inflation forecast is in line with the objective of price stability, the Board of Bank Al-Maghrib, at its meeting of December 22, 2009, decided to keep the key rate unchanged at 3.25 percent. Under these conditions, the interbank overnight rate averaged 3.34 percent between January and February 2010, up 6 basis points from the previous quarter, a level close to the key rate.

Short-term Treasury bills issued on the primary market trended upward, after remaining almost unchanged in the last three quarters. Medium-term Treasury bills in early 2010 continued the upward trend that began in October 2009. A similar change was recorded on the secondary market, as short and medium-term yields increased and long-term yields remained generally stable.

Chart 4.1: Change in the interbank rate*

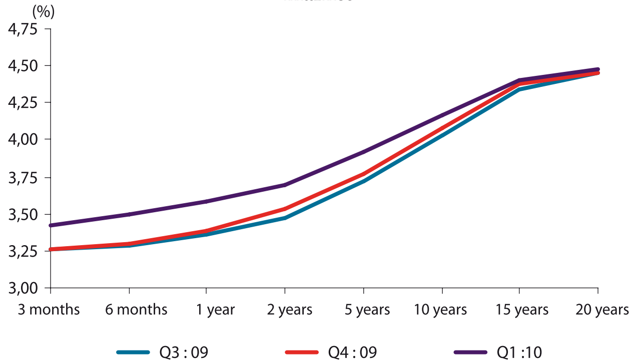


** Observation of the first quarter of 2010 corresponds to the daily average of the period from January 1 to February 28.*

Table 4.1: Change in TB yield rates on the primary market

	2008		2009				jan.10
	Q3	Q4	Q1	Q2	Q3	Q4	
13 weeks	3.42	3.69	3.58	3.26	3.25	3.25	3.43
26 weeks	-	3.77	3.65	3.31	3.27	3.28	-
52 weeks	3.51	3,84	3.75	3.35	3.33	3.37	3.51
2 years	-	-	3.90	3.44	3.48	3.57	3.67
5 years	3.75	3.99	4.05	3.69	3.68	3.74	3.88

Chart 4.2 : Structure, by maturity, of interest rates on the TB market

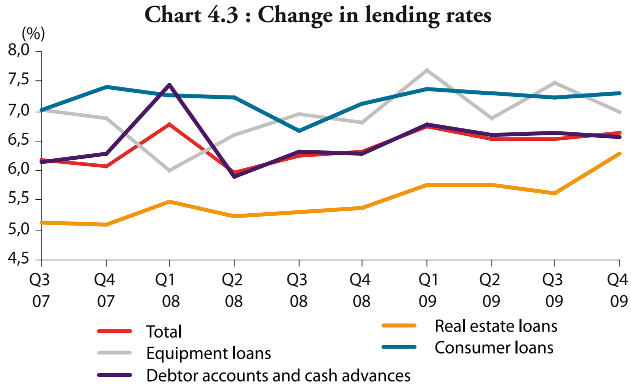


The weighted average rate of deposit rates on 6 and 12-month deposits, which remained almost unchanged between the third and fourth quarter 2009, lost 10 basis points in January 2010 to 3.44 percent. This decline, however, covers disparate trends in time deposits with banks. Rate on six-month deposits, which is most dependent on changes in the overnight interbank rate, moved up from 3.24 percent to 3.33 percent. In contrast, the rate on one-year deposits fell to 3.57 percent.

Table 4.2: Rates on time deposits

	2008		2009				
	Q3	Q4	Q1	Q2	Q3	Q4	Jan.10
6 months	3.50	3.90	3.61	3.52	3.31	3.24	3.33
12 months	3.89	4.23	3.91	3.96	3.68	3.69	3.57
Weighted average	3.77	4.13	3.78	3.78	3.55	3.54	3.44

Chart 4.3 : Change in lending rates



Box 4.1: Liquidity and monetary policy implementation

In the last quarter of 2009, banks' liquidity shortfall decreased, following the decision to reduce the required reserve ratio by two percentage points, taken by the Bank Board at its meeting of October 1, 2009, as a result of which a total of 7.1 billion dirhams was injected into the banking system. The average shortfall in banking liquidity has indeed shrunk from 20.9 billion in the third quarter to 16.6 billion in the fourth quarter 2009.

The autonomous factors of banking liquidity continued to exert a restrictive effect on banks' liquidity during the fourth quarter. The increase of currency in circulation reached 2.6 billion dirhams, mainly due to the Feast of Sacrifice and the New Year.

However, Treasury operations caused a liquidity drain of 3.7 billion dirhams, mostly because of repayment of domestic debt and the accelerating pace of Finance Act execution at year's end.

Autonomous factors had an overall restrictive effect of 2.3 billion dirhams on banks' liquidity.

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

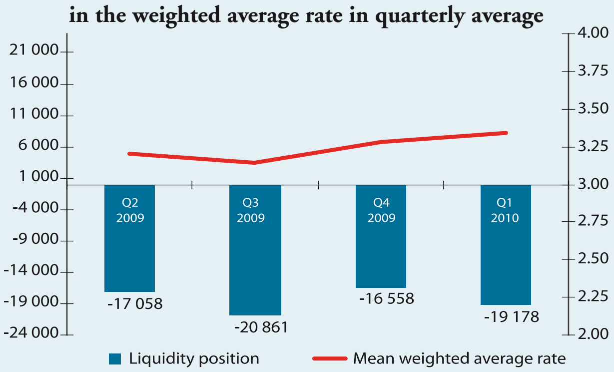
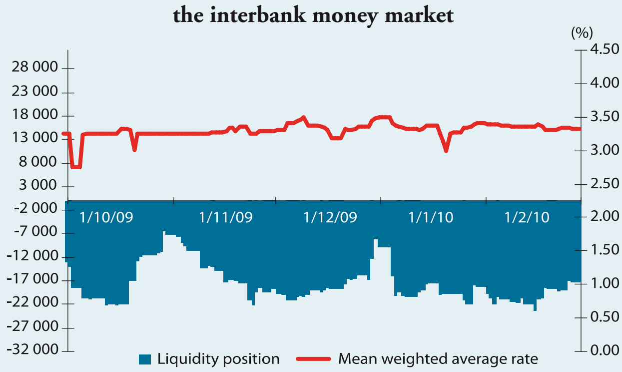


Chart B 4.1.2: Liquidity position and weighted average rate of the interbank money market



The average liquidity shortfall increased from 16.6 billion in the fourth quarter 2009 to 19.2 billion in the first quarter 2010, despite the restrictive effect of autonomous factors.

Indeed, transactions in foreign assets led to a liquidity drain of 4.3 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 3.3 billion dirhams.

Treasury operations caused an injection of liquidity into the banking system totaling 450 million dirhams. Treasury expenses increased to 52 billion dirhams, of which 14 billion on the repayment of domestic debt to the banking system. Treasury resources amounted to 51.6 billion dirhams, including 19.8 billion attributable to banks' purchases of Treasury bills at auctions.

The return flow of currency to the banks reached 771 million dirhams.

Chart B 4.1.3: Change in reserve requirements

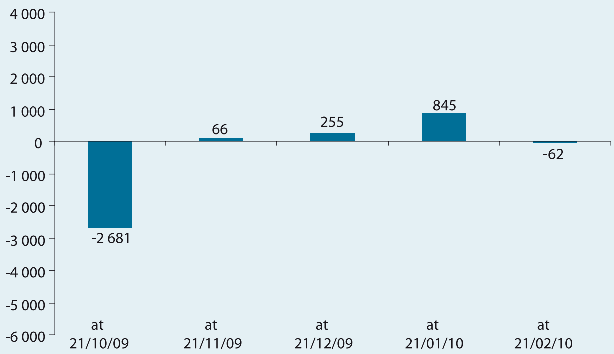
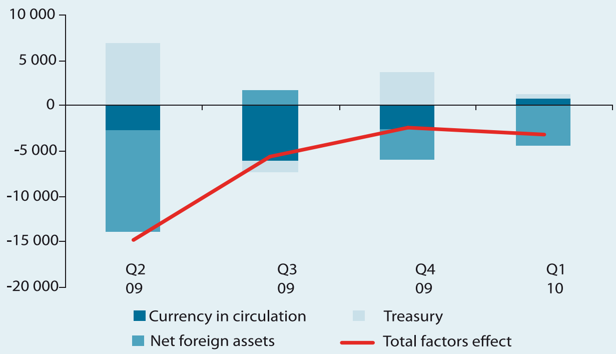


Chart B 4.1.4: Change in liquidity factors' effect



Overall, the autonomous factors exerted a restrictive effect of 3.1 billion dirhams on banks' liquidity.

To reduce the shortfall in banks' liquidity, which averaged 19.2 billion dirhams during the quarter, Bank Al-Maghrib intervened solely through the 7-day advances at an average daily amount of 19.3 billion.

During the first quarter of 2010, the weighted average rate averaged 3.34 percent, up 6 basis points from the previous quarter. In contrast, its volatility decreased by 5 basis points to 0.07 percent, compared to 0.12 percent previously.

Chart B 4.1.5: BAM interventions on the money market

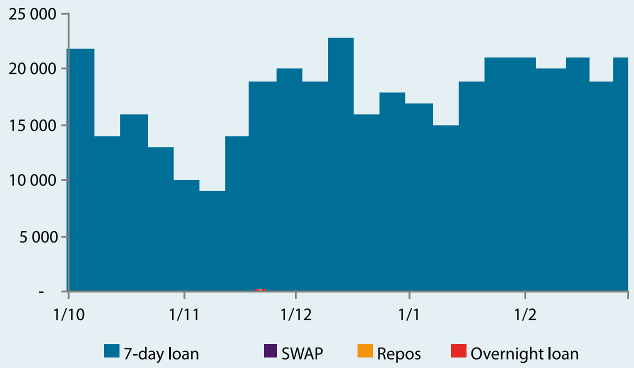
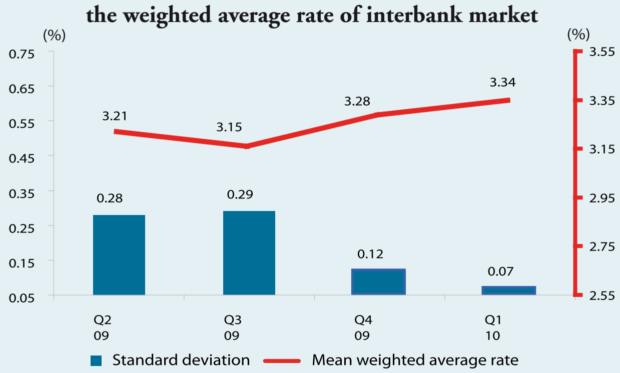


Chart B 4.1.6: Change in the mean and standard deviation of the weighted average rate of interbank market



Concerning lending interest rates, BAM survey among banks for the fourth quarter of 2009 indicates that the weighted average rate of bank loans increased somewhat to 6.63 percent, mostly because of rise in rates on real estate loans.

Rates on cash loans remained almost unchanged, whereas those on equipment loans were down from one quarter to the next.

4.1.2 Money, credit and liquid investments

M3 growth

The latest available data show the continued moderate growth of money supply, reflecting in particular the decline in net foreign assets and the slowdown in credit. Moreover, monetary surplus remained lower than the levels observed in the last quarters, suggesting moderation in inflationary pressures caused by monetary factors on the medium run.

Despite its slowdown, bank lending is still the major factor of M3 annual growth, representing 8.6 percentage points in January 2010, while net claims on the Government and net foreign assets continue to negatively impact monetary creation.

In fact, after moving to 8.1 percent on average during the first nine months of 2009, the annual growth of M3 fell to 5.3 percent in the fourth quarter and 5 percent in January. This reflects nonfinancial agents' portfolio reallocation toward non-M3 assets, besides an increase in securities of money market funds and bond funds.

Chart 4.4: Interbank rate and lending rates

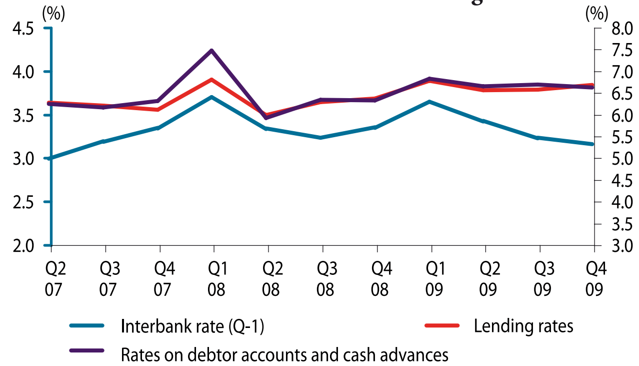


Chart 4.5: M3 annual growth and its trend

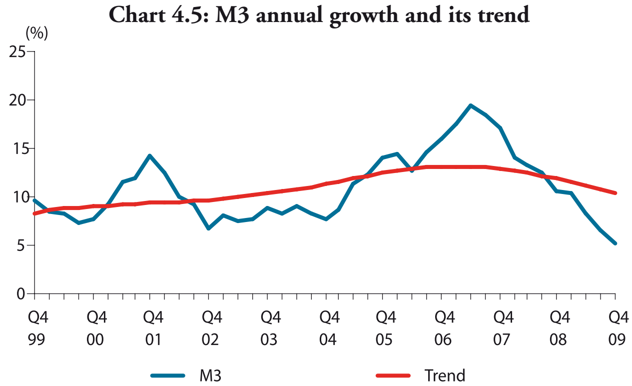


Chart 4.6: Money surplus (in percentage of M3 and M1 equilibrium outstanding amount in real terms)

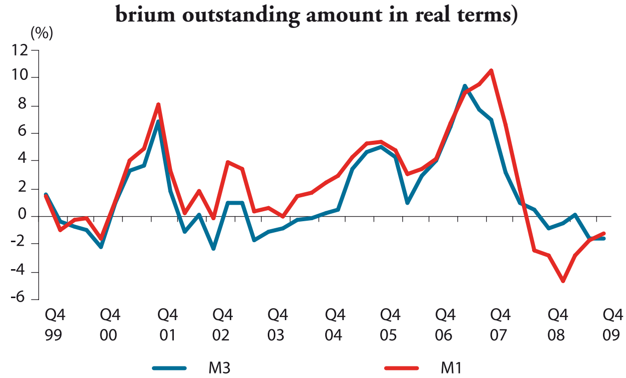
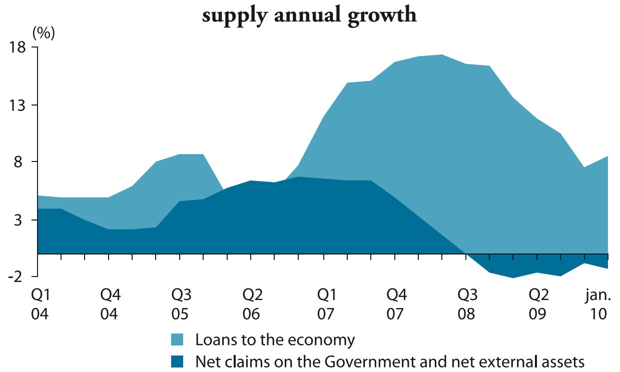


Chart 4.7: Contributions of the major counterparts to money supply annual growth



The rates of growth of M3 components remained moderate, even negative, mainly because of seasonal factors and base effects. The stagnation of currency in circulation in January 2010 resulted in a further deceleration of its annual growth, down to 7.1 percent from 8.3 percent the previous quarter. Conversely, bank money was up 7.1 percent year on year in January, from 4.7 percent in the last quarter of 2009, despite a contraction in January following the downward adjustment of nonfinancial corporations' demand deposits, in line with their seasonal pattern. This acceleration is largely attributable to a base effect associated with the stronger decline recorded during the same month of last year.

Meanwhile, time deposits with banks did not change markedly from one month to the next, as the impact of increased time deposits by private individuals was offset by the drop in those of nonfinancial corporations. Their annual rate of growth was negative in January, probably reflecting the significant shift toward investments other than in currency.

Bank loans

In a context of gradual improvement in nonagricultural growth, bank credit continued to grow at a steady pace. The slowdown it has registered since the second quarter of 2008 primarily indeed

Chart 4.8: Annual growth of M3 components

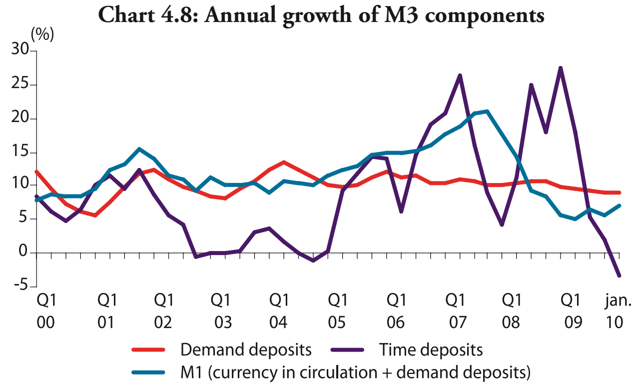


Chart 4.9: Annual growth of demand deposits by economic agent

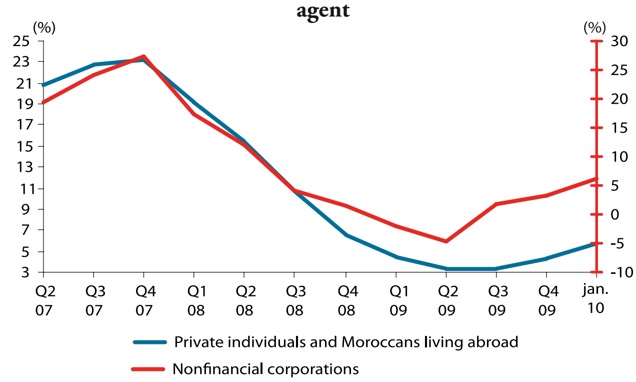


Chart 4.10: Bank loans' annual growth and trend

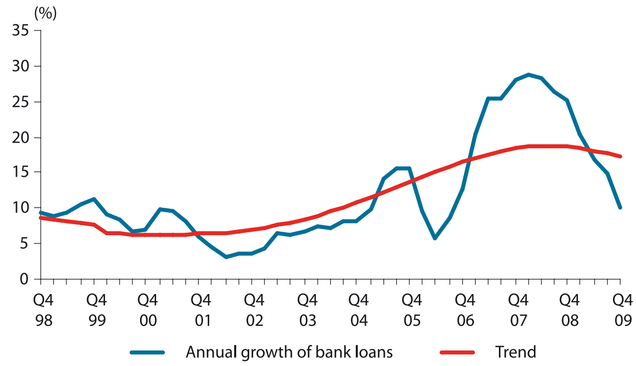
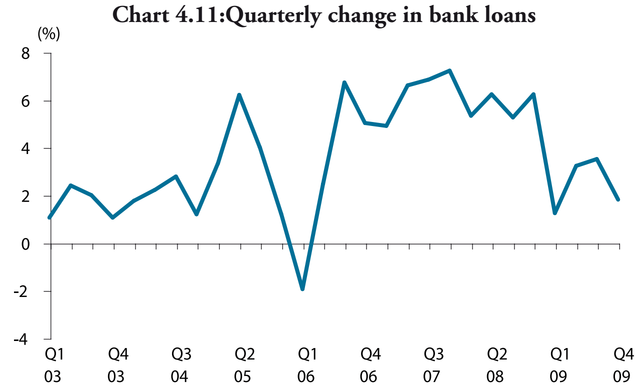


Chart 4.11:Quarterly change in bank loans



reflects convergence with its long-term trend. The annual growth rate of bank lending declined from 15 percent in the third quarter of 2009 to 10.2 percent in the fourth quarter, levels quite similar to those observed before 2007. In January, credit was slightly up to 11.6 percent year on year, in part reflecting a base effect.

Short-term changes point to these developments in a more real manner, as bank lending, on monthly and quarterly basis, generally slowed down.

Growth in bank lending remains marked by the important volume of loans to corporations, both in terms of share and contribution to growth. Indeed, equipment loans maintained momentum, driven by the upturn in investment. They posted an annual increase of 26.6 percent in the last quarter of 2009 and 28.3 percent in January 2010, thus contributing 5 percentage points to the overall growth of credit.

Although slower than the pace of last year, the annual growth rate of real estate loans remains relatively robust, at 12.6 percent in January, from 12.2 percent and 16.3 percent in the last two quarters of 2009, respectively. The outstanding amount of cash advances, mostly composed of advances to corporations, early 2010 remained generally the same as in the previous quarter.

Chart 4.12: Loans' structure by economic agent

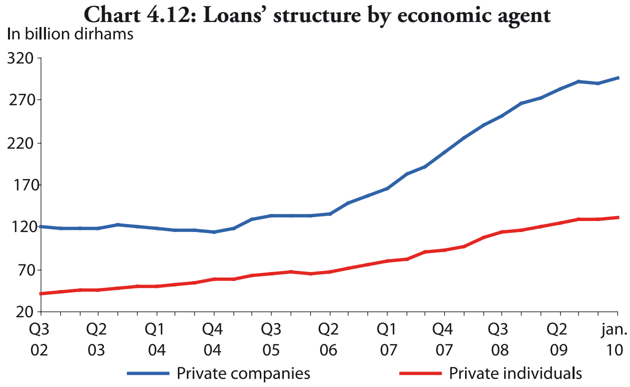


Table 4.3: Contribution of the major loan categories to the annual growth of bank credit (in percentage points)

	Year-on-year in %			Contribution to growth		
	Q3:09	Q4:09	jan.10	Q3:09	Q4:09	jan.10
Bank loans	14.9	10.2	11.6			
including:						
Real estate loans	16.3	12.2	12.6	6.0	4.8	3.6
Cash advances	6.5	1.2	2.9	2.1	1.8	0.3
Equipment loans	25.8	26.6	28.3	4.5	4.8	4.9
Consumer loans	21.3	19.1	18.0	1.2	1.0	0.9

Chart 4.13: Annual growth of the major loan categories

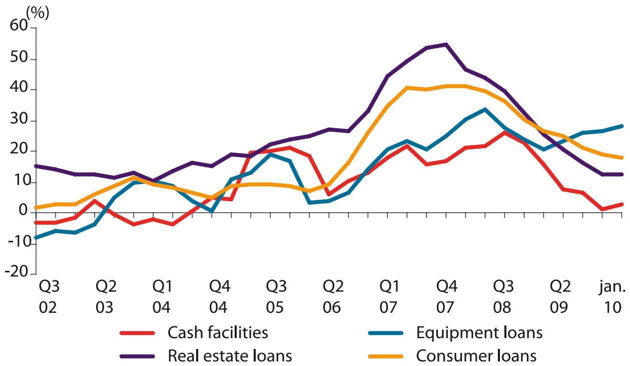
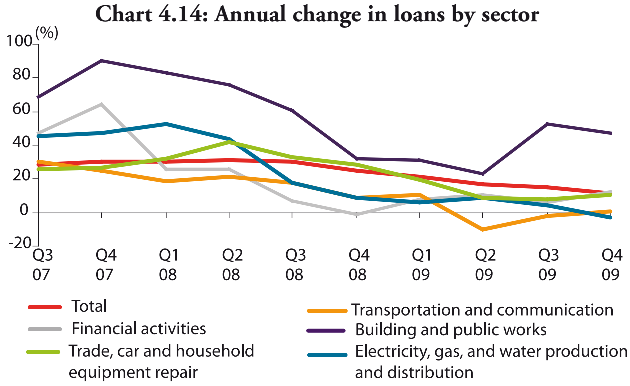


Chart 4.14: Annual change in loans by sector



Consumer loans grew at an annual rate of 19.1 percent and 18 percent in the fourth quarter 2009 and January 2010, respectively.

Other sources of money creation

The slight decline in trade deficit and the slower deceleration in travel receipts and remittances from Moroccans living abroad contributed to an upturn in net foreign assets in the last quarter of 2009, as they fell by an annual rate of 5.8 percent instead of 9.1 percent on average during the first three quarters of the year. However, their decrease became sharper in January 2010, at 8.3 percent, subsequent to the Telefonica's sale of its share in Méditel.

Net claims on the Government moved up by an annual rate of 7.8 percent in January, up from 7.3 percent in the previous quarter, mostly because of the increased purchases by banks of Treasury bills.

Liquid investments

Liquid investment aggregates maintained momentum in the fourth quarter 2009 and January 2010, growing at an annual rate of 26.8 percent and 30.8 percent, respectively.

This increase resulted from the rise in securities of money market and bond funds. However, securities of equity and diversified funds were again down, albeit at a slower pace, thereby reflecting price movements on the Casablanca stock exchange.

Chart 4.15: Annual growth of net foreign assets

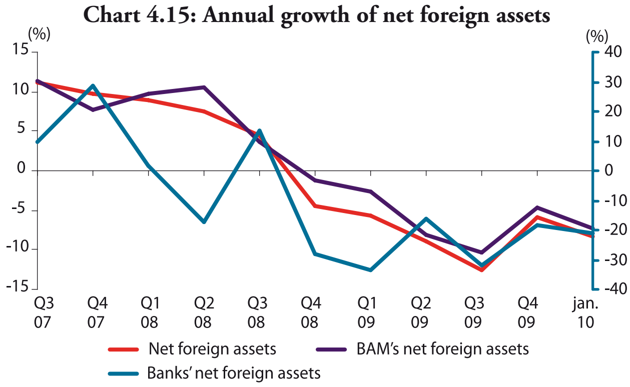


Chart 4.16: Quarterly change in the outstanding amount of net claims on the Government

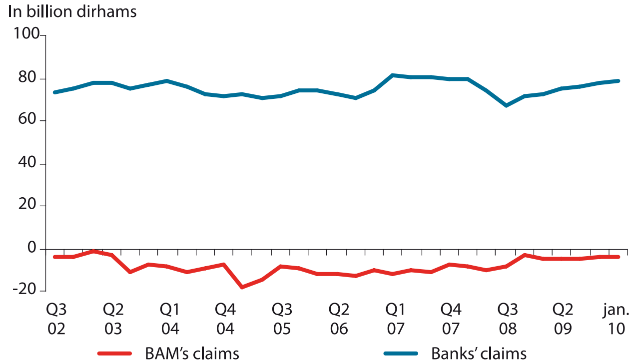


Chart 4.17: Annual change in liquid investments and time deposits

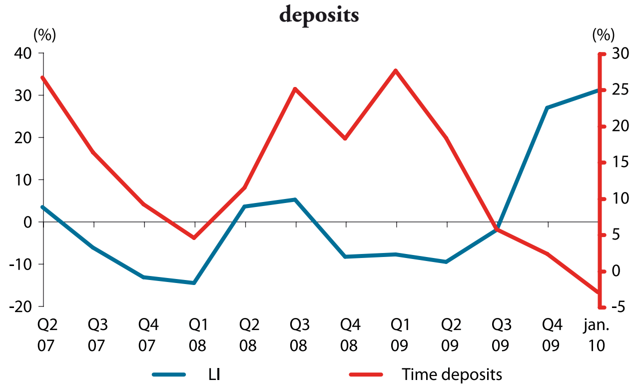
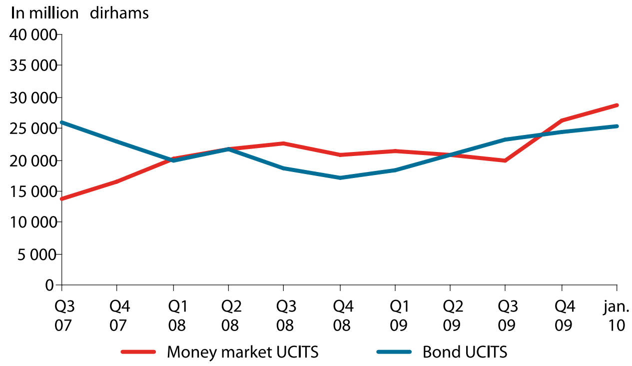


Chart 4.18: Change in money market and bond UCITS securities



The growth in securities of money market and bond funds is mostly due to the demand from nonfinancial corporations. Securities held by resident individuals and Moroccans living abroad remained unchanged on both a quarterly and monthly basis.

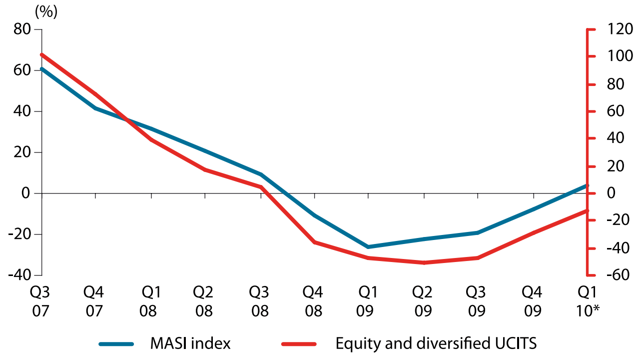
Exchange rates

In response to the change in currencies on international markets, the national currency depreciated by 4.58 percent on average in the first two months of 2010 against the U.S. dollar, after several quarters of appreciation. Similarly, it traded against the Japanese yen, the pound sterling and the Swiss franc at rates lower than the average reported in the previous quarter, at 3.64 percent, 1.89 percent and 1.50 percent, respectively. In contrast, the dirham appreciated 0.97 percent against the euro.

The dirham's nominal effective exchange rate, based on bilateral exchange rates against Morocco's major partners and rivals, climbed at a quarterly rate of 1.56 percent according to the simple weighting method, and 1.52 percent according to the double weighting method[1].

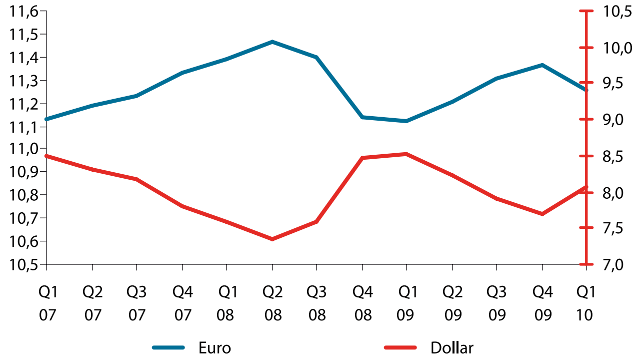
During the same period, the real effective exchange rate depreciated by 2.39 percent and 2.34 according to the two methods, respectively, reflecting the widening inflation differential positive for Morocco.

Chart 4.19: Annual growth of LI4 and MASI



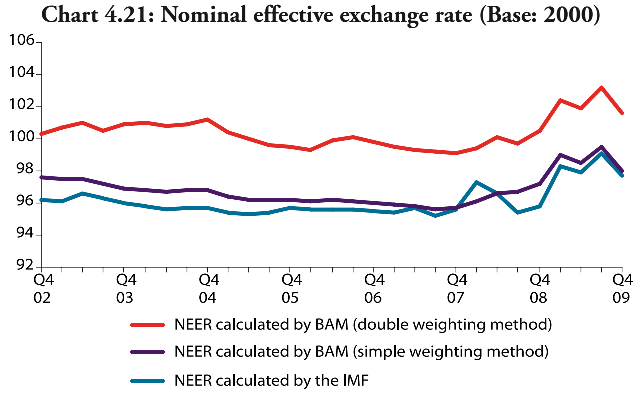
** Observation of the first quarter corresponds to the arithmetic average of January and February data.*

Chart 4.20: Exchange rate of the dirham



**The first quarter 2010 corresponds to the arithmetic average of January and February data.*

Chart 4.21: Nominal effective exchange rate (Base: 2000)



1.This new method takes into account the weight of Morocco's major trading partners as well as the impact of foreign competition on its key markets.

4.2. Asset prices

4.2.1 Real estate assets

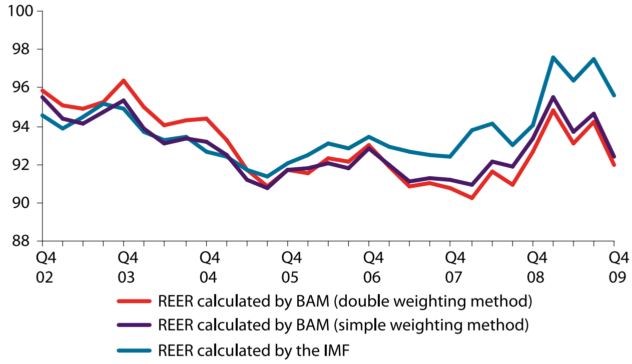
In Europe, especially Spain, Britain and France, the decline in property prices that began in 2008 and was not of the same magnitude, started to subside in the fourth quarter of 2009.

In Morocco, the results of the real estate price index[1] (REPI) for the last quarter of 2009 highlight the continued recovery in property prices that began a quarter earlier. This change reverses the downward trend in property prices observed since the third quarter of 2008. On a year-to-year basis, the REPI posted a smaller decrease as from the second quarter of 2009, at -0.5 percent up from -2.8 percent in the previous quarter.

At the same time, sales of residential property registered at the Land Registry Office in the fourth quarter 2009 posted an annual decline of 18.7 percent to 13,653 transactions. This decrease in the number of sales affected apartments as well as houses and villas, and covered all regions, albeit in different proportions.

This trend of real estate prices appears to be correlated with that of housing loans (chart 4.26) and the stock market real estate index (chart 4.27) on the same period, which show the same turning points.

Chart 4.22: Real effective exchange rate (Base: 2000)



Sources: IMF, and BAM calculations

Chart 4.23: Annual change in the real estate price index in Spain, United Kingdom, France and Morocco

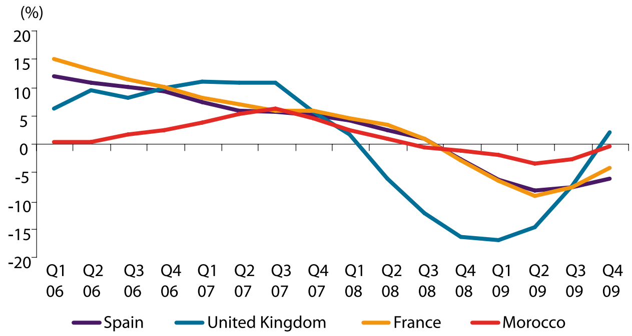
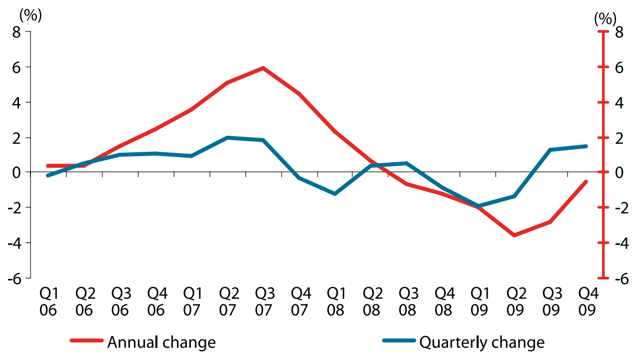


Chart 4.24: Annual and quarterly change in the real estate price index



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

Box 4.2: Technical notice on the real estate price index (REPI)

The real estate price index (REPI), published for the first time in Morocco, was jointly constructed by Bank Al-Maghrib and the Land Registry Office on the basis of the latter's data. This quarterly index, which has a base value of 100 in 2006, is calculated following the repeat-sales method that resolves the problem of real estate heterogeneity. This method does indeed takes into account only the properties sold at least twice during the period under review.

The REPI will contribute to improving the quality and content of economic information provided to the general public. It will also help better understand the impact of real estate price fluctuations on inflation, financial stability and, more generally, financial and nonfinancial agents' balance sheets.

The REPI captures changes in residential property prices nationwide, sorted out by region, major cities and the following three dwelling types: apartments (a dwelling located in an apartment building and comprising one or more rooms), houses (a single or several-story individual dwelling with no garden), and villas (an individual dwelling with a garden).

4.2.2 Stock prices

At the end of the fourth quarter 2009, the Moroccan All Share Index (MASI) lost almost 3 percent from the third quarter, posting an annual negative performance of nearly 5 percent. In contrast, early this year major stock market indexes improved. Indeed, at the end of February, the MASI gained 1.5 percent from January, representing an increase of

Chart 4.25: Annual change in the real estate price index and volume of transactions

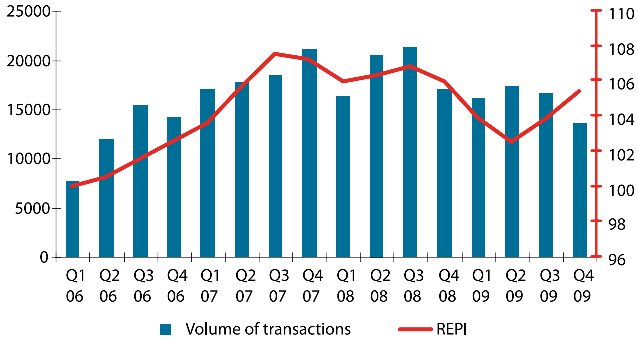
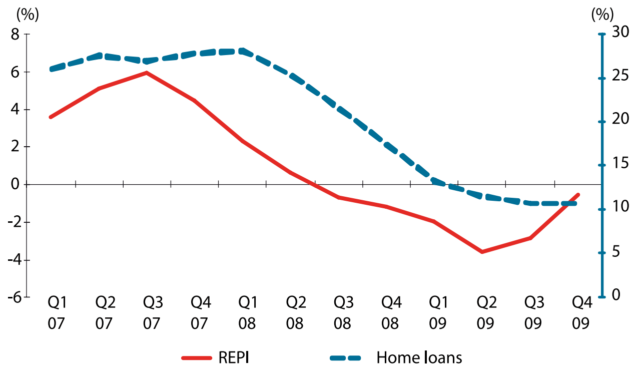
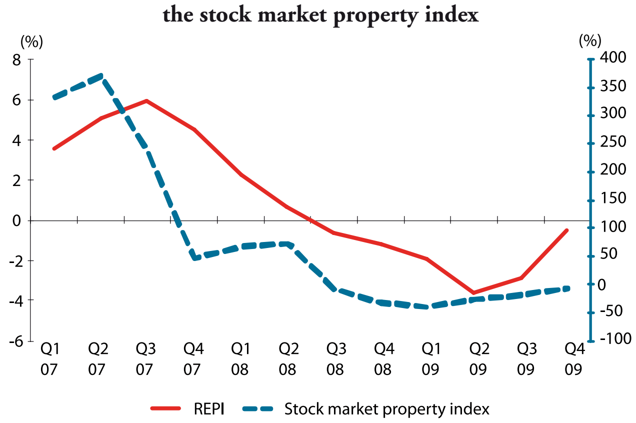


Chart 4.26: Annual change in the real estate price index and home loans*



** Home loans do not include property development loans*

Chart 4.27: Annual change in the real estate price index and the stock market property index



** Data at end February 2010*

6.3 percent since the start of the year. The stock market real estate index in the fourth quarter was down 13.1 percent from the previous quarter. Nevertheless, it increased by 4.3 percent in February.

The PER of the Casablanca stock market remained almost unchanged from one quarter to the next, at more than 15. It is still relatively higher than other stock markets in the emerging countries.

The volume of transactions sizably increased from 14 billion dirhams in the third quarter 2009 to 50.5 billion in the fourth quarter, boosted by portfolio revaluations normally carried out at year end.

At the same time, market capitalization was 2.5 percent down from the previous quarter, at 509 billion dirhams compared to 521.7 billion. However, latest figures show an increase in market capitalization to 540.9 billion dirhams at the end of February.

Most sector indexes were up in the first months of 2010, except the beverages index and the leisure and hotels index that lost 5 percent and 12.5 percent, respectively. The stock market indexes of the mining, insurance and chemistry sectors registered the highest increases, with 29.9 percent, 13 percent and 12.5 percent, respectively. The other sector indexes recorded rises ranging from 2.7 percent for the sector of electrical and electronic equipment to 9.2 percent for telecommunications.

On a year-to-year basis, the most representative sectors of the stock exchange, namely telecommunications, real estate, banks and holding companies, continue the downward trend that began in the end

Table 4.4: Equity market's PER

PER *	Q1:09	Q2 :09	Q3 :09	Q4 :09	Q1 :10
Argentina	8.5	8	13.9	17.3	17.7
Brazil	9	9.7	11.1	13.1	16.3
Mexico	11.6	16.6	18.1	20	16.9
Turkey	**5.3**	**8.5**	**10.8**	**9.9**	**10.8**
Morocco	14.4	16.4	15.8	15.7	16.4

** PER: Price Earnings Ratio*
Sources: Bloomberg and CFG

Chart 4.28: Stock market indexes

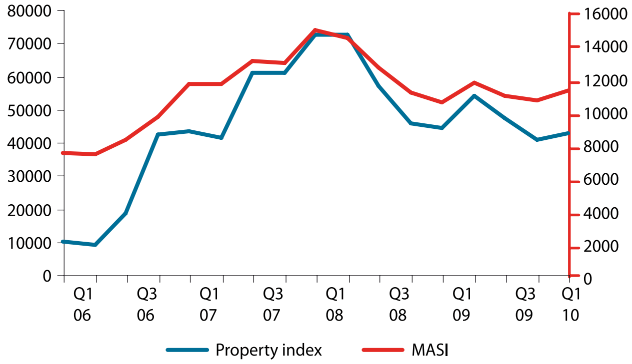
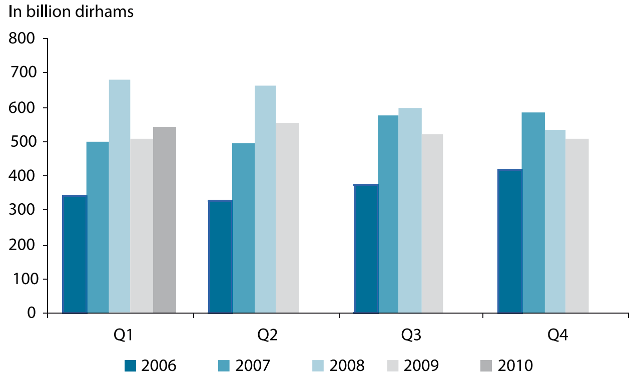
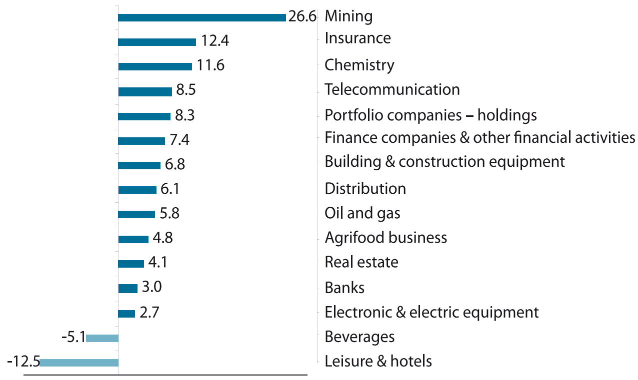


Chart 4.29: Market capitalization*



** Data at end February 2010*

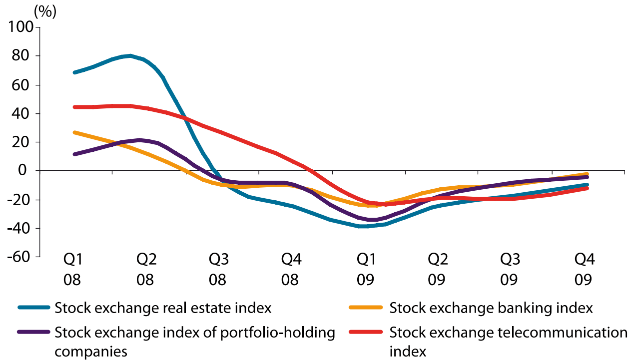
Chart 4.30: Quarterly change in stock market sector indexes



** Data at end February 2010*

of the second quarter 2008, albeit at a lesser degree. Indeed, the negative performance that these sectors recorded decreased from 20 percent, 18 percent, 11 percent and 9 percent, respectively, in the third quarter 2009 to 10 percent, 3 percent, 5 percent and 13 percent in the fourth quarter.

Chart 4.31: Change in the major stock market sector indexes



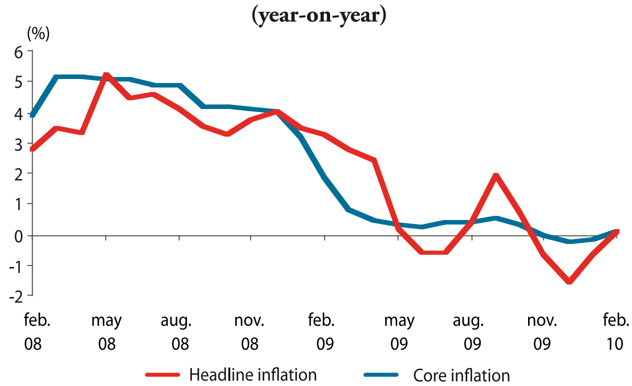
5. RECENT INFLATION TRENDS

The data of the fourth quarter of 2009 as well as January and February 2010 confirmed the continued easing of headline inflation and core inflation, already forecasted in the previous Monetary Policy Report. This moderation mainly reveals the uninterrupted lessening of inflationary pressures at world level and the constant relaxing of pressures arising from demand, especially foreign one. It is also the result of the base effect of high prices for staple food in 2008 and the first quarter of 2009. Against this backdrop, annual inflation stood at 0.1 percent in February, up from -0.7 percent in January 2010 and -1.6 percent in December 2009. Core inflation, which reflects the underlying trend of prices, remained low, moving from -0.2 percent in December 2009 and January 2010 to 0.1 percent in February. The change in inflation resulted from a 0.8 percent rise in nontradable goods prices and a 0.8 percent fall in tradable goods prices. The easing of inflationary pressures is also evidenced by the change in industrial producer prices which, despite a recent upturn in parallel with oil and commodities prices, registered a limited rise of 0.2 percent in January 2010 compared to a drop of 2.7 percent in December 2009.

5.1 Inflation trends

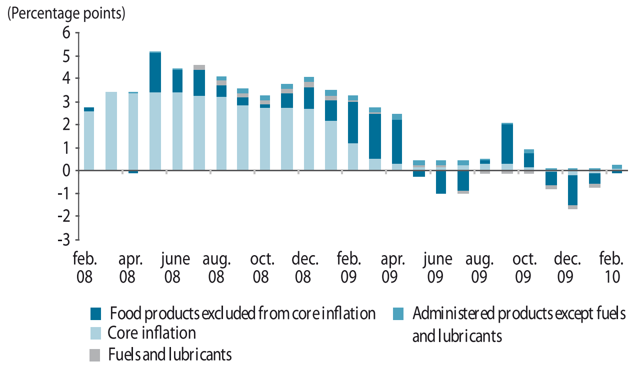
Inflation remained subdued overall, amid easing pressures on prices in our main partner countries combined with high spare capacity at world level and insignificant pressures of demand at national level. At the very short term, fluctuations in the prices of some fresh produce caused inflation to be highly volatile, without considerably impacting its average. Inflation, gauged through the annual change in the consumer price index (CPI), turned positive again in February 2010, standing at 0.1 percent, up from -1.6 percent in December 2009 and -0.7 percent in January 2010. Putting an end to three-month-long negative variations, this trend reflects the stagnation of fresh food prices, down a month before, on the one hand, and a slowdown in the decrease pace of staple food prices, on the other hand. The contribution of fresh food, which accounts for 18.5 percent of the general index basket, to headline inflation was neutral 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 year-on-year headline inflation



Sources: HCP and BAM calculations

February, compared to -0.3 point a month before, while staple food, which stand for 14.2 percent of the CPI basket, contributed -0.5 percentage point in comparison with -0.7 point in January. Prices for fuels and lubricants were down 1.2 percent, much less than the 6.1 decrease registered in January, due to the base effect relative to the drop of fuel pump prices in February 2009.

Although oil prices went up, this heading's prices remained moderate thanks to the freezing of the indexation mechanism which insulates the national market from fluctuations abroad and puts the burden of oil price variations on the State's budget, through the Subsidization Fund.

Core inflation, reflecting the underlying price trend, stood at 0.1 percent in February, after being negative in December 2009 and January 2010. As a result, the gap, in absolute value, between headline inflation and core inflation, which was around 1.3 point in December, dropped significantly in January before falling down to zero in February due to the much slower decrease of fresh food prices. Inflation trend was also the result of the less sharp decline in the prices of "cereal-based products" and "unprocessed cereals", by 1.6 percent and 9 percent, respectively. The non-food product price index gained 1 percent, slightly above the 0.8 percent rise registered in January. Prices for some divisions moved at the same pace as last month, but the growth rate of prices in "transportation" and "restaurants and hotels" accelerated to 0.7 percent and 2.7 percent, respectively.

Table 5.1: Inflation and its components

	Monthly change (%)			Year-on-year (%)		
	Dec. 09	Jan. 09	Feb. 10	Dec 09	Jan. 09	Feb. 10
Headline inflation	**-0.5**	**0.2**	**0.9**	**-1.6**	**-0.7**	**0.1**
Including: - Food products excluded from core inflation	-3.0	2.3	7.7	-9.9	-3.8	-0.8
- Fuels and lubricants	0.0	0.0	0.0	-6.1	-6.1	-1.2
- Administered products except fuels and lubricants	0.0	-0.1	0.0	0.7	0.5	0.5
Core inflation	**-0.1**	**-0.2**	**-0.1**	**-0.2**	**-0.2**	**0.1**
Including: - Food products	-0.3	-0.6	-0.5	-2.0	-1.9	-1.6
- Clothing and shoes	0.1	0.2	0.0	0.8	0.7	0.7
- Housing, water, gas, electricity and other fuels*	0.0	0.0	0.0	1.2	1.0	1.1
- Furniture, household and house cleaning goods	-0.1	0.5	0.0	0.6	0.9	0.8
- Health*	0.2	0.1	0.2	0.7	0.8	1.0
- Transportation*	0.0	0.0	0.3	0.9	0.8	1.3
- Communication	0.0	0.0	0.0	-4.1	-1.8	-1.8
- Leisure activities and culture	-0.3	0.0	0.1	-0.6	-0.6	-0.4
- Teaching	0.0	0.0	0.0	3.8	3.8	3.8
- Restaurants and hotels	0.1	0.1	0.2	2.5	2.3	2.7
- Miscellaneous goods and services	0.2	0.2	0.2	1.9	1.7	1.8

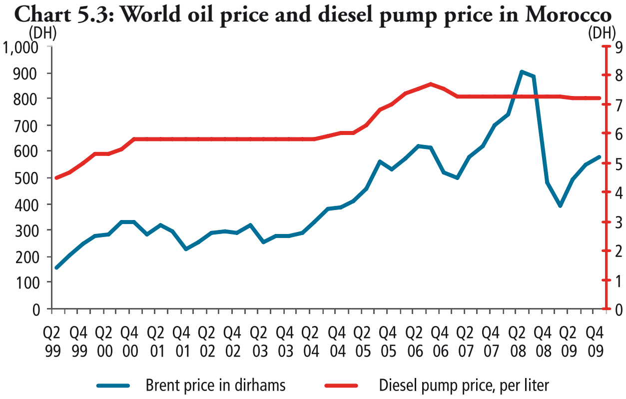
** Excluding administered goods*
Sources: HCP, and BAM calculations

Table 5.2 : Domestic selling prices of oil products

Products (Dh/Liter)	Dec. 08	Feb. 09	Apr. 09	Jule 09	Oct. 09	Jan. 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)	3,374	3,074	3,074	3,074	3,074	3,074

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

Chart 5.3: World oil price and diesel pump price in Morocco



Sources: IMF, Ministry of Energy and Mining

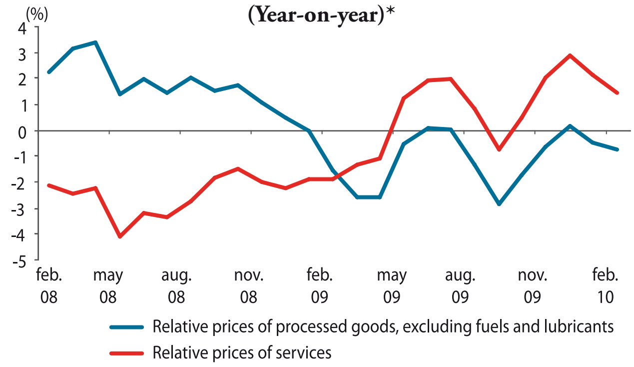
5.2 Goods and services

Inflation development, broken down by goods and services, indicates that the slight price rise of February 2010 reflects a slowdown in the fall of goods inflation, year-on-year. The prices of services rose slightly in comparison with the month before. Inflation of processed goods went up from -1.2 percent in January to -0.7 percent in February, under the effect of higher prices for passenger cars and solid fuels, as well as a slower drop in the prices of cereal-based products and oils.

The momentum in unprocessed goods is still closely linked to that of fresh produce, standing at the same levels as a year before after the falls registered in the last three months. The limited availability of fresh produce, especially vegetables and fruits, exerted exceptional upward pressures on their prices. All things considered, these two categories of goods contributed -0.4 percentage point to inflation. The prices of fuels and lubricants did not have a significant impact on inflation development, having fallen by a limited 1.2 percent instead of 6.1 percent a month before. On the opposite, services inflation moved up from 1.4 percent to 1.5 percent between January and February, mainly as a result of the acceleration of prices in the “restaurants, cafés, and similar institutions” section.

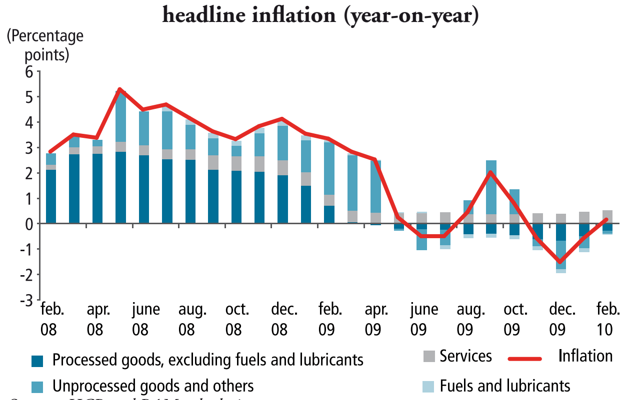
In relative terms, the positive gap between the prices of services and processed goods starting from early 2009 reflects the impact on inflation of the rise in the minimum wage and rents, on the one hand, and the negative effect of the annual decrease in the prices of staple food (Chart 5.4).

Chart 5.4: Relative prices of processed goods, excluding fuels and lubricants, and services compared with headline inflation (Year-on-year)*



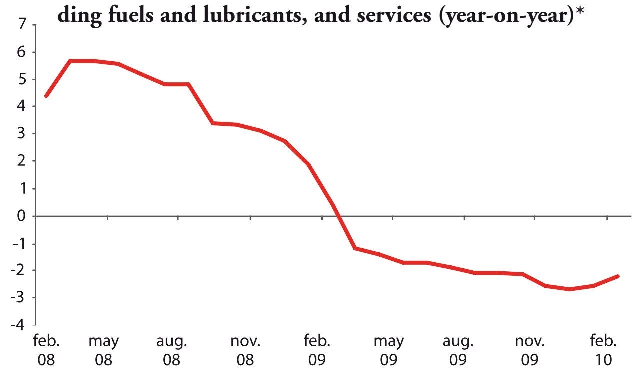
(*) Gap between inflation rates of processed goods, excluding fuels and lubricants, and services and headline inflation
Source: HCP and BAM calculations

Chart 5.5: Contribution of goods and services prices to headline inflation (year-on-year)



Sources: HCP and BAM calculations

Chart 5.6: Inflation rate gap between processed goods, excluding fuels and lubricants, and services (year-on-year)*



(*) Inflation rate gap between processed goods, excluding fuels and lubricants, and services
Sources: HCP and BAM calculations

Table 5.3: Price indexes for goods and services

	Monthly change (%)			Year-on-year change (%)		
	Dec. 09	Jan. 09	Feb. 10	Dec. 09	Jan. 09	Feb. 10
Processed* goods	-0.1	-0.2	-0.1	-1.5	-1.2	-0.7
Unprocessed goods and others	-1.9	1.0	4.2	-5.0	-2.0	-0.7
Services	0.0	0.1	0.1	1.2	1.4	1.5
Fuels and lubricants	0.0	0.0	0.0	-6.1	-6.1	-1.2

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

Box 5.1: A new consumer price index (CPI)

In December 2009, the High Commission for Planning published the new consumer price index (CPI) which has replaced the cost of living index (CLI). In light of the new data, BAM has updated its analysis and forecasting instruments to better monitor inflation trends.

The CPI (base 2006 = 100), adopted instead of the CLI (base 1989 = 100), takes into consideration some new characteristics that have to do with the target population, the geographical coverage, the weights structures, as well as the calculation method and the basket of products.

Target population: the new index takes account of the overall urban population, contrary to the old one which was restricted to the urban population having "medium living conditions". The widening of the target population will extend the CPI coverage to all socio-economic classes.

Geographical coverage: the CPI covers a wider geographical area, comprising 17 cities instead of 11: Agadir, Casablanca, Fez, Kenitra, Marrakech, Oujda, Rabat, Tétouan, Meknès, Tangier, Laâyoune, Al-Hoceima, Settat, Béni Mellal, Safi, Guelmim and Dakhla.

Weights: the CPI weights are based on the data of the 2001 national household consumption and spending survey, which were updated in 2007 by the data of the household income and standard of living survey.

Calculation method: the calculation method used is chain Laspeyres which calculates the price indexes in each of the 17 cities at the different levels of the nomenclature, before aggregating them into a single national price index. Contrary to the CLI where all the cities have the same weight structure, in the new index, each city has its own weight structure.

New products: about a hundred of new goods and services, representing 6.5 percent of the general index, have been included in the new basket to better take account of changes in the consumption habits of the target population (e.g. mobile phones, higher education tuition fees, etc).

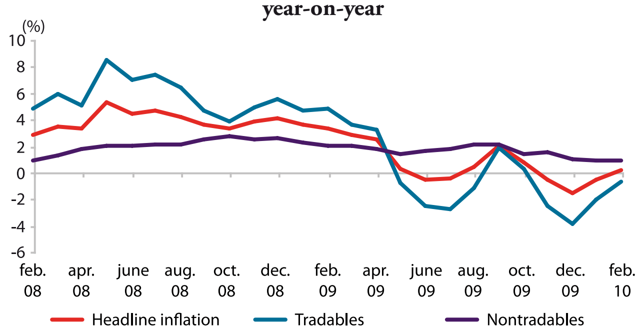
In the new nomenclature, household spending is broken down into 12 divisions, 41 groups, 88 classes, 112 sections, 478 products and 1,067 varieties. This new classification system of goods and services draws upon the system of the United Nations Statistical Commission.

5.3 Tradable and nontradable goods

The easing of inflationary pressures is also visible in the breakdown of the CPI into tradable and nontradable goods prices.

This breakdown indicates a smaller decrease in tradable goods prices, down from -2.1 percent in January to -0.8 percent in February. On the opposite, prices for nontradables maintained their growth rate of 0.8 percent. The recent transitory shocks, at both internal and external levels, considerably impacted

Chart 5.7: Change in tradable and nontradable price indexes, year-on-year



Sources: HCP and BAM calculations

tradable goods prices. They had to do with weather conditions which influenced the prices of some fresh food products, on the one hand, and the lagged spreading of the downtrend in consumer prices in our main partner countries, on the other hand.

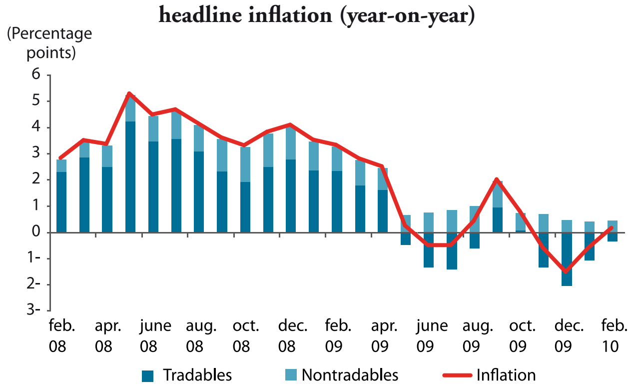
Table 5.4: Change in tradable and nontradable price indexes

	Monthly change (%)			Year-to-year change (%)		
	Dec 09	Jan. 09	Feb. 10	Dec. 09	Jan. 09	Feb. 10
Tradables	-0.5	0.5	1.8	-3.9	-2.1	-0.8
Nontradables	-0.4	-0.2	0.0	1.0	0.8	0.8

Sources: HCP and BAM calculations

Concerning nontradables, while the prices of fresh meat, rent and pre-primary education stagnated from one year to the other, inflation in the food services industry increased while poultry prices registered a sharper decrease. The negative base effects linked to the dissipating impact of higher prices of some food products worldwide in 2008, along with the falling prices of some fresh produce, considerably contributed to the negative annual change in the price index of tradables in November and December 2009 as well as in January 2010 (Chart 5.8).

Chart 5.8: Contribution of tradables and nontradables to headline inflation (year-on-year)



Sources: HCP and BAM calculations

Box: 5.2: Inflation trend in 2009

After peaking at 3.7 percent in 2008, inflation -measured by the CPI variation rate- went down to 1 percent in 2009, below its 1.9 percent average registered over 1997-2008. Although the fluctuations of fresh food prices were the main reason behind infra-annual volatility, the moderation of inflation over the year is mainly the result of falling energy and staple food prices at world level, which brought core inflation down from 4.5 percent in 2008 to 0.7 percent in 2009.

The breakdown of the CPI into tradables and nontradables confirms the important role of the changes in world commodity prices in the downward adjustment of inflation in 2009, as the decline mostly concerned tradables inflation that went down from 5.6 percent to 0.3 percent. This breakdown yet indicates that the easing of demand-driven pressures and the resulting increase in spare capacity also played a dominating role in the easing of inflation, as the prices of nontradables increased by 1.7 percent in 2009 instead of 1.9 percent in 2008.

Sorted out by sector, staple food prices were on a steady downward trend after the records reached in 2008, to an average decrease of 3.4 percent at year-end compared to a 14.3 percent rise a year ago. Conversely, fresh food prices were very volatile and increased by 4.2 percent, up from 3.1 percent in 2008, although this acceleration covers diverging trends among the components. While the prices of meat and vegetables increased from one year to the other, the prices of fish and fruits went down. The continued elevated prices of meat in 2009, which represent 10.7 percent of the CPI, are mostly the result of a good crop year that pushed farmers to keep their cattle, encouraged by the abundant supply and the low prices of mixed feed.

Prices for "fuels and lubricants for private passenger vehicles" reversed trend between 2008 and 2009, moving from 4.2 percent down to -1.6 percent, under the base effect of the hike registered in July 2008 and the impact of the new rate structure for pump prices, in force since February 2009, which resulted in a lower overall average price for fuels. The price index of non-food products excluding fuels and lubricants showed a moderate growth rate of 1.0 percent in 2009 compared to 1.1 percent in 2008, thus contributing 0.6 percentage point to headline inflation.

Annual change in main inflation components

	Share (%)	Annual change (%)	
		2008	2009
Consumer price index 100	100	3.7	1.0
Core inflation	67.1	4.5	0.7
Products excluded from core inflation	32.9	2.3	1.6
Including:			
Fuels and lubricants	2.4	4.2	-1.6
Administered products excluding fuels and lubricants	18.4	0.6	0.9
Fresh foodstuffs	10.3	3.1	4.9
Staple food	1.5	12.2	-8.4
Other foodstuffs excluded	0.2	11.9	7.3

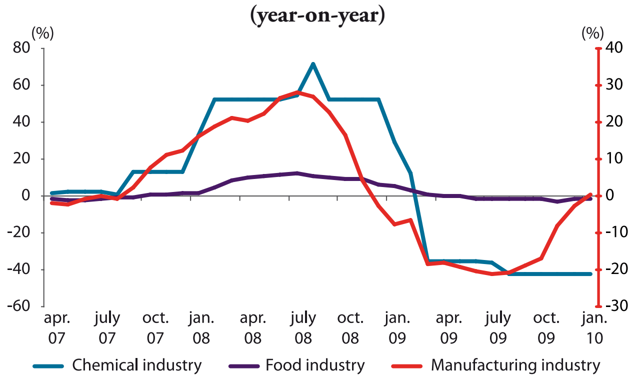
Sources: HCP and BAM calculations

5.4 Industrial producer price index

The industrial producer price index posted an annual growth rate of 0.2 percent in January compared to -2.7 percent in December, a level similar to a year before, thus putting an end to the downward correction after the levels of July 2008. The development of the reference index mainly reflects the annual price rise of the "coking and refining" industry, up 61 percent in January compared to 37.5 percent in December, which more than offset the decreases registered in the other industries. The latter jointly contributed -9.9 points to the overall index.

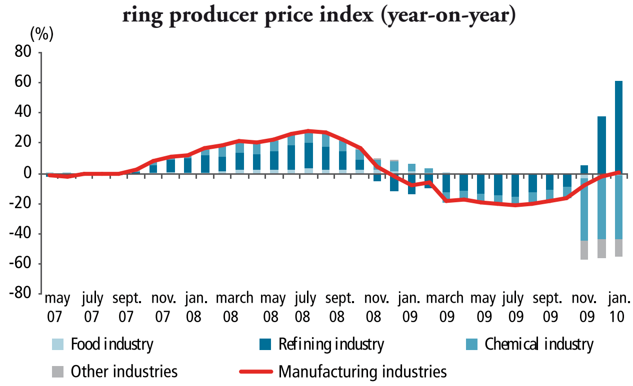
Excluding refining and coking, producer prices in the manufacturing industries were

Chart 5.9: Change in industrial producer price indexes (year-on-year)



Sources: HCP, and BAM calculations

Chart 5.10: Contribution of the main headings to manufacturing producer price index (year-on-year)

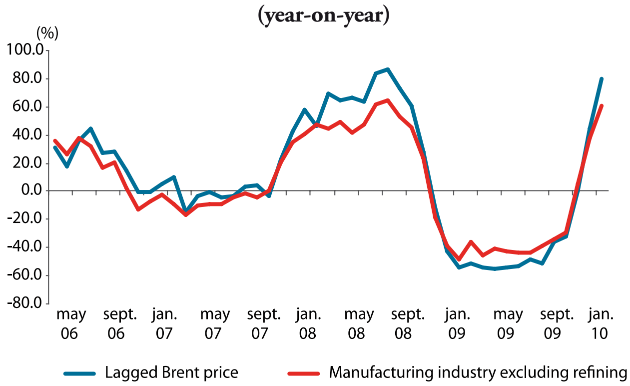


Sources: HCP and BAM calculations

down 11.8 percent in January compared to 11.9 percent in December, mainly due to the "chemical industry" which maintained its annual rate of -42.3 percent since August 2009. This decline resulted from an exceptional drop in this index in March 2009 due to lower production costs in chemical industries, following the collapse of the international costs of oil products. The "chemical industry" contributed 9 percentage points to the fall of the general index. At the same time, production costs in the "metallurgy" and "metal working" industries were down 11.6 and 6.2 percent in January, respectively, compared to -11.7 percent and -8.2 percent, respectively, in December. Production costs in the food industry decreased by 1.5 percent, in spite of the upturn in world food prices (Chart 5.12).

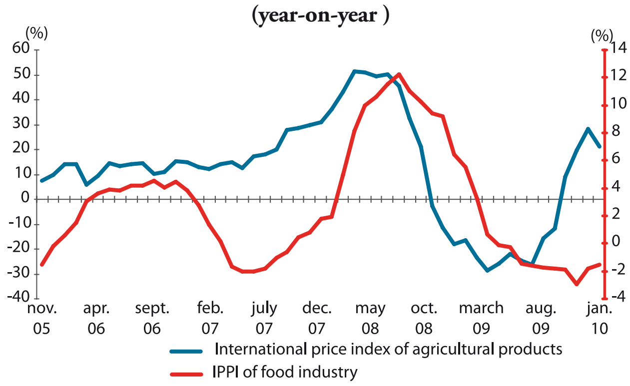
In line with these trends, the results of the January 2010 edition of BAM business survey on corporate managers' projections indicate an overall rise in the prices of finished goods, which would yet include a fall of prices in the mechanical and metallurgical industries and stagnation in the food processing, and textile and leather industries.

Chart 5.11: Refining industry price index and Brent price (year-on-year)



Sources: IMF, HCP and BAM calculations

Chart 5.12: Change in domestic and international food prices (year-on-year)



Sources: World Bank, HCP and BAM calculations

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 identified risk factors, the inflation trend over the coming six quarters remains in line with the price stability objective, with an average forecast of 1.4 percent. This projection was adjusted downward (from 1.9 percent to 1.4 percent) in comparison with the Monetary Policy Report of December. In 2010, inflation should hover around 1.0 percent, far below the level projected in the last MPR (2.0 percent). The balance of risks surrounding the present forecast is slightly skewed to the upside, due to uncertainties over the future development of the 2009/2010 crop year, as well as to a higher-than-expected rise of prices in our main partner countries.

6.1 Baseline scenario assumptions

6.1.1 International environment

The world economy is picking up and it seems to be doing so more quickly than forecasted, judging by the revival of economic activity in the second half of 2009. This rebound was chiefly made possible by the unprecedented measures taken by public authorities in all advanced countries and in some emerging ones. These actions, which consisted in huge fiscal stimulus plans, expansionary monetary policies and bail-out measures in favor of financial institutions, helped restore confidence in both the real and financial sectors. Besides, this general upswing also built on the momentum generated by emerging Asian countries, the recovery in world trade and the turn in the inventory cycle in advanced countries. It is worth mentioning, however, that recovery was uneven among regions and remains moderate in advanced economies. In the second semester of 2009 growth reached 1 percent in the USA and only 0.3 percent in the Euro area.

The outlook for the coming quarters seems brighter as well and many international financial institutions revised their forecasts upward. Concerning 2010, the International Monetary Fund now projects growth at 1 percent in the Euro area and 2.7 percent in the USA, up from the 0.3 percent and 1.5 percent respectively forecasted in October 2009. The IMF projections for 2011 have not undergone substantial adjustments, standing at 1.6 for the Euro area and 2.4 percent for the USA.

Recovery will therefore be slow in advanced economies, the performance of which would depend on the nature and scale of the shocks undergone, with growth rates markedly below their pre-crisis levels. The rebound registered in the second half of 2009 seems to be primarily due to a transient momentum, the effects of which should wear off as public measures lose steam and the inventory cycles reverse. Therefore, with no significant rise expected in investment, and with an unemployment rate of 10 percent of the labor force in December 2009 and expected to deteriorate in 2010, the Euro area's recovery should be modest, despite the anticipated positive effects of world trade upswing. These developments, along with persistent dysfunctions of financial systems, especially banking ones, imply that a rise of private demand and consumption at the short run is rather unlikely. Against this background, the Euro area's expected recovery would be boosted by the French and German economies which, the IMF projects, would post a growth rate of 1.4 percent and 1.5 percent, respectively, in 2010. Conversely, the situation in Spain is still worrying, as activity is expected to go down again in 2010, by 0.6 percent compared to 3.6 percent in 2009. A modest growth of 0.9 percent is projected for 2011.

The uncertainties weighting down on this outlook remain significant, though balanced overall. Upside risks have to do with the end of the confidence crisis, the reduced uncertainty and the positive associated effects on the financial markets, capital flows and commercial exchanges. Moreover, the upturn in private demand might be stronger than expected, due to the revival of world trade and the impact of the turn in inventory cycles in Europe. A major downside risk is the possible slowing down of this low-key recovery at the short term. This would result from various factors which might put a brake on household spending (still-fragile financial and banking systems, frail real-estate markets, high unemployment), push borrowing costs up (deterioration of some countries' fiscal position), or increase production costs (more expensive commodities). Another major risk lies in the hasty and disorderly withdrawal of government stimulus actions, amid a fragile recovery marked by a private demand below the level needed to replace stimulus measures.

In view of these developments, our baseline scenario for this MPR expects the 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 hypotheses present a small upward adjustment compared to the assumptions of the previous MPR, where growth was expected at 0.7 percent in 2010 and 1.4 percent in 2011. This rate is calculated on the basis of an average weighted by these countries' respective shares in the Moroccan foreign trade.

The Euro area's slow recovery goes hand in hand with a very moderate inflation, following an average 0.3 percent in 2009, during which inflation went negative at times. This slight uptrend should continue in 2010, despite low output capacity utilization rates and more slowly increasing labor costs. As a result, the European Central Bank (ECB) projects the Euro area's inflation at 1.2 percent in 2010 and 1.5 percent in 2011. The uncertainties surrounding these forecasts are balanced overall and the potential pressures, which would originate from the foreseen hikes in commodity prices, should disappear under the downward effect of a lower-than-expected revival of activity.

Against this backdrop, the ECB would not significantly adjust its base rate at the short term. The latter now stands at 1 percent, which is equivalent to a Euribor rate of 1.02 percent in the first half of 2010. According to our scenario, this rate would gradually go up to 1.23 percent in the second half of 2010 and 1.47 percent in the first semester of 2011.

Finally, as economic activity is on an ascending path according to the world economic outlook, the already-perceptible rise in primary product prices should persist. We therefore expect a slight increase in pressures from import prices, and have revised upward the corresponding indicators included in our forecasting models.

6.1.2 National environment

The national economic outlook for 2010 has changed for the better, compared to the last MPR. This improvement is to be accredited to the rebound in nonagricultural activities on higher foreign demand for Moroccan products and the improvement of weather conditions which resulted in a higher agricultural value added.

Despite the rainfall delay during this crop year and the resulting shrinking in sowed areas, the rains registered starting from mid-December led to a an upward revision of cereal crop projections. Our forecasting models (Box 1.1) expect the coming harvest to stand at 68 million quintals, beyond the 60 million predicted before but still below the previous crop year (102 million quintals).

Similarly, growth in nonagricultural activity should be stronger than expected mostly in response, on the one hand, to the upturn in foreign demand for Moroccan products, albeit yet moderate, and, on the other hand, to the increasing domestic demand. The latter would be boosted by the raising of public capital expenditure in the current Finance Act and the positive impacts of the crop year which would continue to stimulate household consumption, especially in rural areas. In this context, nonagricultural growth is expected to be higher in 2010 than in 2009 but below the trend of last years.

Accordingly, the overall value added of the national economy is projected to increase by 3-4 percent in 2010. This uplift would, however, hang on the pace of recovery in our main trade partner countries, which remains highly uncertain as indicated at the first part of this section.

The latest job-related data indicate that unemployment rate stood at 9 percent in the fourth quarter of 2009, down from 9.5 percent a year ago, an improvement which concerned both the rural and urban areas. Our December 2009 business survey shows that Moroccan manufacturers were expecting a near stability of the employed labor force in the first quarter of 2010. However, and in light of the more upbeat national economic outlook, unemployment would likely go on decreasing. Still, considering the 2009 pay raises (Chapter 2) and the moderate inflation trend (Chapter 5), these changes would not weigh down on wage development. Therefore, our central scenario does not project a raise of the minimum wage in the six quarters of our forecasting horizon.

The progressive upturn in world economic growth should impact demand for fuels. Oil price is now projected between $76 and $81/barrel in 2010 and between $76 and $85/barrel in 2011 (Chapter 3). These forecasts indicate that the subsidization system would remain sustainable, viewing the budgetary expenditure included in the Finance Act prepared based on a $75/barrel scenario. In this context, the central scenario expects fuel pump price to stagnate at 7.15 dirham/ liter.

Inflation might trend upward in the quarters ahead, amid improving job conditions and nonagricultural activities. However, it is currently very low, considering that the output capacity utilization rate has already went back to its historical average of 72 percent, according to the January 2010 business survey.

On the contrary, the same survey indicates that the percentage of corporate managers anticipating stagnant inflation over the next three quarters is still high.

6.2 Inflation outlook and balance of risks

Considering changes made by the High Commission for Planning to the cost of living index (CLI), inflation forecasts published in the monetary policy reports will, from now on, be calculated based on the new connected series of the consumer price index.

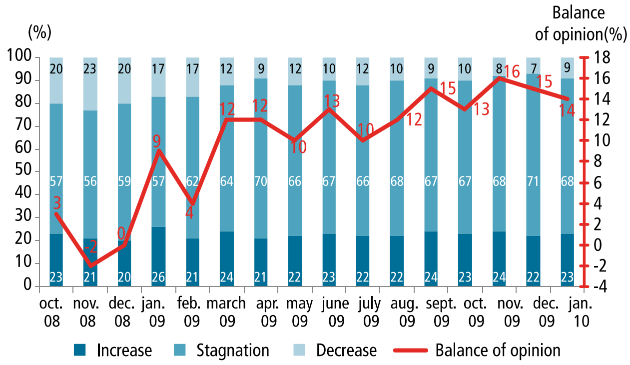
In case the main risks do not materialize, the central forecast for the coming six quarters would run at 1.4 percent, a level in line with the objective of price stability. Compared with the forecast published in the previous MPR, headline inflation rate expected in 2010 was considerably revised downward from 2.0 percent to 1.0 percent, i.e. same level as in 2009. As to the quarterly forecasts, headline inflation over the four quarters of 2010 is likely to gradually go up, from -0.3 percent (1.2 percent in the December 2009 MPR) in the first quarter to 1.0 (2.0 percent previously) in the second quarter. It would then reach 1.3 percent (compared to 2.2 percent before) in the third quarter and 2.1 percent (2.5 percent previously) at the end of the fourth quarter of this year. Concerning 2011, headline inflation would very probably run at 2.1 percent in the first quarter (compared to 2.5 percent previously) and 1.9 percent in the second one.

This downward revision of inflation forecasts, for all the quarters of the horizon, is largely due to the difference between the inflation projection for Q4-2009, calculated based on the former inflation series as measured by the CLI (MPR of December 2009) and the effective inflation rate as calculated by the new CPI series. This technical change has resulted in a 1.2 percent difference between the forecasted and effective inflation in the fourth quarter of 2009 (the forecasted rate being higher than the effective one), which almost mechanically lowered the projections for the current exercise.

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. The 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 national environment (a 2009/2010 crop year better than projected in the central scenario, which would engender inflationary pressures on higher demand from rural households following the rebound in agricultural activity), as well as to risks emanating from the international environment (a stronger inflation in our main trade partner countries, which would result in sharper inflationary pressures through import prices). 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.

Chart 6.1: Corporate managers' perception of inflation for the next three months



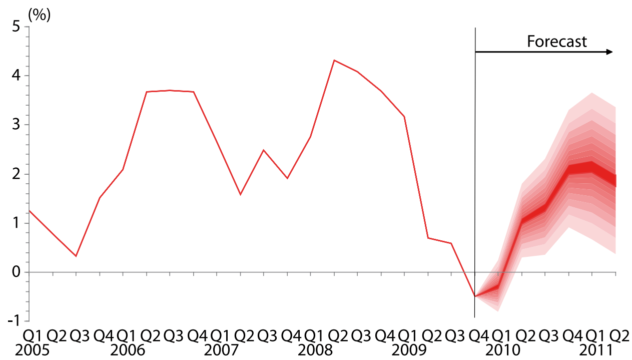
Source: BAM monthly industrial business survey

Table 6.1: Inflation outlook for Q1 2010- Q2 2011

	2010				2011		Average	
	Q1	Q2	Q3	Q4	Q1	Q2	2010	FH*
Central forecast (%)	-0.3	1.0	1.3	2.1	2.1	1.9	1.0	1.4

**Forecast horizon*

Chart 6.2: Inflation forecast, Q1 2010- Q2 2011 (Quarterly data, Year-on-year)



(*) This chart represents the confidence interval relative to inflation projection derived from the baseline scenario (dark red) ; Confidence intervals from 10 percent to 90 percent are also reported. Each addition of intervals of the same color, on both sides of the central forecast, increases by 10 percent the probability that headline inflation would fall within the range delimited by these intervals. Therefore, if we consider the range delimited by the fifth interval around the central forecast, this means that we have a 50 percent chance that headline inflation would fall within this range in the future.

بنك المغرب

بنك المغرب

بنك المغرب

Legal deposit: 2007/0033

BANK AL-MAGHRIB

Central Administration
277, Avenue Mohammed V - B.P. 445 - Rabat

Phone: (212) 5 37 70 66 45
Fax: (212) 5 37 20 67 68

E mail: deri@bkam.ma

www.bkam.ma