بنك المغرب
BANK AL MAGHRIB

MONETARY POLICY REPORT

N° 12 / 2009

Document prepared for
the Bank Board
October 1, 2009

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LIST OF ABBREVIATIONS

APC	:	Cement manufacturers professional association
BAM	:	Bank Al-Maghrib
CFG	:	Casablanca Finance Group
CLI	:	Cost of Living Index
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
CUR	:	Capacity utilization rate
DH	:	Dirham
ECB	:	European Central Bank
GDP	:	Gross domestic product
GFCF	:	Gross Fixed Capital Formation
HCP	:	High Commission for Planning
IMF	:	International Monetary Fund
IPI	:	Import 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
PER	:	Price Earning Ratio
UCITS	:	Undertaking for collective Investment in Transferable secutities

TABLE OF CONTENTS

LIST OF CHARTS

LIST OF TABLES

LIST OF BOXES

بنك المغرب

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

1. The Board of Bank Al-Maghrib held its quarterly meeting on Thursday October 1, 2009.

2. The Board examined recent economic, monetary and financial trends and the inflation forecasts made by the Bank staff up to the fourth quarter of 2010.

3. It also noted the continued transmission of the fall in international prices to domestic prices, as indicated by the change in tradable goods prices, import prices and industrial producer prices. Year-on-year headline inflation stood at -1 percent in July and -0.9 percent in June. In August, it was zero percent following the increase in some fresh food prices. This trend is evidenced by the change in core inflation, which has remained virtually unchanged at about -0.6 percent since last June.

4. Notwithstanding some signs of recovery, which yet remain fragile, and the continued stabilization of markets, international economic activity is still weak. The output gap of Morocco's major trade partners would consequently remain negative during the coming quarters, and impact the performance of the national economy through the channels of goods and services' exports and expatriate remittances.

5. Against this backdrop, nonagricultural growth is expected to remain well below its potential. Nonagricultural output gap, which is more relevant for the assessment of inflationary risks, would therefore remain negative over the coming quarters. However, overall growth for the current year would be between 5 percent and 6 percent, close to the rate recorded in 2008, on the back of the outstanding performance of agricultural activity.

6. Analysis of monetary conditions shows the continued slowdown in money creation, as M3 aggregate grew at an annual rate of only 6.4 percent in August, down from 6.8 percent in July and 8.3 percent in the second quarter. Credit, which has been on a decelerating trend since the third quarter of 2008, remains relatively strong, up by 14.5 percent in August, compared with 16.6 percent in July and 18.3 in the first half of 2009.

7. Accordingly, inflation projection over the forecast horizon (the last quarter of 2010) was revised downward from the projections published in the Monetary Policy Report of June 2009, from 2.6 percent to nearly 2 percent. Given the fall in prices and the slump in global demand, headline inflation would hit a record low in 2009, which would lead to a more sizable downward revision of the forecast horizon average, from 2.4 percent to 1.1 percent. Core inflation would be negative in 2009, and would remain below 2 percent over the forecast horizon.

8. Altogether, risks surrounding inflation forecasts are generally tilted to the downside over the next quarters. The different risk factors continue to suggest substantial moderation in inflationary pressures, mainly because of the low commodity prices and inflation rate internationally, and the decline in pressures from demand, particularly external demand. However, the volatility of international commodity prices, especially oil, represents a source of uncertainty.

9. In this context where risks to stability are skewed to the downside and inflation forecast is in line with the objective of price stability, the Board decided to keep the key rate unchanged at 3.25 percent, a level it considers appropriate in light of all data available.

10. Noting the scope and sustained nature of liquidity shortage on the money market, and taking into consideration the outlook of liquidity factors, the Board decided to reduce the required reserve ratio by 2 percentage points, bringing it to 8 percent as of October 1, 2009.

Rabat, October 1, 2009

OVERVIEW

The transmission of the fall in international prices to domestic prices has continued, as indicated by the change in import prices, industrial producer prices, and tradables prices. Year-to-year headline inflation stood at 0 percent in August, -1 percent in July and -0.9 percent in June. This change is mainly attributed to the considerably lower international commodity prices compared with those registered over the same period of the preceding year against a backdrop of a marked slowdown in world growth and inflation. Core inflation, which reflects the underlying trend of prices, fell by 0.6 percent in August. The fall in inflation is also evidenced by the drop in industrial producer prices which went down year-on-year by 21.2 percent in July compared to 20.5 percent in June.

As to the international economic situation, the stabilization of capital markets continued during the second and third quarters. The exit from the interbank market extreme risk aversion was confirmed, the bond market nearly resumed its normal functioning and stock market indices markedly rebounded, especially in emerging countries. In contrast, the slump in the credit market is persisting; bank loans to the private sector in the industrialized countries continued to grow at annual rates well below their long-term trend, standing even at negative rates for some countries, despite the favourable change on the money market. Concerning the real sphere, the first signs of stabilization in economic activity registered in the second quarter 2009, after several quarters of contraction, were evidenced by the monthly indexes data. On a year-to-year basis, global recession would however continue up to the end of the present year before a partial and gradual recovery takes place in 2010, whose scope would hinge upon the efficiency of the stimulus measures and the buoyancy of credit markets.

Notwithstanding the observed recovery signs, the global economic situation still represents a source of unfavourable shocks for the Moroccan economy as illustrated by the persistence of a negative output gap in its major trading partners. While the record agricultural growth has been further confirmed in light of the second quarter and July data, non-agricultural activity witnessed barely a slight recovery. Its annual growth rate is expected to stand at about 1 percent in the second quarter and 1.3 percent in the third quarter of 2009. For the whole of 2009, the Bank reconfirmed its projections for growth to settle within a range of 5 percent to 6 percent, which reflects a strong expansion in the agricultural value added and an increase in non agricultural GDP largely below the average growth levels for the last five years. Accordingly, the overall output gap would stay positive while non-agricultural output gap, one of the main factors of inflationary risks assessed by the bank, would fall in negative territory .

The results of BAM business survey in the industry for July, unlike those related to the first quarter of 2009, suggest some signs of recovery, except for the most vulnerable sectors to foreign demand. Overall, the output capacity utilization rate slightly improved over the last three months. It remained, however, below its average level registered since the beginning of the survey. The short-term outlook for an increase in sales seems now more likely to materialize, according to corporate managers. Labor data suggest a decline by 1 percentage point in the unemployment rate over the second quarter of 2009, including a drop in rural unemployment rate, owing to the good performance of the agricultural sector, as well as in urban unemployment rate despite a slowdown in non-agricultural GDP.

Concerning monetary conditions, the latest data available show a persisting annual slowdown in money creation and a gradual deceleration in loans. M3 aggregate growth fell to 6.8 percent in July against 8.3 percent in the second quarter, causing non-financial agents' surplus money to stand at a quasi-nil level in the second quarter. While remaining above its long-term trend, the annual rate of loans' distribution has continued its gradual deceleration in July, standing at 16.6 percent against 18.3 percent in the first half-year. However, month-to-month change shows a slight rebound in bank credit that concerned all the loan categories. With regard to the lending rates, the results of the BAM survey show a drop between the first and second quarter of 2009, during which period the central bank cut its key rate by 25 basis points. The easing of lending conditions concerned mainly cash advances and equipment loans given to businesses.

The analysis of all these elements tends to indicate that pressures on inflation will be moderate over the forthcoming quarters. The central forecast of headline inflation for the six coming quarters was markedly revised downwards compared with the June 2009 MPR. This revision results mainly from the slump in the international economic situation and its repercussions on domestic nonagricultural growth, as well as from the fall in world commodity prices and inflation within Morocco's major trading partners.

Accordingly, by the end of the forecast horizon (the fourth quarter of 2010), headline inflation is expected to hover around 2 percent. Over the forecast horizon, average headline inflation would stand at 1.1 percent compared to 2.4 percent in the MPR of June 2009. For 2009 as a whole, inflation on average is expected to stand at 1.2 percent instead of 2.8 percent published in June, a 1.6 percent difference explained mainly by the reduction in commodity prices. The sharp decline in inflation registered since the beginning of the year was further reinforced by the unexpected strong drop in some fresh produce prices recorded in June and July.

For the forthcoming quarters, risks to price stability would generally be tilted to the downside. Externally, risks are linked to the continuing unfavorable impact of the economic situation in our major trading partners as evidenced by the indicator of foreign demand to Morocco. However, the volatility of commodity prices represents an important source of uncertainty. Internally, risk factors are also skewed to the downside, mainly because of the fall in demand pressures whose scope remains dependent on nonagricultural activities growth.

1. AGGREGATE SUPPLY AND DEMAND

Non agricultural growth continued its marked contraction to stand at 0.6 percent in the first quarter of 2009, after 1.2 percent in the fourth quarter 2008, well below the average 5.1 percent registered in the first three quarters of 2008. National non agricultural activity indicators published in July show that a low level has been reached and that non agricultural activity would slightly rebound, with an expected annual rate of 0.8 percent in the second quarter and 1.0 percent in the third quarter. For the whole of the year 2009, GDP is expected to stand, as in 2008, between 5 percent and 6 percent, owing to the strong expansion of agricultural value added, while national GDP excluding agricultural activities is expected to hover around 2 percent and 3 percent, a markedly lower rate compared with the 4.9 percent average recorded over the last few years. Domestic demand, while standing at low levels, would continue to drive national growth owing to the strengthening of public investment and the good trend of consumption. In contrast, foreign demand for goods and services from our major trading partners is expected to remain weak. Overall, the expected trend of aggregate supply and demand suggests that pressure on prices would remain limited over the forthcoming quarters.

1.1 Output

In 2009, growth would hover between 5 percent and 6 percent, due to a better-than-average improvement in agricultural activity. In addition, nonagricultural activity is expected to grow at a level below the 4.9 percent registered during the period 2004-2008.

The spillover effects of the global economic crisis on the national economy deepened over the first quarter of the current year. Nonagricultural value added was limited to 0.6 percent after the 1.2 percent registered in the preceding quarter. Tourism, export-driven industries as well as transport and trade were particularly affected by a deteriorating foreign demand. Nevertheless, the outstanding performance of agricultural activity during the 2008-2009 campaign allowed keeping growth at a level higher than 3 percent in the first quarter of 2009.

GDP growth is estimated to reach 4.5 percent in the second quarter and 5.2 percent in the third quarter, in connection with a continued record performance by the primary sector and a slight upturn in nonagricultural activity, itself attributed to the stabilization of economic activity in the major trading partners of Morocco.

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

	2008				2009		
Activity sectors	QI	QII	QIII	QIV	QI	QII(p)	QIII(p)
Agriculture	16.0	16.6	16.1	16.6	26.8	31.1	28.5
Nonagricultural value added	**6.2**	**4.8**	**4.3**	**1.2**	**0.6**	**0.8**	**1.3**
Industry*	5.6	3.4	1.6	-6.7	-7.3	-1.9	-0.3
Electricity and water	8.8	7.3	4.1	3.4	6.1	4.5	4.1
Building and public works	11.9	9.1	11.8	5.1	-0.2	1.9	2.6
Trade	6.9	6.6	3.6	1.0	0.7	1.7	2.1
Hotels and restaurants	0.5	1.3	1.1	0.2	-7.8	-4.4	-4.7
Transportation	4.6	4.1	2.1	-0.1	0.3	0.5	0.7
Post and telecommunications	10.0	12.7	8.1	4.1	2.0	2.4	2.2
General government and social security	3.1	3.6	4.2	4.9	6.0	5.8	5.4
Others services**	6.4	5.0	3.5	1.5	5.0	4.9	5.1
Value added at basis price	7.4	6.4	5.8	3.1	4.2	4.7	5.0
Taxes on products net of subsidies	5.9	6.0	5.1	3.0	0.6	1.0	1.3
Nonagricultural GDP	**6.2**	**5.0**	**4.4**	**1.4**	**0.6**	**0.8**	**1.3**
Gross domestic product	**7.2**	**6.3**	**5.7**	**3.1**	**3.7**	**4.5**	**5.2**

(*) 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

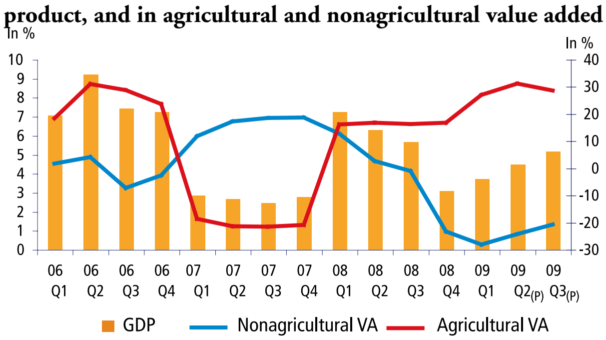
Sources: HCP, and BAM estimates and forecasts

Accordingly, agricultural value added is projected to grow by 31.1 percent and 28.5 percent in the second and third quarters of 2009. The production of spring crops is expected to reach satisfactory levels owing to the programs aimed to convert the crops lost following the abundant rainfalls of February 2009, mainly in the Gharb region. Overall, except for sugar crops production which would register a decline compared with the preceding year, due to the difficulty to access the fields in the Gharb and Loukos regions and to the restrictions on water allocation in the Doukkala areas, the other components of agricultural production would register a good harvest.

Concerning the secondary sector, after an estimated drop of 0.3 percent in the second quarter of 2009, the value added is expected to rise by 0.8 percent in the third quarter, provided the non materialization of risks surrounding the recovery in sectors mostly sensitive to the fluctuations in the global economic situation.

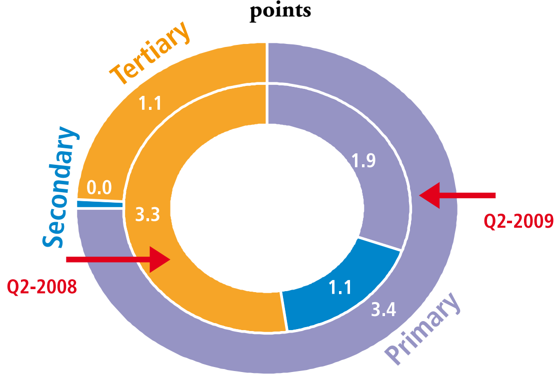
Industrial activity, including extractive and oil-refining industries, appears to experience some signs of recovery in the second quarter of 2009. This is reflected in the growth in high tension electricity consumption which rose by 2.8 percent in May and 6.8 percent in June, after going on a downward trend since the beginning of the year. This trend is evidenced by the growth, quarter-to-quarter, in the saleable output of the OCP by 123.9 percent in the second quarter, in line with the anticipative strategy of the company aimed at constituting a saleable inventory in the wake of an expected rebound in global demand. Similarly, results of Bank Al-Maghrib's business survey in the industry for July reflect some signs of improvement, with a rise in production and sales, the maintenance of stocks at their normal level for the third month in a row and a higher capacity utilization rate compared with end-2008. Industrialists' anticipations for the next three months are also favorable overall and suggest an improvement in production and sales.

Chart 1.1: Year-on-year quarterly change in gross domestic product, and in agricultural and nonagricultural value added



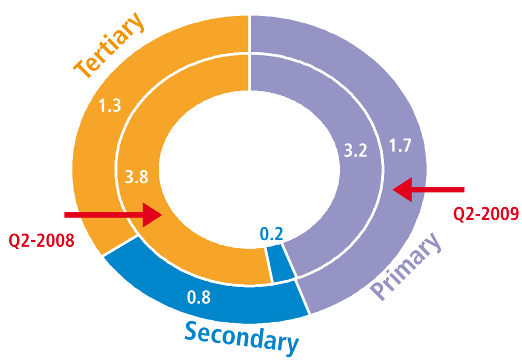
Sources: HCP, BAM forecasts

Chart 1.2: Year-on-year contributions of the primary, secondary, and tertiary sectors to the overall VA growth, in percentage points



Source: HCP and BAM estimates and forecasts

Chart 1.3: Quarter-to-quarter contributions of the primary, secondary, and tertiary sectors to the overall VA growth, in percentage points



Source: HCP and BAM estimates and forecasts

The recovery also appears to concern the buildings and public works sector. After a 0.2 percent drop in its value added in the first quarter of 2009, high-frequency indicators suggest a slight rebound in this sector over the second and third quarter of the present year, by 1.9 percent and 2.6 percent respectively. In fact, sales of cement, amounting to nearly 4.1 million tons, rose by 3.9 percent in the second quarter of 2009. Loans allocated to this sector have also increased by 17.3 percent.

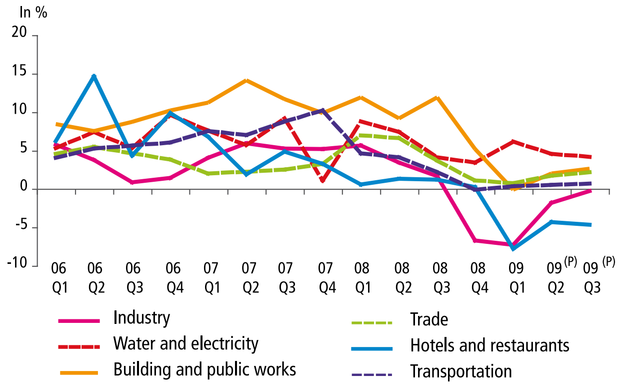
The slowdown characterizing the tertiary sector since the third quarter of 2008 is expected to continue as growth rates would stand at 2.8 percent and 3 percent respectively in the second and third quarters of 2009.

Notwithstanding the 8 percent increase in the tourist flow toward Morocco as at the end of July, the other indicators of the sector were on the decrease. Overnight stays in classified hotels fell by 2 percent bringing thus the occupancy rate to 42 percent from 46 percent. Likewise, travel receipts went down by 11.5 percent over the same period, standing at nearly 29 billion dirhams.

Trade value added is expected to rise by 2.1percent in the third quarter, instead of 1.7 percent a quarter earlier and 0.7 percent in the first quarter. In view of its close relationship with activity in the other sectors, trade would benefit from the favorable developments in agricultural activity and the slight rebound in nonagricultural output.

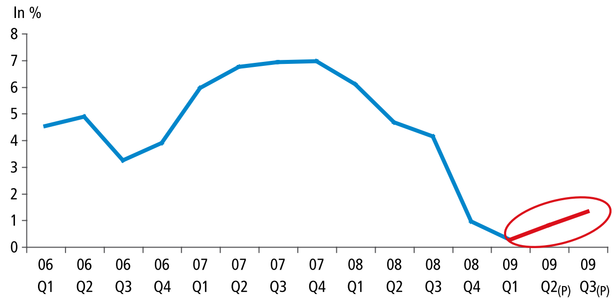
As to the transport sector, its value added was limited to 0.3 percent in the first quarter of 2009. This slowdown is explained by the contraction in sea and railway transport, due to falling Phosphates and derivatives exports on the one hand, and decreasing air transport activity, strongly dependent on the performance of the tourism sector, on the other. In the second quarter of 2009, the sector's value added is estimated to reach 0.5 percent.

Chart 1.4: Year-on-year VA change



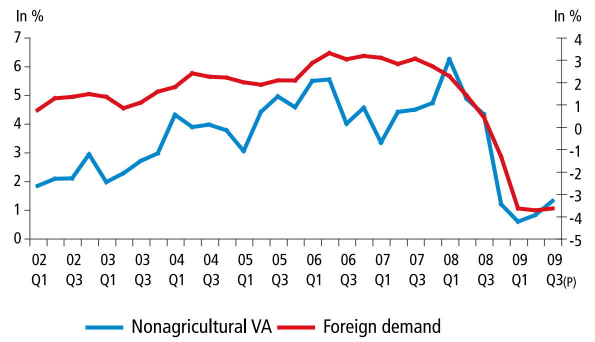
Sources: HCP, BAM forecasts

Chart 1.5: Year-on year change in quarterly nonagricultural value added



Sources: HCP, BAM forecasts

Chart 1.6: Year-on-year change in quarterly non-agricultural value added and in foreign demand



Sources: HCP, European commission, Foreign exchange office, and BAM forecasts and estimates

The value added of the post and telecommunication sector approximately grew by 2.4 percent in the second quarter of 2009. The quarterly rise by 5.6 percent recorded in the fixed-line market and the increase by 15.4 percent in the overall number of internet subscribers during the second quarter of 2009 were mitigated by the growth limited to 0.1 percent in the number of new mobile subscribers, which weakened the momentum of the sector.

1.2 Consumption

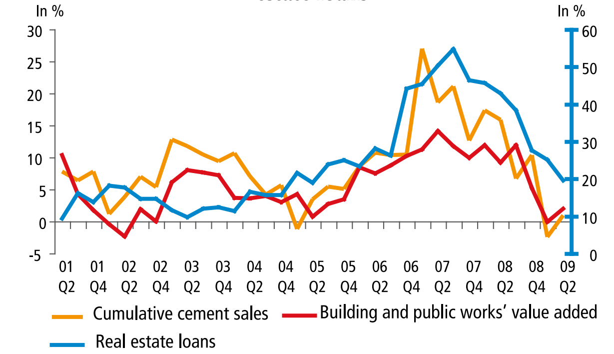
In 2009, domestic final consumption would grow at a lower pace compared with 2008, from 12.6 percent to 7.3 percent. Household final consumption is expected to increase by 7.1 percent compared to 14.1 percent, while general government final consumption would grow at a higher pace than in the preceding year.

The end-July change in the main indicators related to household consumption confirms the ongoing deceleration in Moroccans living abroad remittances falling by 12.1 percent and travel receipts by 11.5 percent. In addition, food imports registered a drop in terms of volume and value by 4.3 percent and 17.3 percent respectively and imports of finished consumer goods fell In terms of value by 3.1 percent, mainly due to a decline in the imports of private cars, their components and spare parts.

However, the improvement in the unemployment indicators in the second quarter of 2009, especially urban unemployment (Chapter 2), coupled with the expansion in the activity of some sectors may strengthen household income.

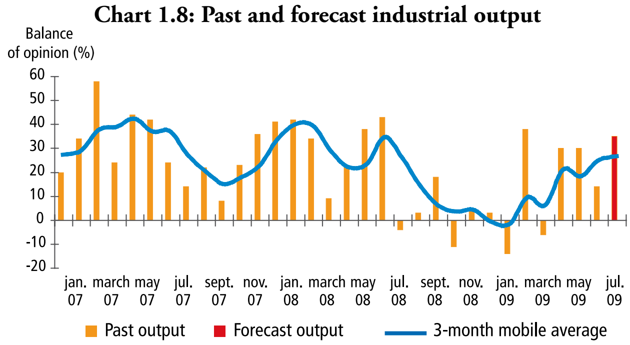
General government consumption registered during the first seven months of the year a 10.1 percent increase in operating expenditures, owing to a rise by 6.1 percent in personnel expenditures and 17.8 percent in expenses related to other goods and services. Excluding

Chart 1.7: Year-on-year change in the value added of Building and public works, cements quarterly cumulative sales and real estate loans



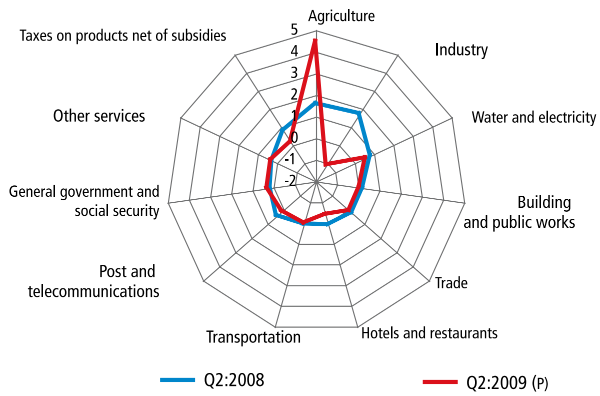
Sources: APC, and BAM forecasts

Chart 1.8: Past and forecast industrial output



Sources: BAM monthly business survey in the industry

Chart 1.9: Contribution of sectors to overall growth



Sources: HCP, BAM calculations and estimates subsidization costs, falling by 65.4 percent, treasury expenditures increased by 8 percent at the end of July 2009.

1.3 Investment

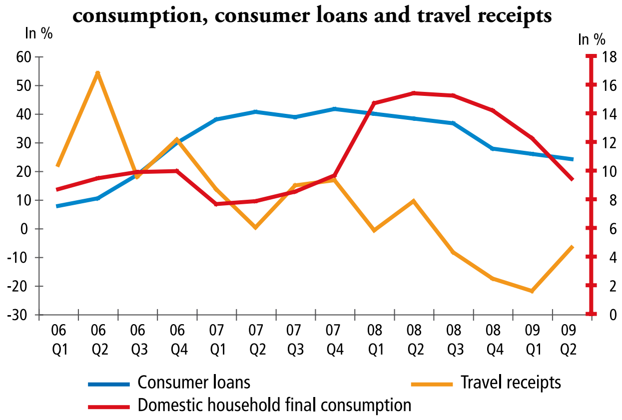
In line with a sluggish private investment, change in the investment rate is expected to slow down in 2009. Gross fixed capital formation would increase by 8.3 percent, compared with 18.3 percent a year earlier.

This projected change is highlighted by the end-July monthly indicators. Indeed, imports of finished capital goods contracted by 7.5 percent, masking an 8.1 decrease in the purchases of industrial finished capital goods and a 4.7 rise in agricultural capital goods acquisitions, in connection with the good outlook for the sector. Similarly, foreign private investment and loans contracted by 36.1 percent.

Conversely, the investment commission approved 64 projects by the end of August 2009, at a total amount of 42.3 billion dirhams, compared to intended investments amounting to 36.6 billions for the whole of the year 2008, which would represent a moderating factor concerning the risk of a contraction in the GFCF . BAM business survey of the second quarter of 2009 shows a favorable assessment of present and future business climate, after a generally perceived unfavorable context in the preceding quarter, as well as a quasi stability in investment expenditures.

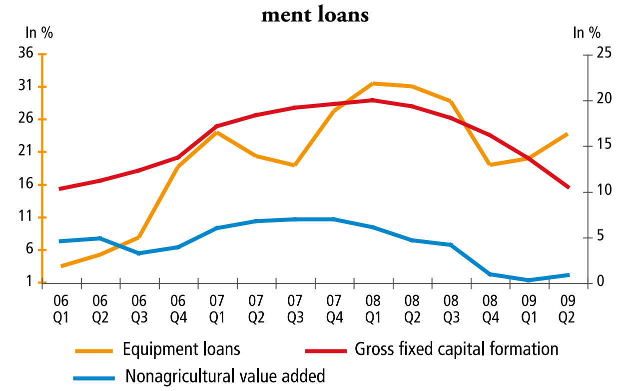
Treasury investment expenditure amounted to 30 billion dirhams at the end of July, representing a realization rate of nearly 78 percent compared to the Finance Act and up 23.4 percent compared to the same period of the preceding year. This expenditure may also benefit from the reallocation of subsidization expenditure during the remainder of the year.

Chart 1.10: Year-on-year quarterly change of household final consumption, consumer loans and travel receipts



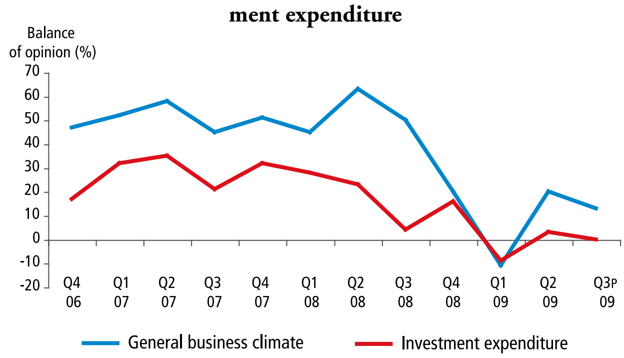
Sources: HCP, Foreign Exchange Office, and BAM calculations and forecasts

Chart 1.11: Year-on-year quarterly change of gross fixed capital formation, nonagricultural value added, and equipment loans



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

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



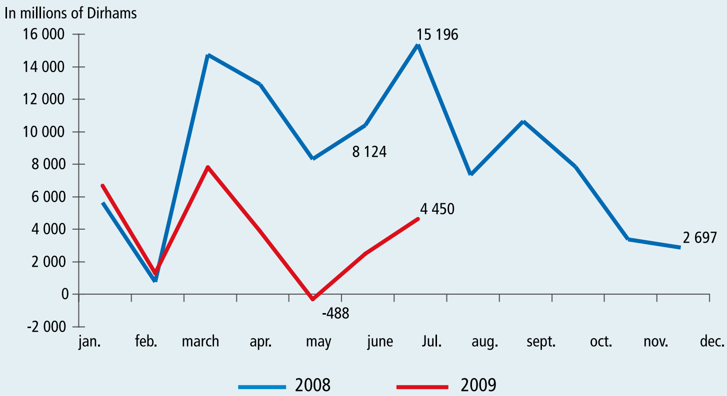
Source: BAM business survey in the industry

Box 1.1: Latest developments in the 2009 budget execution at the end of July

Year-on-year change in the fiscal situation as at the end of July 2009 was marked by a continued decline in tax revenues, an important cut in subsidization costs and a sustained effort in terms of fiscal investment. Despite the contraction in economic activity and the downward tax adjustments recently adopted, the budget balance remains overall in surplus, standing at nearly 4.5 billions by the end of July.

Indeed, tax revenues, at 104.2 billions and realized by up to 58.3 percent compared to the Finance Act, decreased by 10 percent compared to end-July 2008, owing to a decline in revenues of the mains taxes, caused by both a sluggish economy and the recent tax adjustments. Income tax revenues fell by 20 percent to stand at 16.3 billions. Corporate tax revenues, at 27.9 billions, were down 12.2 percent and added-value tax revenues fell by 6.1 percent compared to end-July 2008, to stand at 33.9 billions. Concurrently, customs duties revenues decreased by 16.4 percent, owing to joint effects of the reduction in tax rates and the marked contraction in the taxable base.

Chart B 1.1: Monthly fiscal balance



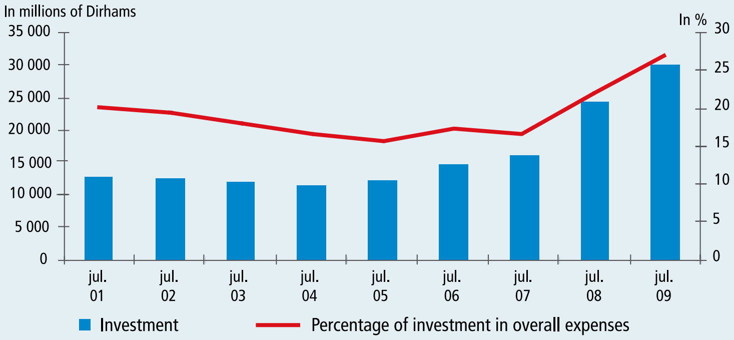
Source: Ministry of economy and finance

In turn, treasury expenditures, executed up to 51.1 percent, dropped by 4.8 percent to stand at about 85.4 billions. This drop is largely due to the 65.4 percent decline in subsidization costs. Excluding subsidizations costs, treasury expenditure is up 8 percent, in line with the normal growth profile of current expenditure, accentuated by the recent employees wage adjustment.

In addition, the 2009 Finance Act projected an investment expenditure amounting to 38.2 billion dirhams, up 18.8 percent compared to the 2008 Finance Act, broken down between the different sectors of intervention by the State. These investment expenditures are expected to stand at 45 billions by year-end, in connection with the latest developments in the global economic situation and the needs for big projects. The first sectors to benefit from these investments are education, infrastructure and transport, agriculture, as well as the fields of security, water, and health.

Up to the year ended in July, these expenditures, which rose 23.4 percent year-on-year stood at 30 billions and were more than covered by a public saving at 31.3 billions.

Chart B 1.2: Budget investment expenses



Source: Ministry of economy and finance

Taking into account the positive balance of the Treasury amounting to 3.2 billion dirhams and the formation of payment arrears at 218 millions, the treasury surplus stood at 4.7 billions compared to 19.7 billions a year earlier. This surplus, in addition to a 3.2 billion dirhams from external borrowings, allowed the Treasury to reduce its domestic liabilities by 7.9 billions, including notably an improvement of its net position toward Bank Al-Maghrib by 3 billions.

1.4 Foreign trade

The available indicators at the end of July 2009 confirm the ongoing transmission of the slump in foreign demand to our national external trade. Yet, year-to-year trade deficit has contracted in conjunction with a decline in imports. The contribution of foreign trade to overall growth should however remain negative for the whole of 2009, albeit to a lesser degree compared with the last two years.

Indeed, at the end of the first seven months of the year, trade balance recorded a deficit amounting to 83.5 billion dirhams, improving by 9.2 percent compared to a worsening by 32.8 percent during the same period of last year. This change comes as a result of imports declining by 40.8 billions dirhams and exports by 32.4 billion dirhams. Accordingly, the coverage ratio stood at 45 percent instead of 52.2 percent at the end of the same period in the preceding year.

The contraction in exports is attributed to the decrease in sales of phosphates and derivatives by nearly two-thirds and the decline in exports excluding phosphates derivatives by 16.9 percent. In fact, exports of electrical and electronic

Table 1.2 : Year-on-year change of the trade balance at the end of july 2009

	Jan.-Jul.	Jan.-Jul. *	Change	
(In millions of dirhams)	2008	2009	Amount	%
Total exports	**100 555.2**	**68 197.9**	**-32 357.3**	**-32.2**
Phosphate and derivatives' exports	32 000.4	11 234.7	-20 765.7	-64.9
Exports excluding phosphates and derivatives	**68 554.8**	**56 963.2**	**-11 591.6**	**-16.9**
Ready-made garments	12 076.3	11 756.0	-320.3	-2.7
Hosiery items	4 076.6	4 126.7	50.1	1.2
Citrus fruit	2 053.6	1 487.0	-566.6	-27.6
Total imports	**192 487.0**	**151 678.0**	**-40 809.0**	**-21.2**
Energy products' imports	44 643.4	28 636.4	-16 007.0	-35.9
Non-energy products' imports	147 843.6	123 041.6	-24 802.0	-16.8
Food products	18 616.2	15 393.0	-3 223.2	-17.3
Wheat	6 932.3	4 021.8	-2 910.5	-42.0
Capital goods	41 885.8	38 756.7	-3 129.1	-7.5
Consumer goods	31 769.7	30 794.2	-975.5	-3.1
Trade balance	**-91 931.8**	**-83 480.1**	**8 451.7**	**+9.2**

** Provisional data*
Source: Foreign Exchange Office

equipment, especially electricity wires and cables, nearly halved. Similarly, exports of crustaceans, molluscs and shellfish decreased by 32.7 percent, a less important decline compared with last preceding months. Concurrently, exports of citrus fruits went down 27.6 percent, In line with the trend observed over the last quarters.

Falling imports are accounted for mainly by a 35.9 percent cut in the energy bill, as well as a decline in purchases of crude products and semi-furnished products by 45.3 percent and 26.6 percent respectively. The drop in the purchases of consumer finished goods was limited to 3.1 percent.

The decline in oil imports is attributable to the 47.7 percent contraction in the average price per imported ton of crude oil and the decrease by 21.1 percent in terms of quantity. Purchases of other energy products followed generally the same trend. Non-oil imports, in turn, dropped by 16.8 percent, largely as a result of low purchases of semi-products. Purchases of food products also diminished, in connection with the 42 percent drop in wheat imports as a result of the good performance of the crop year. Purchases of industrial equipment goods have also slumped by 8.1 percent, reflecting a drop in the purchases of machines and sundry devices and industrial vehicles. Concurrently, imports of mineral origin products contracted by 74.7 percent, owing to the decline in purchases of crude sulphur.

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

According to BAM estimates, the overall output gap showed positive values during the second and third quarters of 2009, given the year-on-year improvement in the crop year. In contrast, nonagricultural growth, which is more relevant for the assessment of inflationary risks, stood at around its potential in the second quarter of 2009 and is expected to remain below its potential during the third quarter, owing to a drop in foreign demand and a slowdown in domestic demand. In turn, the output capacity utilization rate in the industrial sector slightly improved, while remaining below its average level registered since the beginning of the BAM survey in January 2007. Concerning the job market, the second quarter was characterized by a 1 percentage point drop in the national unemployment rate compared to the same period of the preceding year. This covers as well a decrease in rural unemployment rate, linked to the good performance of the agricultural sector, as in urban unemployment rate, which continues to break its correlation with nonagricultural growth. The sectors of "Agriculture, forestry and fisheries" and the buildings and public works remained the major job suppliers, while the industrial sector observed net job losses due to exports' contraction. In addition, the second phase of the readjustment of the minimum wage and public sector wages came to an end as of the beginning of July 2009. The analysis of all these indicators suggests a moderation of demand-driven pressures on prices in the coming quarters.

2.1 Pressures on output capacity

Mainly driven by the performance of agricultural activities, the overall output gap registered a positive value in the second quarter of 2009, and should, based on the latest BAM projections, rise further in the third quarter of 2009 (Chapter 1).

Nonagricultural output gap decreased during the second quarter of 2009 and is expected to be negative in the third quarter, due to the economic downturn in our major trading partners which still impacts the Moroccan economy, notably through the demand channel for goods and services as well as current transfers.

The weighted output gap of the main trading partners[1] is expected to remain negative during the forthcoming quarters, registering a slight rebound only by the first quarter of 2010 (Chapters 1 and 3), thus suggesting an easing in the unfavorable repercussions of the global economic situation on nonagricultural activities during the next quarters (Chart 2.2).

Notwithstanding the observed improvement since March 2009, the output capacity utilization rate remains nonetheless below its average level recorded since the launch of the BAM monthly business survey in January 2007. Broken down by group of activity, the output capacity utilization rate saw stagnation in the textiles and leather industries and in electrical and electronic industries. It rose however by two percentage points in the chemical and parachemical industries and by

Chart 2.1: Overall output gap

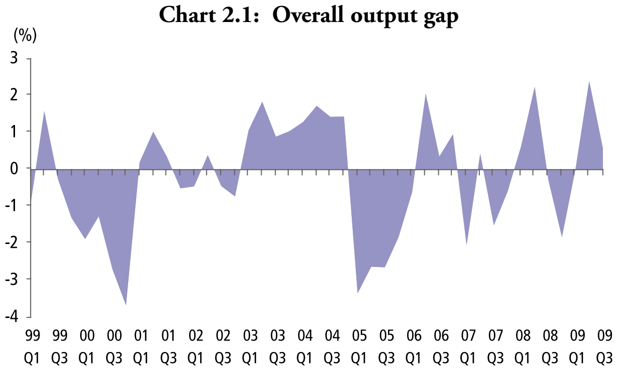


Chart 2.2: Nonagricultural output gap

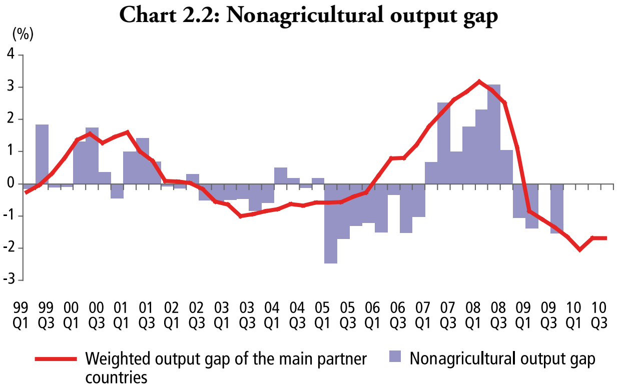
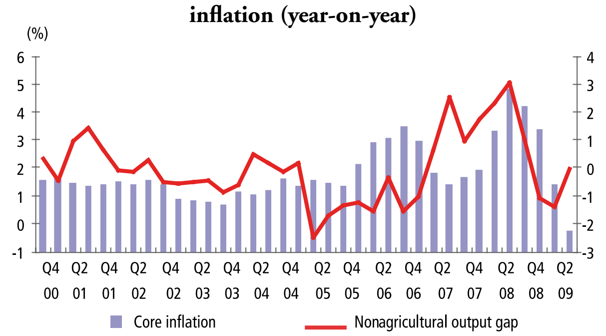


Chart 2.3: Nonagricultural output gap and core inflation (year-on-year)



1 Calculated on the basis of GDP in the five first trading partners of Morocco weighted by their respective shares in total exports of Morocco.

three percentage points in the food-processing industries to stand respectively at 72 percent and 73 percent. As to mechanical and metallurgical industries, their CUR stood at 53 percent, down 7 percentage points, due to annual shutdowns of businesses operating in this sector.

On the other hand, apparent labour productivity[1] in non agricultural activities is estimated at 109 in the second quarter of 2009, down 1.3 percent year-on-year, attributable to the rise in urban employed labor force despite the slowdown in nonagricultural activity.

Based on the results of BAM quarterly business survey, the output unit cost rose in the second quarter of 2009 with a positive balance of opinion at 19 percent, up 12 percentage points. This increase concerned all sectors, particularly mechanical and metallurgical industries, and textile and leather industries. In terms of components, wage costs and non energy commodity costs were the main sources of the rise in the output unit cost, with a balance of opinion of 41 percent and 36 percent respectively, followed by energy costs and financial costs, whose balance of opinion reached 22 percent and 18 percent respectively.

At the sectoral level, energy and wage costs impacted the output unit costs in electric and electronic industries and in mechanical and metallurgical ones. In the textile and leather industries, financial costs and non energy commodity costs were the main factors cited.

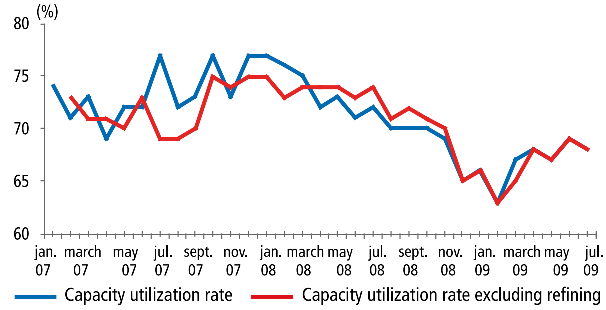
2.2 Pressures on labor market

In the second quarter of 2009, the labor force reached around 11.45 million persons, slightly on the rise compared with the same period in 2008, in connection with the observed rise both in urban and rural employment. As the growth pace in the number of the labor force stood below the number of total population estimated by the HCP, the activity rate saw a decline by 0.4 percentage point year-on-year to stand at 50.6 percent.

Employed labor force rose by 0.2 percent to stand at around 10.5 million persons in the second quarter 2009. As a result, the employment rate went up 0.2 percentage point to stand at 46.6 percent. This reflects a rise in rural employment rate which, moved up from 57.4 percent to 58.2

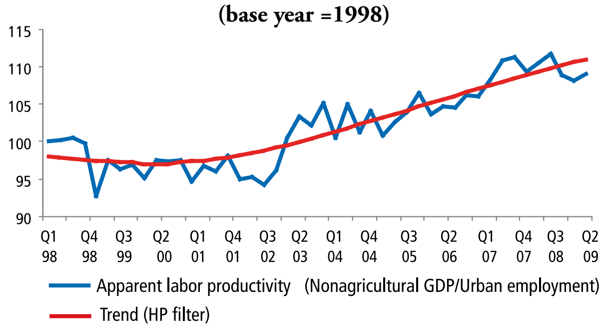
1 Apparent labor productivity is measured by the output/employed labour force ratio. This indicator should be interpreted with caution, however, as it does not take into consideration the efficiency in using the labor force in the production process.

Chart 2.4: Industrial output capacity utilization rate



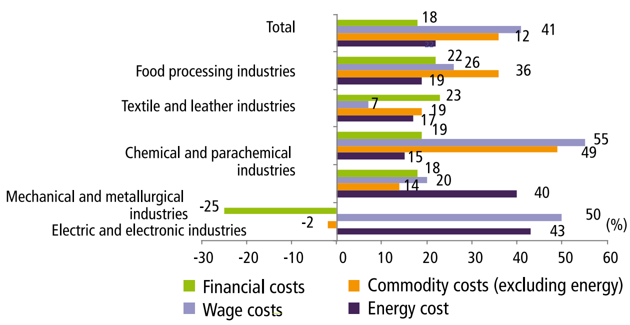
Source: BAM monthly business survey

Chart 2.5: Apparent labor productivity (base year =1998)



Sources : HCP, and BAM estimates

Chart 2.6: Change in unit production cost components per sector(balances of opinion in %, in Q1 of 2009)



Source: BAM monthly business survey

percent in connection with the good crop year, and an almost stagnation in urban employment rate at 38.6 percent.

According to the HCP, overall unemployment rate stood at 8 percent in the second quarter of 2009, down 1.1 percentage point. By place of residence, urban unemployment rate declined from 14 percent to 12.6 percent, thus breaking its correlation with non agricultural growth (Chart 2.7). Also, rural unemployment dropped by 0.9 percent, from 3.9 percent to 3 percent in conjunction with the improvement in agricultural activity.

Per age group, except for the 15-24 year-old bracket whose unemployment rate rose by 0.7 percentage point, urban unemployment rate dropped for the 25-34 year-old age group (-2.8 percentage point), the 35-44 year-old age group (-0.2 percentage point) and the over 44 year-old age group (-0.8 percentage point).

Job creations concerned mainly the sectors of "Agriculture, forestry and fisheries" with 196,000 new jobs, driven by the good performance of the agricultural sector. As to the services and building and public works sectors, net job creation amounted respectively to 11,000 and 40,000. In contrast, the industrial sector, which was more severely hit by the slump in demand, lost 7,000 jobs.

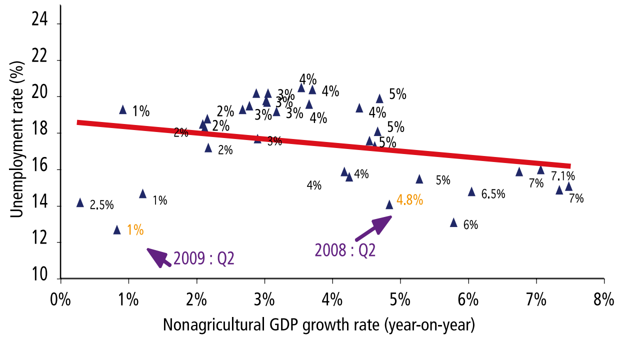
The impact of the negative growth in nonagricultural activity on employment can also be observed in the results of the BAM survey of the second quarter of 2009. Industrial sectors corporate managers have announced a drop in the number of their employees from one quarter to the next, with a balance of opinion at 6 percent. By sector of activity, except for chemical and parachemical industries where the number of employed persons remained unchanged, all other sectors saw a drop in the number of employees. In the short term, managers expect either a contraction or stagnation in the number of employed persons, except for electrical and electronic industries where industry professionals expect a rise in the number of workers. Corporate managers in the textile and leather sector expect a sharp decline in their workforce during the third quarter, with a balance of opinion at 24 percent.

Table 2.1: Activity and unemployment quarterly indicators per place of residence(1)

In millions	Q2 - 2008			Q2 - 2009		
	Urban	Rural	Total	Urban	Rural	Total
Labor force and employment						
Labor force (2)	5.88	5.45	**11.34**	5.91	5.53	**11.45**
Labor force participation rate (%)	45	59.7	**51**	44.1	60	**50.6**
Employed labor force	5.06	5.24	**10.3**	5.17	5.36	**10.53**
Employment rate (%)3	38.7	57.4	**46.4**	38.6	58.2	**46.6**
Unemployment						
Unemployed labor force	0.82	0.21	**1.03**	0.74	0.16	**0.91**
Unemployment rate (in %)	14	3.9	**9.1**	12.6	3	**8**
By degree						
. Non-graduates	8.4	2.5	**4.7**	7.4	1.9	**3.9**
. Graduates	19	11.4	**17.3**	16.9	9.3	**15.3**

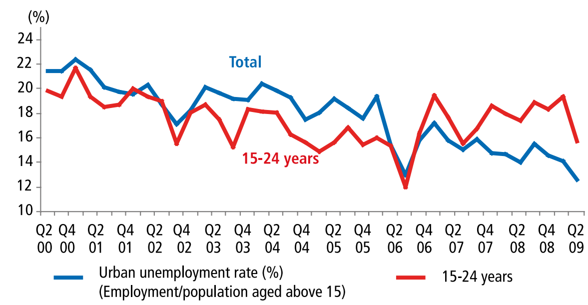
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and over (in millions of persons)
(3) Occupied labor force/total population aged 15 years and over.
Source: HCP

Chart 2.7: Nonagricultural growth and urban unemployment Q1 2000- Q4 2008



Source: HCP

Chart 2.8: Unemployment rate in urban areas



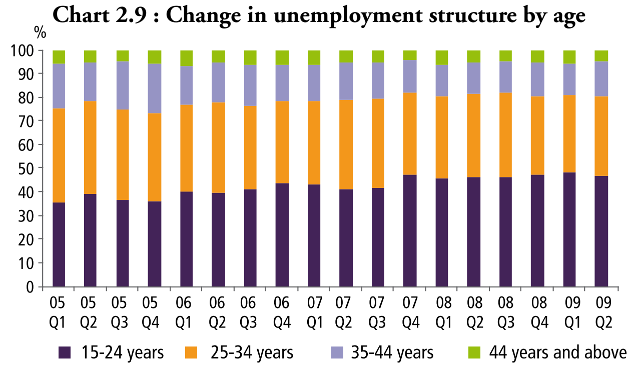
Source: HCP

Concerning wages, the results of BAM business survey in the industry for the second quarter of 2009 show an increase in the wage level, with a balance of opinion at 41 percent. As to the quarterly average wage index, calculated by the HCP on the basis of CNSS data, it rose by 5 percent year-on-year during the first quarter of 2009. In real terms, however, this index rose by 1.2 percent only year-on-year.

In addition, the second phase of the readjustment of the minimum wage in the public sector took effect as of July 1, 2009. Accordingly, the minimum hourly wage of workers and employees in industrial, trade and liberal professions sector rose by 5 percent in nominal terms.

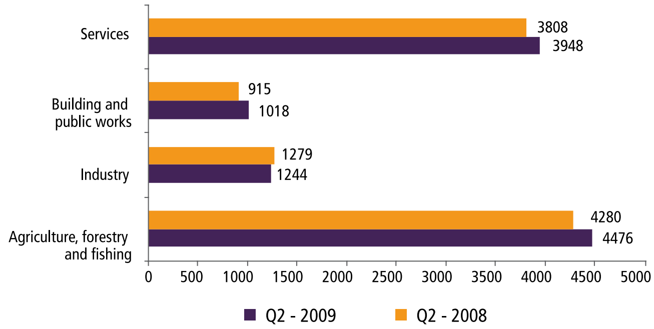
Overall, analysis of the change in the different risk factors suggests a continued moderation of demand-driven pressures on prices in the coming quarters, notably in view of the decline of pressure caused by the contraction in nonagricultural activity.

Chart 2.9 : Change in unemployment structure by age



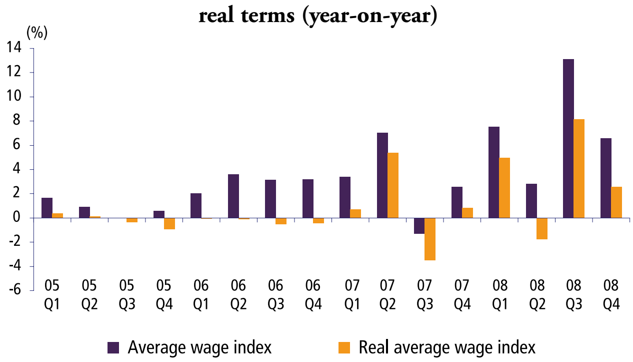
Source: HCP

Chart 2.10 : Change in employment by sector (labor force in thousands)



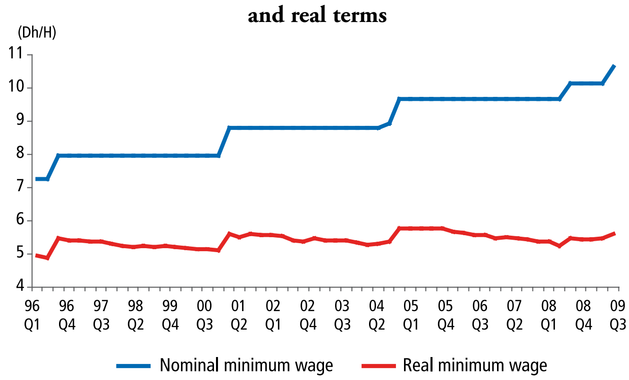
Sources: HCP, and BAM estimates

Chart 2.11 : Private sector average wage index in nominal and real terms (year-on-year)



Sources: HCP, and BAM estimates

Chart 2.12 : Quarterly minimum wage in nominal and real terms



Sources: Ministry of Labor, and BAM calculations

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

Based on the latest data, global economic activity remains sluggish, mainly in the industrialized countries, despite the first signs of stabilization observed in the second quarter of 2009 and confirmed by July and August indicators. Indeed, the updated projections of the main national statistical agencies as well as those of the IMF and the OECD suggest a continued contraction of global economy up to the end of the current year, particularly in developed countries, while the recovery would be only partial in 2010. Against a background of commodity price volatility, the deceleration in inflation observed worldwide over the last few months is expected to continue. Concerning financial conditions, the improvement registered since the beginning of the year continued as a result of the measures taken by central banks and the rebound in investors' confidence. Overall, the external negative shocks affecting the national economy are projected to continue into the coming months, the output gap in our main trading partners would remain negative through the end of 2010 despite an expected slight improvement which would begin in the third quarter of 2009, as can be inferred from the recovery in the weighted composite index of our partner countries. Import prices, which reflect the transmission of international prices to domestic prices, increased by 1 percent in July compared to the preceding month, but remain generally below the levels recorded in 2008. In this international context characterized by an output capacity surplus, a drop in demand and moderate commodity world prices, an easing of external inflationary pressures on Morocco is expected to continue.

3.1 Global financial conditions and economic activity

In spite of the uncertainties surrounding the international environment, it seems that the changes in global financial conditions and economic activity were characterized over the last months by the confirmation of some risk moderation signals.

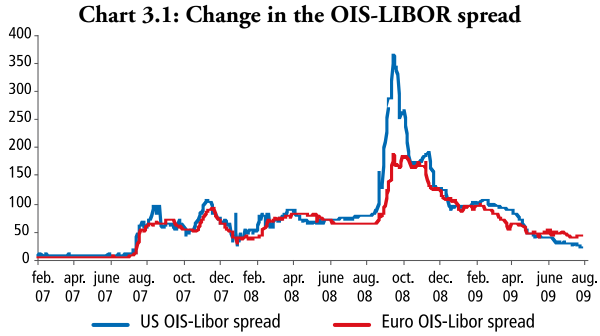
3.1.1 Financial conditions

The interbank market exit from the period of extreme risk aversion seems to be confirmed. Accordingly, owing to the central banks' accommodating monetary policy and the improved economic situation, the OIS-LIBOR[1] spread came back at the end of August to its July 2007 level in the United States and its March 2008 level in the Euro Area, without reaching nonetheless its normal average of 7 basis points.

Similarly, the bonds market resumed its normal functioning. Financial spreads tightened considerably and the interest rates curve found back its normal shape. In fact, short-term sovereign bond yields significantly declined, in connection with the monetary easing serving as anchor to short maturity rates, while longer maturities markedly rose, reflecting in part the improvement

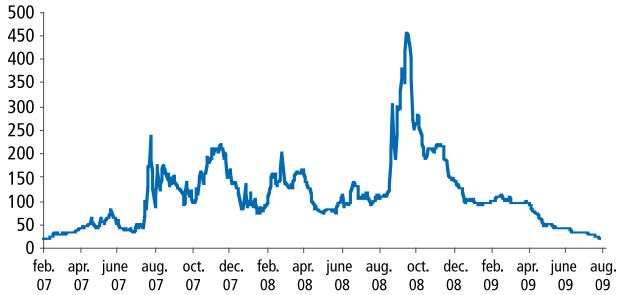
1 The OIS-LIBOR spread corresponds to the gap between the three-month interbank rate (Eurodollar LIBOR) and the three-month overnight index swap rate (OIS). Its change is supposed to inform on financing conditions in the money market.

Chart 3.1: Change in the OIS-LIBOR spread



Source: Datastream

Chart 3.2: Change in the TED spread*



** 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.*

Source: Datastream

in the economic outlook and a reduction in deflationary risks. The situation also improved with regard to public debt markets in emerging countries, in connection with a return of investor's appetite for risks, as credit default swaps[1] dropped by end-August to an average of 157 basis points compared to 380 points at the end of 2008.

Normalization of financial conditions was also reflected at the level of stock market indices in advanced countries which, despite their strong volatility, rose between 11 to 20 percent from January through August. As evidenced by the change in the MSCI EM[2] index, emerging economies stock exchanges rebounded significantly, up 46 percent over the same period, notably in connection with the drop in shares risk premiums and the recent hike in commodity prices.

Despite the stabilization of the situation on the money and bond markets and the decline in insurance premiums against bank default risks, credit growth remains limited. In the United States, annual credit growth barely averaged 3 percent by the end of the seven first months of the year compared with 9.5 percent a month earlier. In the Euro Area, credit growth also slowed down, roughly averaging 5.6 percent, which is below the 11 percent recorded during the same period of last year. Credit tightening was even more noticeable in Morocco's partner countries. France, for instance, reported negative loans growth rates (-0.6 percent) In July, for the first time since 1998.

3.1.2 Global economic activity

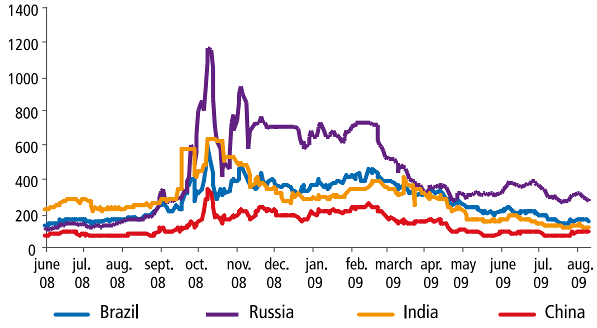
Based on the latest economic projections of the IMF and the OECD, the world economy is expected to remain weak in the majority of industrialized and emerging economies, before a partial recovery takes hold in 2010.

GDP in the Euro Area is expected to shrink by 4.2 percent in 2009, according to the IMF and the OECD, and to stabilize in 2010. In France and Germany, GDP contraction would stand at 2.4 percent and 5.3 percent in 2009, followed by a 0.8

1 Credit default swaps on sovereign debt of emerging countries correspond to insurance premiums against default risk of a sovereign debt; their change measures the degree of investors' risk aversion as to the capacity of these countries to honour their liabilities.

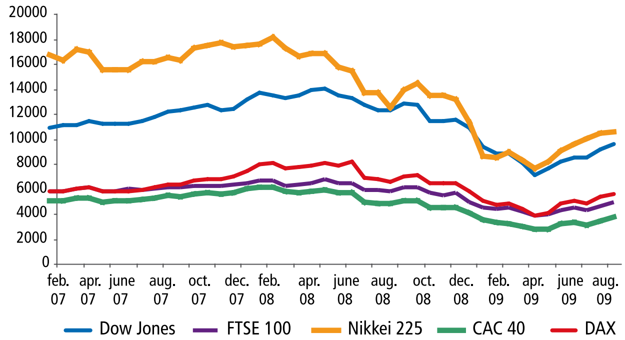
2 The MSCI EM index is a composite stock market index measuring equity market performance in countries of Central Europe, the Middle-east and Africa.

Chart 3.3: Change in Credit Default Swaps in emerging countries (Brazil, Russia, India, China)



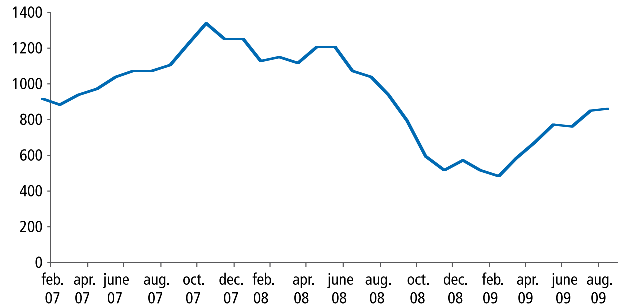
Source: Datastream

Chart 3.4: Change in the main stock market indexes in advanced economies



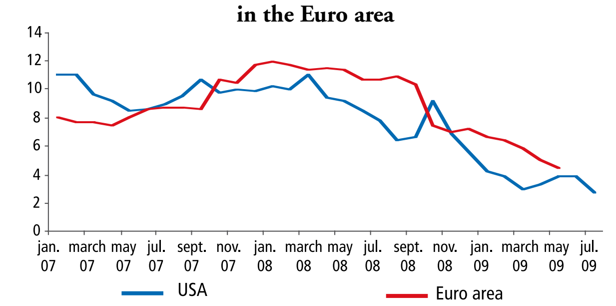
Source: Datastream

Chart 3.5: Change in the MSCI EM index



Source: Datastream

Chart 3.6: Credit change in the United States and in the Euro area



Source: Datastream

percent rise and a 0.1 percent drop in 2010.

In emerging countries, particularly China and India, GDP growth is expected to stand respectively at 8.5 percent and 5.3 percent in 2009, according to the IMF, and 7.7 percent and 5.9 percent in 2010 for the OECD. Conversely, Brazil and Russia are expected to report a drop by 1 percent and 8.5 percent respectively in 2009, compared to 0.8 percent and 6.8 percent projected by the OECD.

In the second quarter of 2009, the world economy started to show signs of economic stabilization. Data related to quarterly national accounts and high-frequency indicators suggest a slowdown in the decline of activity in advanced and emerging countries. In the United States, GDP quarterly drop slowed down to stand at 0.3 percent, instead of 1.6 percent In the precedent month. In the Euro Area, contraction was limited to 0.1 percent in the second quarter compared to 2.5 percent in the preceding quarter.

Concerning in particular the main trading partners of Morocco, quarterly growth in France and Germany turned positive at 0.3 percent, after four consecutive quarters of drop in economic activity, while GDP contraction in Italy and Spain slowed down to stand respectively at 0.5 percent and 1.1 percent compared to 2.7 percent and 1.6 percent.

In the third quarter, July and August monthly indicators suggest a beginning of economic stabilization, together with stronger expectations of an economic recovery in the short term.

In the Euro area, July and August 2009 indicators improved, particularly the business climate index and the Flash PMI Composite[1] Output Index which edged up to 50.4 from 47 in August, thus rising by 3.4 points from one month to the next and by 14 points since its all-time low level recorded in February 2009.

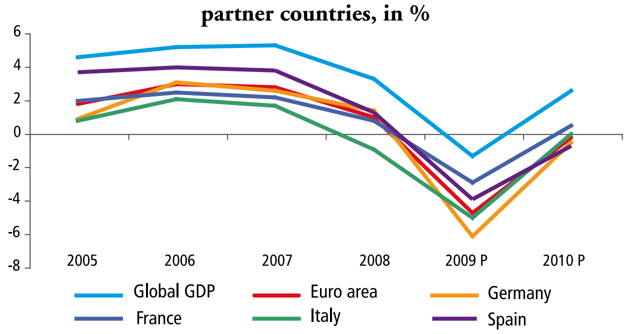
In the United States, data as at the end of August point to an improvement for the third consecutive month in leading indicators, thus suggesting the

Table 3.1 : Global growth change

	World Bank projections		OECD projections		IMF projections	
	2009	2010	2009	2010	2009	2010
Global GDP	-2.9	2.0	-2.8	-	-1.3	2.9
United States	-3.0	1.8	-2.8	0.9	-2.9	1.2
Euro area	-4.5	0.5	-4.8	0.0	-4.2	-
Germany	-	-	-6.1	0.2	-5.3	-0.1
France	-	-	-3.0	0.2	-2.4	0.8
Italy	-	-	-5.5	0.4	-5.1	0.2
Spain	-	-	-4.2	-0.9	-3.7	-0.7
United Kingdom	-	-	-4.3	0.0	-4.5	0.7
China	6.5	7.5	7.7	9.3	8.5	9.0
India	4.0	7.0	5.9	7.2	7.3	5.3
Brazil	0.5	3.2	-0.8	4.0	-1	3.0
Russia	-4.5	0.0	-6.8	3.7	-8.5	1.5

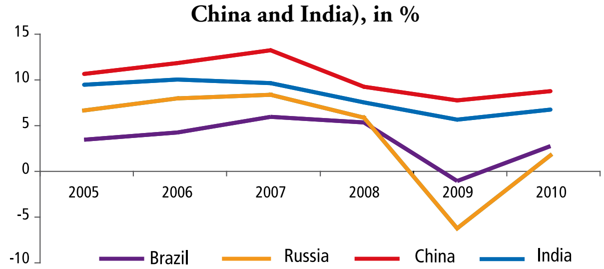
Sources : IMF, World Bank and OECD

Chart 3.7: GDP change in the world, the Euro area and in partner countries, in %



Source: IMF

Chart 3.8: GDP change in emerging countries (Brazil, Russia, China and India), in %



Source: IMF

1 The flash composite PMI index (Puchasing Manager Index): a monthly indicator base on a survey reflecting the confidence of purchasing managers working in the manufacturing sector of the big countries in the Eurozone. It is calculated as the sum of the percentage of answers on the rise and half of stable answers. A PMI of more than 50 represents an expansion of the manufacturing sector, less than 50 a contraction.

beginning of an economic upturn. The consumer confidence index reported a marked rise at 14.1 percent in august, after increasing by 0.6 percent in July and 0.8 percent in June 2009.

In Morocco's direct partner countries, especially France and Germany, leading indicators show an improvement in the economic situation in August. The manufacturing output index in these two countries stood above the 50 mark for the first time since May 2008, after reaching 47.9 and 45.2 respectively in the preceding month.

In addition, following the elaboration of a foreign demand indicator, in the form of a weighted index of our main trading partners' output gap, Bank Al-Maghrib, as part of its monitoring of high-frequency indicators, put in place a weighed leading composite indicator of the major partner countries on the basis of the national indices published by the OECD. According the latest data, the composite index registered a marked rebound in the second and third quarters[1] to stand respectively at 95.2 and 96.8 compared to 92.5 during the first quarter of 2009. This upward trend suggests an economic recovery in our partner countries although the weighted output gap of these countries is expected to remain negative until the end of 2010.

3.2 World inflation

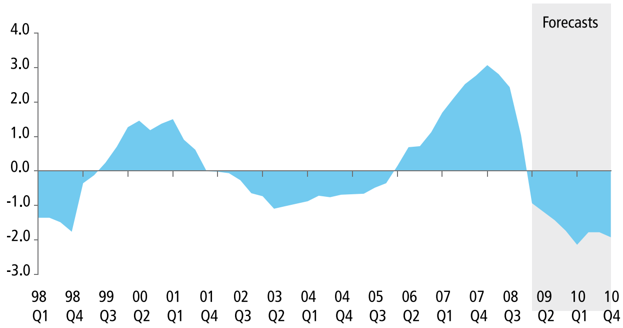
World inflation marked a further deceleration. July 2009 data show a continued downward trend in inflationary pressures observed since August 2008 in advanced and emerging countries (Table 3.2).

Preliminary data published by the Eurostat indicate a new annual drop in consumer prices in the Euro area by 0.2 percent after the 0.7 percent registered in the preceding month.

Low inflation was the result of the decline in international commodity prices, oil in particular, both on a year-to-year basis and in comparison with the peaks recorded in mid-2008. It is largely attributed to the impact of the global economic downturn which, despite the multiple signs of recovery, has not come to an end as yet.

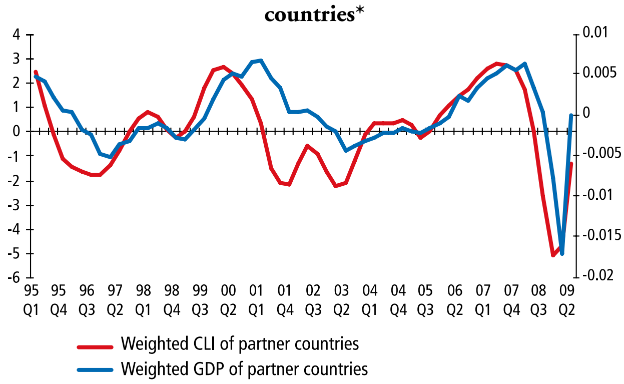
1Third quarter data as at end-July.

Chart 3.9: Outpt gap of the main partner countries (France, Italy, Germany and Spain), in %



Sources: European commission, and BAM calculations

Chart 3.10: Weighted Composite Leading Indicator of partner countries*



** This index 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. The index thus obtained is one semester ahead compared to the weighted output gap of partner countries.*

Sources: OECD, and BAM calculations

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

	June 2008	June 2009	Jul. 2009	Aug. 2009	Forecasts 2009	Forecasts 2010
United States	5	-1.4	-2.1	-1.5	-0.6	1
Euro area*	4	-0.1	-0.7	-0.2	0.5	0.7
Germany	3.3	0.1	0.6	-0.1	0.3	0.4
France	3.6	-0.6	-0.8	-0.2	0.3	0.7
Spain	4.9	-1	-1.4	-0.8	-0.1	0.3
Italy	3.8	0.6	-0.1	0.1	1.1	1.2
Japan	2	-1.8	-2.2	-	-1.4	-1.4
China	7.1	-1.7	-1.8	-1.2	2	0.5

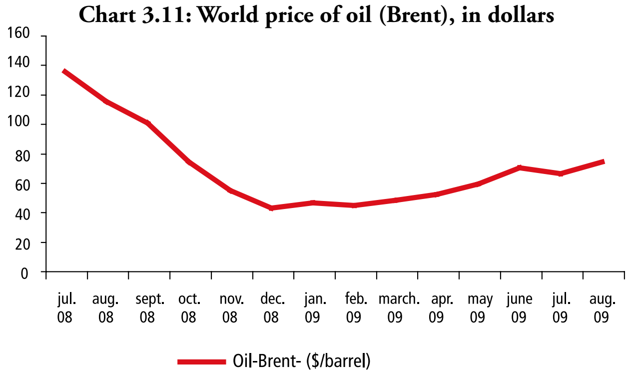
(*) Harmonized indexes

Sources : : IMF, Eurostat for historical data, and OECD for forecasts

Concerning the inflation outlook, IMF updated projections pinpoint that inflation will reach 0 percent in 2009 and 1 percent in 2010 in the advanced economies. In emerging and developing countries, inflation will stand at around 5.4 percent in 2009 and 4.6 percent in 2010. For the OECD, a moderation in inflationary pressures may well be reported in advanced countries as well as in emerging and developing countries.

In the medium-term, uncertainties surrounding inflation would continue, especially those related to the consequences of accommodating monetary policies and macroeconomic support policies, as well as the fluctuations in commodity prices.

Chart 3.11: World price of oil (Brent), in dollars



Source: Datastream

3.3 Oil prices

In August 2009, oil prices rose by 12 percent from one month to the next to average 72.8 dollars a barrel.

This month-to-month rise is attributed to the considerable purchases made by hedge funds and the higher projections concerning world demand, particularly from China, according to the last monthly report of the International Energy Agency.

Over the first eight months of 2009, oil price stood on average at $56.3 a barrel compared to $97.6 a barrel during the same period of last year, down by 42.3 percent year-on-year.

According to the updated IMF projections, the average oil price for the year 2009 was revised downwards to $58 and $70 a barrel respectively in 2009 and 2010 compared to previous projections of oil prices at respectively $60.5 and $74.5 a barrel. On the futures market, oil price would average $78.8 a barrel in 2010 and $81.6 a barrel in 2011.

According to most economic players on the international scene, the future developments concerning the oil market will be contingent on the materialization of the economic recovery over the forthcoming months.

Overall, the relatively low oil prices in comparison to the previous year suggest a moderation in external inflationary pressures for Morocco.

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

Q2 2009	Q3 2009	Q4 2009	Q1 2010	Year 2009	Year 2010
69	75.5	76.9	78.5	78.8	81.6

Source : Bloomberg

Table 3.4 : Quarterly change in wheat futures and forecasts

Wheat (USc/bushel)	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Futures	503.7	539.3	543.8	543.8
Forecasts	575	600	622.5	651.5

Source : Bloomberg

3.4 Commodity prices

While remaining generally below the levels recorded a year earlier, non-energy commodity prices reported differing changes in August 2009 according to products category. The majority of staple food prices reported significant drops in conjunction with better supplies and slowing demand. In contrast, metals and ores prices rose considerably owing in particular to the news of favorable economic situation indicators in the United States and a momentum in demand from China.

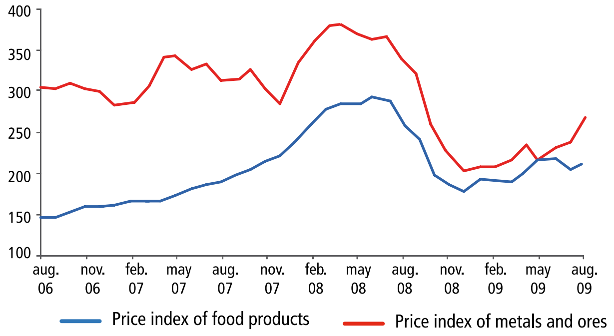
Over the first eight months of the year, non energy commodity prices registered therefore a drop by 29.9 percent compared to the same period of last year. Nevertheless, the monthly index reported a rise by 6.6 percent in August 2009.

The same change characterized the overall index of staple food prices which dropped by 25.7 percent year-on-year and rose by 3.5 percent from one month to the next. This change mainly concerned sugar prices which continued their upward trend and rose by 21.8 percent on a monthly basis after a 78.2 percent increase since the beginning of the year, due mainly to insufficient harvest in the main producer countries, notably in India and Brazil. In contrast, cereal prices dropped on a monthly basis by 6.4 percent for wheat and 12.8 percent for barley, owing to better supply capacities and abundant inventories. Corn prices, however, registered a quasi-stagnation.

In turn, the price index of metals and ores remained below its level registered in August 2008 by 21.3 percent; it nonetheless rose by 12.7 percent from one month to the other. Copper prices increased by 12.8 percent on a monthly basis, before reaching their highest level of the year on August 13, at $6419 per ton, owing to significant purchases made by China and a decrease in inventory levels. Zinc and lead prices also rose by 15.4 percent and 13.2 percent on a monthly basis. Phosphates and derivatives prices registered diverging changes masking, on the one hand, a stagnation in raw phosphates prices and a drop in potassium chloride by 34 percent, and on the other, a rise by 8.6 percent and by 0.4 percent in the prices of DAP and TSP in connection with a slight recovery in world demand.

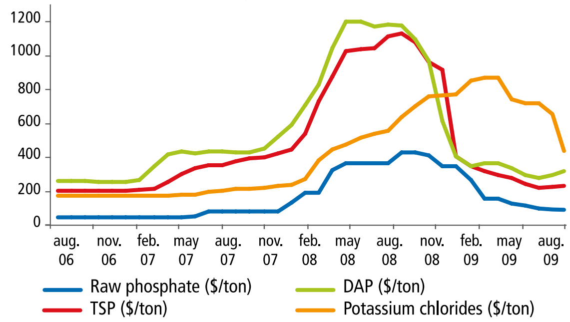
According to the IMF projections of September 2009, non-energy commodity prices would drop on

Chart 3.12: Price index of food and metals and ores (base year : 2000)



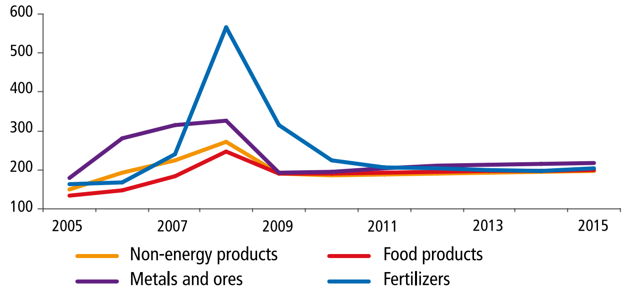
Source: World Bank

Chart 3.13: Change in the world prices of phosphate and derivatives



Sources: Foreign Exchange Office, and BAM calculations

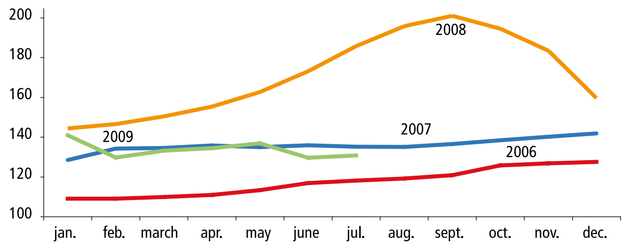
Chart 3.14: Change perspectives* of commodity prices indexes



** Updated on June 1st, 2009.*

Source: Wold Bank

Chart 3.15: Non-energy products' import price index



the short term by 23.8 percent at the end of 2009 and slightly rebound by 2.2 percent in 2010.

Therefore, staple food prices would mainly be affected by a marked improvement in the supply conditions and a good inventory level.

The change in mining commodity prices would remain contingent on Chinese demand which may weaken after inventory accumulation, on the world inventory levels of basic metals which remain quite high, but also on the signs of economic recovery in the United States.

By and large, the moderation in commodity prices would lead to lower import prices, hence an ongoing drop in inflationary pressures.

3.5 Morocco's import unit value index

According to the latest available data, import price index (IPI) excluding energy rose by 1 percent at end-July, on a monthly basis, compared with to a drop by 5.3 percent a month earlier. Year-on-year IPI excluding energy declined by 29.6 percent.

Foodstuffs IPI fell by 7 percent year-on-year. This change, which was the result of a drop by more than a quarter in imported wheat prices, as well as by 3.3 percent in imported corn, reflects well the developments observed in these products on the international level.

The same trend characterized the change in the semi-products IPI which declined by 1 percent in July 2009. Year-on-year, this drop stands at 26 percent, impacted by the decline in prices of imported plastics, paper and carton, owing to falling demand for these semi-products by industrialists.

Conversely, mining products IPI increased in July 2009 by 3.4 percent compared to the previous month, in connection with the considerable surge in import unitary prices of crude sulphur and copper coupled with a drop in iron and steel prices. Until the month of May, change in non energy IPI reflected the growth in global commodity price index excluding energy. Nonetheless, June and July IPI confirm the beginning of a new diverging phase from the global commodity price index excluding energy.

Chart 3.16: Food products' import price index

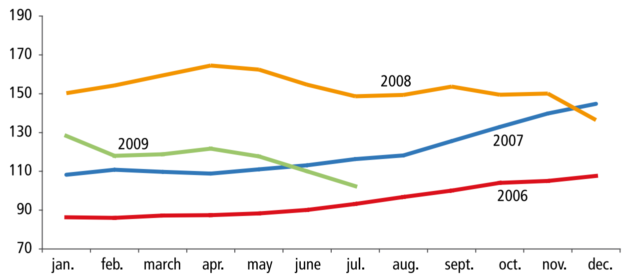


Chart 3.17: Mining products' import price index

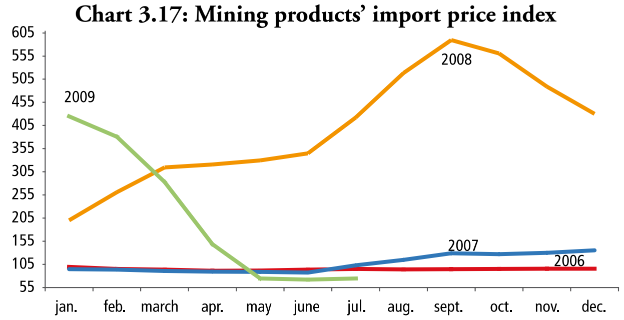


Chart 3.18: Semi finished products' import price index

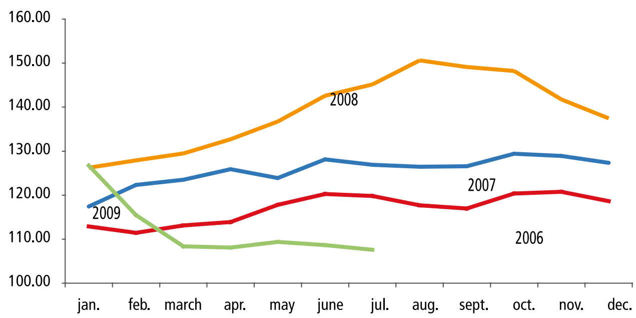
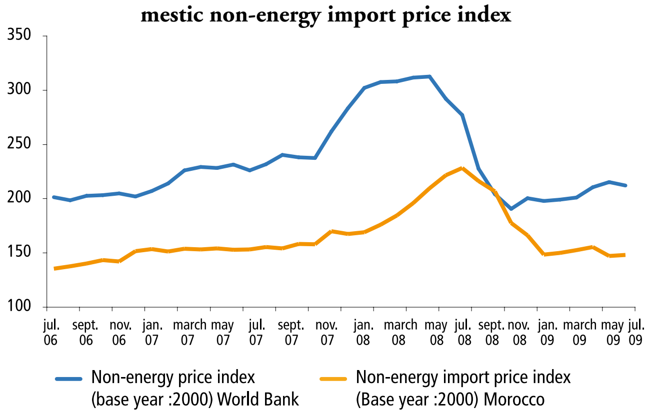


Chart 3.19: Change in world commodity price index and domestic non-energy import price index



4. MONETARY CONDITIONS AND ASSET PRICES

Since the publishing of the June Report on Monetary Policy, monetary conditions have changed in line with the same trend marked by the ongoing slowdown in money creation and the gradual deceleration in loans. This change, which led to a quasi-nil monetary surplus in the second quarter of 2009, confirms the moderation of monetary pressures on prices. Accordingly, M3 annual growth fell to 6.8 percent in July from 8.3 percent in the second quarter, as a result of the marked decline in time deposits in connection particularly with the non-renewal by the OCP of its time deposits with the banking sector. In spite of its ongoing contraction year-on-year, bank credit continues to grow at a sustained pace, driven mainly by lending to businesses. With regard to lending rates, and after three quarters of an upward trend, the results of BAM survey among banks for the second quarter of 2009 indicate a significant drop in the average weighted rate, in conjunction with the decline in interest rates on cash advances and equipment loans. As to deposit rates, after stabilizing at the end of the second quarter, the average weighted rate of 6-month and 12-month deposits edged down in July 2009. Concurrently, stock market indices appreciated compared to the first quarter before tumbling in July. Data as at end-August show, however, a slight improvement in these indicators. As to the exchange rate in July and August, the Dirham went up on average by 3.34 percent against the dollar and fell by 0.69 percent against the euro.

4.1 Monetary conditions

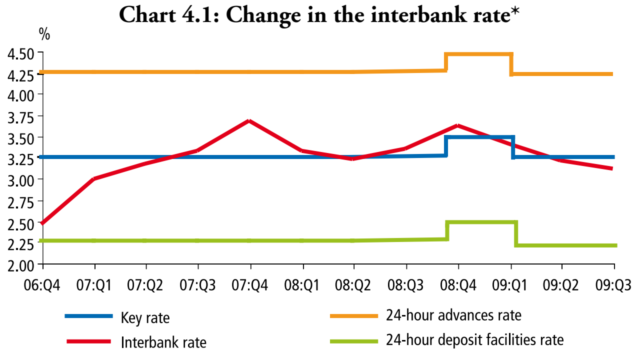
4.1.1 Interest rates

At its last meeting of June 16, 2009, Bank Al-Maghrib Board decided to keep the key rate unchanged at 3.25 percent, and to reduce the reserve requirement ratio by two percentage points to 10 percent as from July 1, 2009. Accordingly, the overnight rate on the interbank market stood on average at 3.12 percent between July and August, compared to 3.21 percent during the second quarter of 2009.

Meanwhile, interest rates for short-term Treasury bills issued on the primary market have generally dropped by the end of the second quarter and July of 2009, in line with the downward trend observed since early this year. The same trend also was noticeable on the secondary market both for short-term maturities as well as medium and long-term maturities.

After a period of stabilization in deposit rates during the second quarter, the weighted average rate of 6-month and 12-month deposits fell by 10 basis points to stand at 3.68 percent in July 2009.

Chart 4.1: Change in the interbank rate*

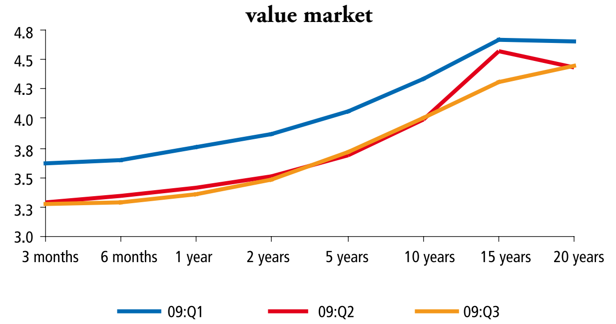


** Observation of the third quarter of 2009 corresponds to the daily average of the period from July 1st to August 24th, 2009.*

Table 4.1: Change in yield rates of short-term Treasury bills on the primary market

	2007	2008				2009		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Jul.
13 weeks	3.63	3.58	3.41	3.42	3.69	3.58	-	3.25
26 weeks	3.58	3.59	-	-	3.77	3.65	3.28	3.28
52 weeks	3.55	3.62	3.53	3.51	3.84	3.75	3.34	3.35

Chart 4.2 : Structure, by term, of interest rates on the Treasury value market



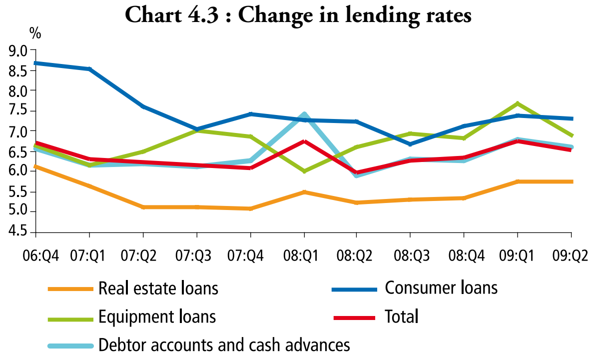
As to lending rates, the latest findings of BAM survey of banks for the second quarter of 2009 show a drop by 21 basis points in the weighted average rate, following three quarters of continuous rise. This change, which took place concomitantly with the decision of the bank Board to cut the key rate by 25 basis points during its March 2009 meeting (Chart 4.4), is attributable to the decline in interest rates on cash advances and equipment loans and, to a lesser extent, to lower consumer loan rates. Real-estate loan rates remained, however, stable compared to the previous quarter.

Table 4.2: Borrowing rates * (time deposits)

	2008				2009		
	Q1	Q2	Q3	Q4	Q1	Q2	Jul.
6 months	3.37	3.55	3.50	3.90	3.61	3.52	3.42
12 months	3.71	3.82	3.89	4.23	3.91	4.96	3.83
Weighted average	3.56	3.72	3.77	4.13	3.78	3.78	3.68

** Quarterly data are simple averages of monthly data.*

Chart 4.3 : Change in lending rates



Box 4.1: Liquidity and implementation of monetary policy

During the second quarter of 2009, banks' liquidity shortage worsened owing to the restrictive effect of banks' liquidity autonomous factors. Accordingly, banks' average liquidity shortage jumped from 11.4 billion dirhams in the first quarter of 2009 to 17.1 billions in the second quarter.

Indeed, foreign assets operations led to a liquidity drain totalling 11.2 billion dirhams, owing to a marked rise in foreign currency purchases by commercial banks compared to the previous quarter.

The rise in currency in circulation came to 2.1 billion dirhams in the beginning of the summer period. In contrast, Treasury operations led to a liquidity injection of 6.9 billion dirhams, chiefly attributable to the repayment of domestic public debt.

Overall, autonomous factors had a restrictive effect of 6.4 billion dirhams on banks' treasuries.

In view of the important tightening in banks' treasuries, the Board of Bank Al-Maghrib decided, at its meeting of June 16, 2009 to reduce the required reserve ratio by 2 percentage points.

Chart B 4.1.1: Change in the liquidity position (in millions of dirhams) and in the weighted average rate (%) in quarterly average

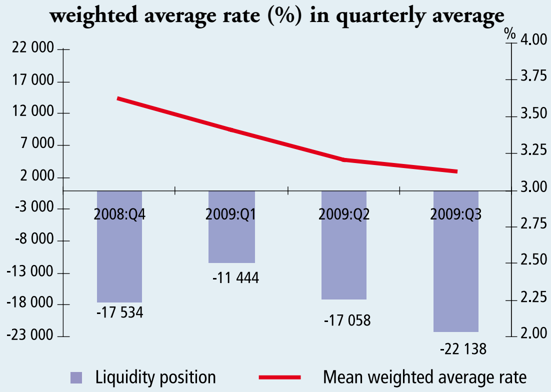
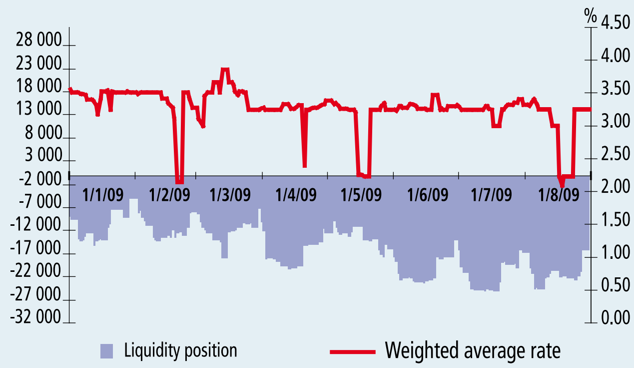


Chart B 4.1.2: Liquidity position (in millions of dirhams) and weighted average rate of the interbank money market



As a result, an overall liquidity amount of 7.3 billion dirhams was injected between June and July 2009.

In spite of this liquidity injection, average insufficiency in banks' treasuries grew from 17.1 billions in the second quarter of 2009 to 22.1 billions in the third quarter of 2009, mainly owing to the restrictive impact of autonomous factors.

During this quarter, currency circulation had a restrictive effect of 6.3 million dirhams on banks' liquidity, particularly in view of summer and public holidays.

Treasury operations also accounted for a 1 billion dirhams liquidity drain, due in particular to tax revenues and banks' subscriptions to TB's auctions. Treasury assets totalled 41.4 billion dirhams, 8.2 billions of which were accounted for by banks' subscriptions to TB's auctions. Treasury liabilities rose to 40.4 billion dirhams, 10 billions of which represent repayments of domestic debt to the banking system.

In contrast, foreign assets operations led to a liquidity injection of 4.5 billion dirhams, primarily because of the speed-up in foreign currency sales totalling 13.1 billion dirhams, partially offset by foreign currency purchases amounting to 8.6 billions taking into account imports hedging and dividend conversion operations.

Overall, autonomous factors had a restrictive effect of 2.9 billion dirhams on banks' treasuries.

Chart B 4.1.3: Change in reserve requirements (in millions of dirhams)

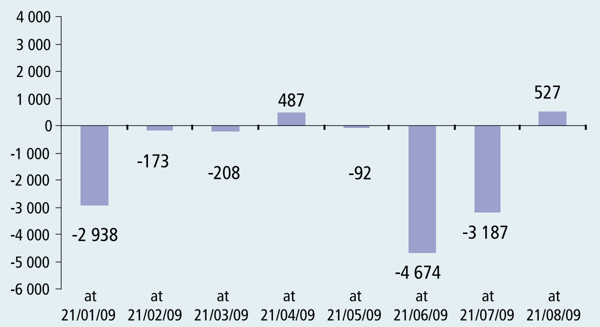
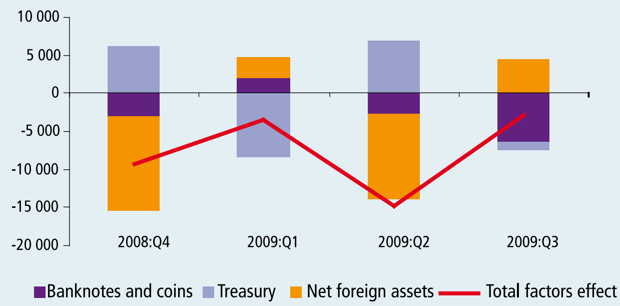


Chart B 4.1.4: Change in liquidity factors' effect (in millions of dirhams)



To ease banks' liquidity shortage, which averaged 22.1 billion dirhams during this quarter, Bank Al-Maghrib intervened exclusively through 7-day advances, providing an average daily amount of 21.7 billion dirhams.

During the third quarter of 2009, the weighted average rate stood at 3.12 percent, down 8 basis points compared with the previous quarter, on account of the significant drop in the interbank rate registered at the end of the reserve period in August 20, 2009.

In this context, the volatility of the weighted average rate rose by 1 basis point to stand at 0.34 percent compared to 0.33 percent previously.

Chart B 4.1.5: Bank Al-Maghrib's interventions on the money market (in millions of dirhams)

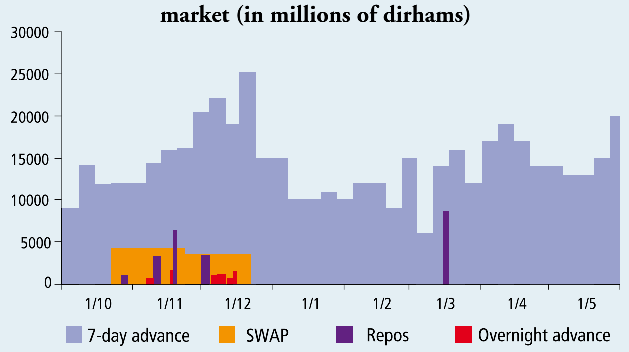
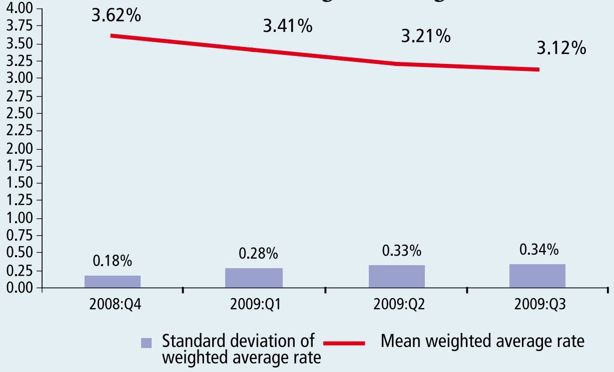


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate (%)



4.1.2 Money, credit and liquid investments

M3 growth

The contraction in M3 annual growth continued into July 2009, down from 8.3 percent in the second quarter to 6.8 percent. This deceleration is attributable to the drop in time deposits from 18.1 percent to 7.6 percent, roughly contributing by 1.7 percentage point to money creation compared to 4.6 percentage points on average since the beginning of the year[1]. Excluding public sector time deposits, time assets with banks continue to grow at the same pace registered during the second quarter of 2009, at around 18 percent.

In parallel, the slowdown in M3 annual growth in July reflects, in part, a base effect linked to the strong expansion registered during the same period in the previous year and masks a certain momentum in the short term, especially with regard to the most liquid holdings composing M1 aggregate. Indeed, M3 monthly growth in July, up 1.3 percent, corresponds,

1 The drop in time deposits of the public sector is due to the non-renewal of OCP time deposits with the banking sector, after reaching maturity.

Chart 4.4: Interbank rates and lending rates

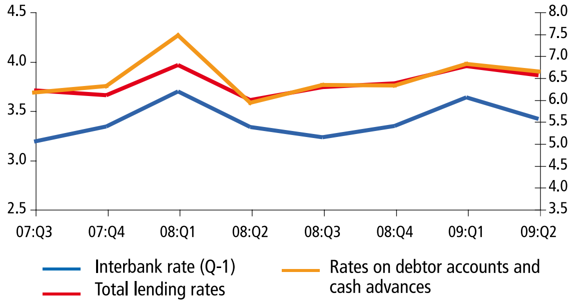


Chart 4.5: M3 annual growth and its trend (in %)

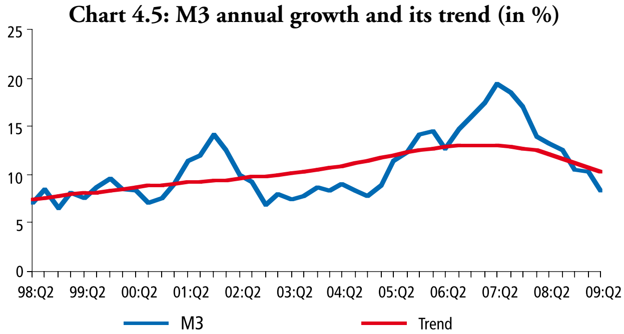
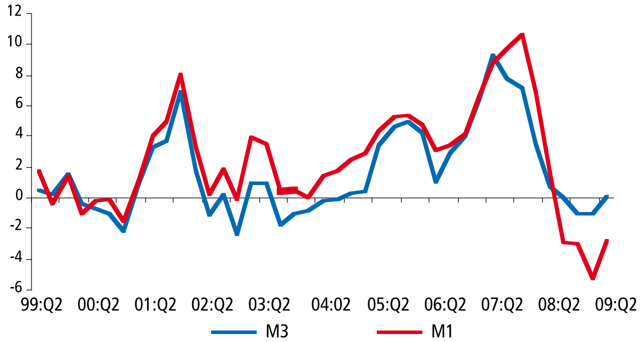


Chart 4.6: Money surplus (in percentage of M3 and M1 equilibrium outstanding amount in real terms)



in addition to a rise in currency in circulation consistently with its usual seasonal profile, to a slight improvement in bank money which rose by about 2 percent after several quarters of deceleration.

Non financial businesses' sight deposits, in particular, appear to be on an upward trend, likely as a result of a slight recovery in economic activity. On the other hand, individual residents' sight accounts have not registered any significant changes, as their growth was roughly limited to 2.5 percent, in line with the moderate growth recorded since the beginning of 2007.

Bank loans

The latest available data indicate a slight improvement in bank loans on the short term. In June and July 2009, the monthly growth rate in loans stood at 2.6 percent then at 1.5 percent, representing the highest growth rates recorded since December 2008. On an annual basis, however, its growth rate fell from 18.3 percent in the first quarter of 2009 to 16.6 percent in July, reflecting in part a base effect linked to the exceptionally high growth rates recorded over the same period in the previous year.

Broken down by economic agent, the recent rise in credit concerned mainly loans to businesses while loans to individuals saw, in turn, only a limited increase.

The allocation of loans by economic purpose highlights an ongoing slowdown in the annual growth rate of all the categories, except for cash advances and equipment loans benefiting largely to businesses.

In fact, cash advances rose by 10.8 percent in July after 7.5 percent in the preceding quarter, driven mainly by a high demand from some sectors, notably the BPW and manufacturing industries. Similarly, equipment loans continued

Chart 4.7: Annual change of M3 components (in %)

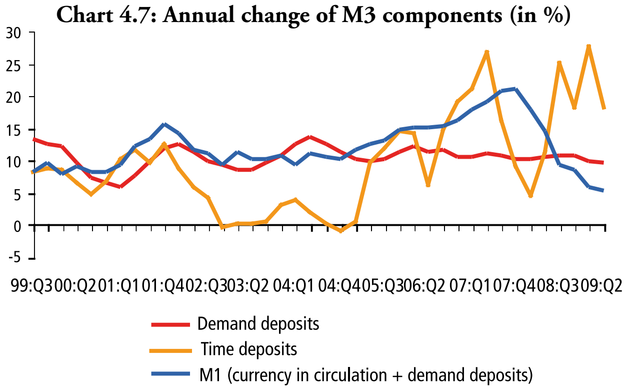


Chart 4.8: Annual growth of demand deposits per economic agent (in %)

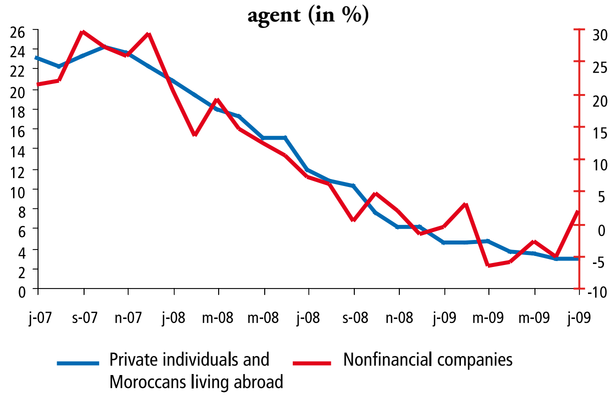


Chart 4.9: Annual growth of bank loans and its trend (in %)

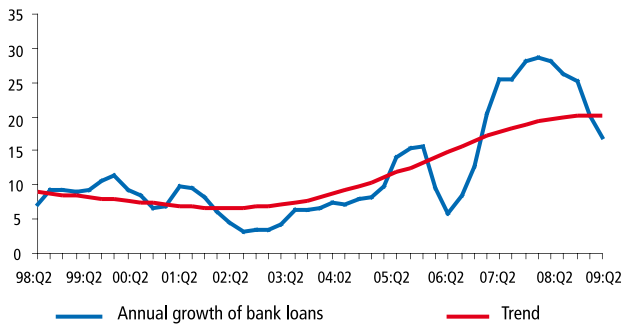
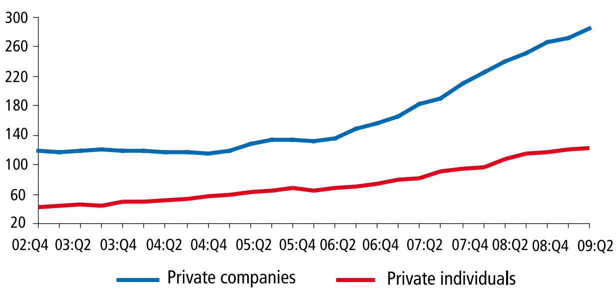


Chart 4.10: Loans structure by economic agent (in billions)



to progress at high speed, 24.4 percent in July compared to 23.3 percent in the second quarter of 2009, reflecting mainly the good investment effort of some businesses, particularly those working in the production and distribution of electricity and oil products sector. Real-estate and consumer loans have, on the other hand, continued their downward trend, dropping respectively to 17.3 percent and 22.8 percent in July compared to 20.8 percent and 24.6 percent in the second quarter of 2009.

Chart 4.11: Annual change of the main categories of bank loans (in %)

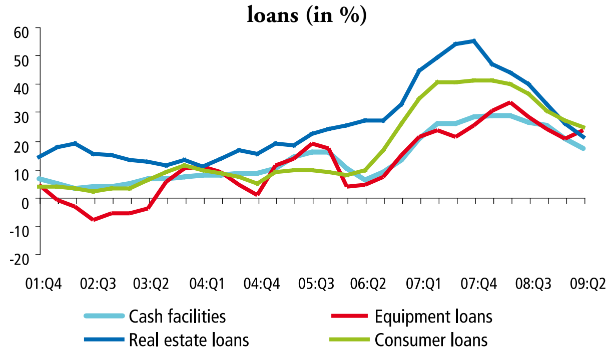
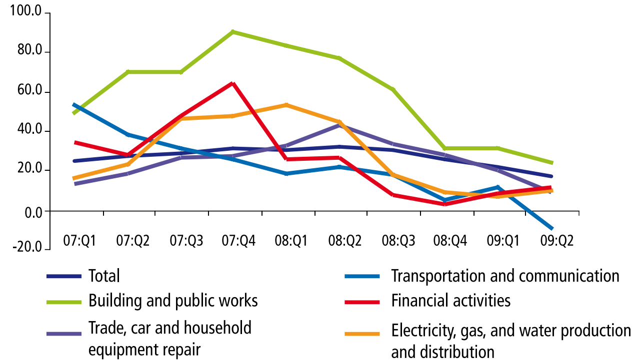


Chart 4.12: Change in loans by sector (in %)

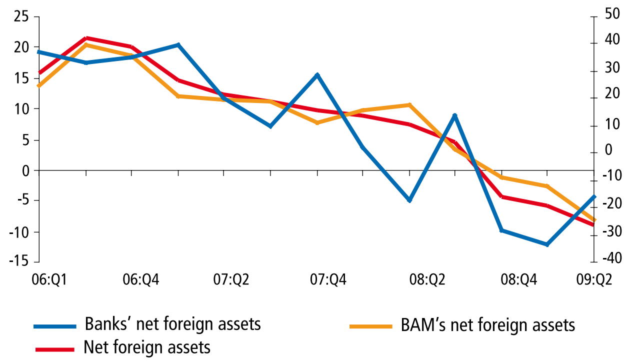


Other sources of money creation

In line with the observed trend since October 2008, net foreign assets contracted by 8.8 percent year-on-year during the second quarter of 2009 and by 14.3 percent in July. In addition to the ongoing widening of the trade deficit, this decline in exchange reserves is linked to the contraction of revenues from private foreign investments and loans as well as to the drop in tourism receipts and remittances of Moroccans living abroad.

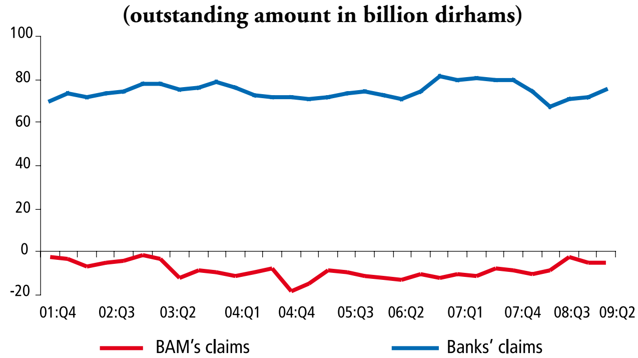
In contrast, net claims on the Government, which were on a downward trend over the last four quarters, registered an annual rise by 9.4 percent in the second quarter of 2009 and 16.1 percent in July, owing mainly to the higher resort by the Treasury to the banking system for its financing and, to a lesser extent, the drop in the net position of the Treasury with Bank Al-Maghrib.

Chart 4.13: Annual growth of net foreign assets (in %)



Overall, net foreign assets and net claims on the Government contributed negatively, by nearly 3 percentage points, to M3 growth in July 2009, while bank loans account for roughly 11.6 percentage points in money supply growth.

Chart 4.14: Quarterly change in net claims on the Government (outstanding amount in billion dirhams)



Liquid investments

By the end of the second quarter of 2009, liquid investments' outstanding amount was 8.2 percent lower compared to the same period of last year, in spite of its 5.7 increase from one quarter to the next.

The quarterly change in liquid investments is largely attributed to the rise in bond UCITS, which appear to benefit both from non financial businesses demand as well as from the appreciation of their value, along with the decline in secondary market TB's yields. In contrast, non financial agents' portfolio of equity and diversified UCITS contracted once again, as prices on the Casablanca stock exchange market had plummeted. As for cash UCITS, they did not register any significant change from one quarter to the next.

4.1.3 Exchange rates

During the second quarter of 2009 and compared with the previous quarter, the national currency appreciated on average by 7.96 percent against the Japanese Yen and 3.66 percent against the dollar and 0.59 percent, following several consecutive quarters of depreciation. It nonetheless dropped against the pound sterling and to a lesser extent against the euro, trading at levels lower by 3.95 percent and 0.79 percent compared with those registered a quarter earlier. The analysis of the latest available data for the months of July and August confirms the same trend as the dirham appreciated on average by 3.34 percent against the dollar and depreciated by 0.69 percent against the euro.

The nominal effective exchange rate of the dirham, calculated on the basis of bilateral exchange rates with regard to Morocco's major trading partners, dropped by 0.5 percent in the second quarter of 2009 compared with the previous quarter. The real effective exchange rate calculated by Bank Al-Maghrib, in correlation with the exchange rate calculated by the IMF, indicates depreciation by 1.8 percent in the second quarter of 2009, largely accounted for by the inflation differential benefiting Morocco.

Chart 4.15: Contribution of main counterparties to money supply growth (in %)

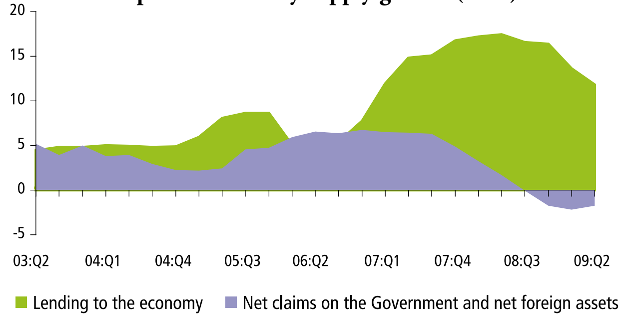


Chart 4.16: Annual change in liquid investments (in %)

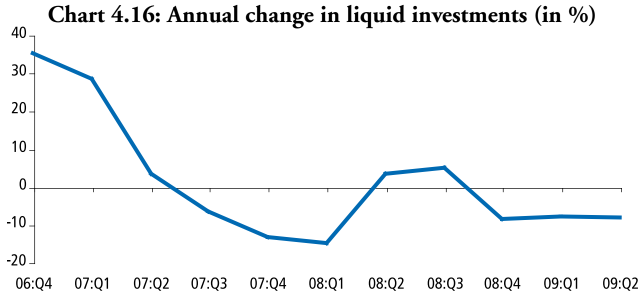


Chart 4.17: Change in money market and bond UCITS securities (in million dirhams)

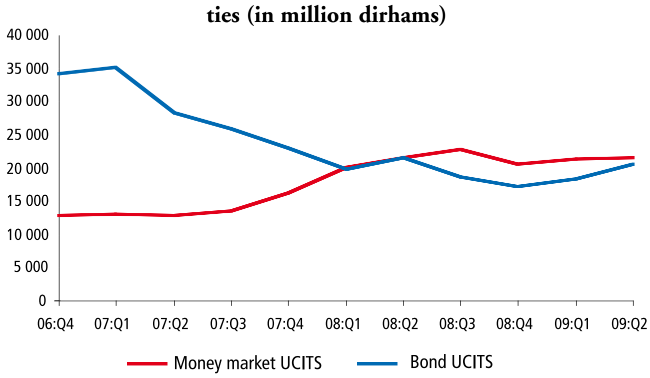
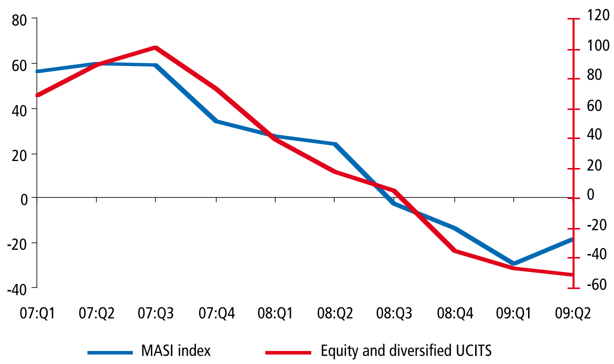


Chart 4.18: LI4 and MASI (year-on-year in %)



**Provisional data*
Sources: BAM and IMF calculations

4.2. Asset prices

At the end of the second quarter of 2009, the MASI index rose by 11.4 percent compared to the first quarter, bringing its annual performance to 5.5 percent. In contrast, the index registered a drop by 5.3 percent by the end of July, reporting a negative performance by 0.1 percent since the beginning of the year. For its part, the real-estate sector index rose by 23.49 percent between the first quarter and the second quarter of 2009, and dropped by 7.4 percent in July.

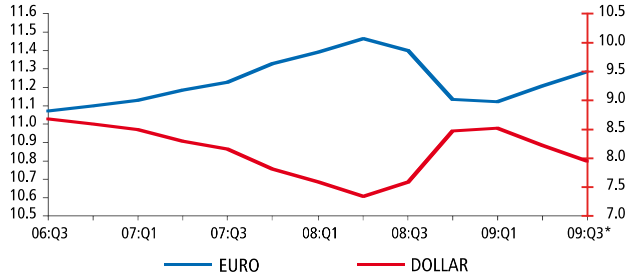
The PER of the Casablanca stock market rose from 15 to 16.7 from one quarter to the next, in connection with the appreciation of asset prices and remains relatively well above the levels seen in emerging countries securities market.

The volume of transactions dropped by about 43.6 percent to stand at 25.7 billion dirhams in the second quarter of 2009 compared to 46.1 billions in the first quarter.

Stock market capitalization increased by 9 percent from one quarter to the next, reaching nearly 554 billion dirhams instead of 508.5 billion dirhams. The most recent data, however, show a decline in market capitalization at the end of July and August, reaching respectively 528.9 billion dirhams and 532.4 billions.

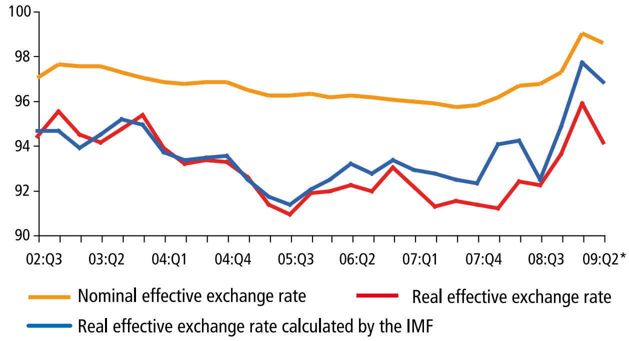
At the sectoral level, except for some sectors such as Leisure & hotels, Telecommunications and silviculture & paper which registered drops by 5.12 percent, 12.6 percent and 0.65 percent respectively, most other sectors reported positive growth rates. Accordingly, the mining index as well as the electronic and electrical equipment index registered the biggest rises at 39.5 percent and 32.9 percent respectively, while the other sectors reported rises ranging between 25.6 percent for the sector of portfolio-holding companies to 9.9 percent for the food-processing sector.

Chart 4.19: Exchange rate of the dirham (monthly averages)



** The the third quarter of 2009 corresponds to the arithmetic average of July and August data.*

Chart 4.20: Effective exchange rate* (Base 100 in 2000)



**Provisional data*
Sources: IMF, and BAM calculations

Chart 4.21: Stock market indexes

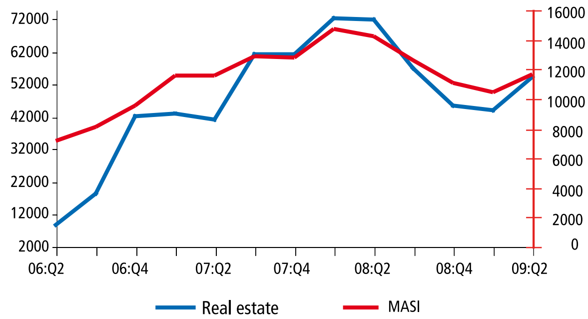


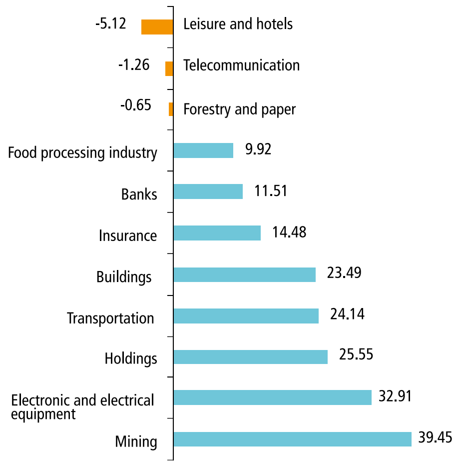
Table 4.3: Equity markets' valorization

PER*	08 :Q2	08 :Q3	08 :Q4	09:Q1	09:Q2
South Africa	13.4	10.3	9.6	10.6	16.1
Egypt	13.9	11.6	7.7	8.7	14.5
Hungary	7.4	6.6	5.8	8.0	10.8
Morocco	20.1	17.7	17.4	15.0	16.0
Argentina	10.3	6.7	5.7	6.2	10.0
Turkey	**6.6**	**6.8**	**7.6**	**12.4**	**18.7**
Taiwan	12.8	11.2	22.4	65.9	101.4
Euro stoxx 50	10.2	10.0	9.2	13.0	20.7

** PER : Price Earnings Ratio*
Sources : Bloomberg and CFG (PER Morocco)

After several years of fast growth, the real-estate sector seems to experience some respite during the first half of 2009[1], with prices stabilizing, and even dropping in some cities. In addition, private investment in the social housing segment is edging downward in the absence of fiscal stimulus policies.

Chart 4.22: Quarter-to-quarter change in sectoral indexes, Q2 2009/Q1 2009 in %



1 Based on a study carried out by the Ministry of Housing, Urbanism and Space Planning entitled "The real-estate sector in 2009: The economic situation and the challenges".

5. RECENT INFLATION TRENDS

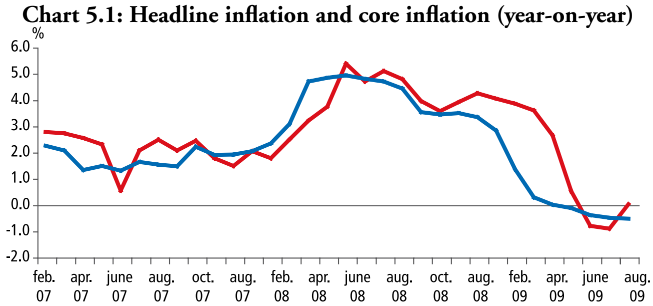
Against a background of an ongoing slump in economic activity, low inflation rates on the international scene and a less vigorous demand on the domestic level, year-to-year headline inflation stood at 0 percent in August, after registering -1 percent in July and -0.9 percent in June. This recent rise in inflation is solely attributed to the higher prices of some fresh food products. Notwithstanding these transitory shocks, the fundamental change in prices as reflected by the core inflation index shows a continued easing of inflationary pressures as was projected in the last Monetary Policy Report. Indeed, core inflation stood at -0.6 percent in August and July, after registering -0.5 percent in June, owing to the base effect related to the price level of cereals and fats which had reached unprecedented highs in 2008. The breakdown of the cost of living index by group of product shows that nontradables prices positively contributed to headline inflation, while the contribution of tradables was negative. This last group reflects the fluctuation in world inflation and international commodity prices which started to show some signs of recovery, in connection with the anticipations related to the future growth in world economic activity. The drop in inflation levels is also evidenced by the industrial producer prices index which went down by 21.2 percent in July and 20.5 percent in June.

5.1 Inflation trends

The annual change in the cost of living index (CLI) stood at 0 percent in August after registering negative values in July and June, -1 percent and -0.9 percent respectively, representing the lowest levels ever since May 2003. Over the eight first months of 2009, inflation dropped on average to 1.5 percent from 3.9 percent registered during the same period of the preceding year. The downward trend in inflation registered since June 2008, which continued into July 2009, came to an end in August following the rise in some fresh produce prices, especially meat and vegetables. This inflation change takes place amid a global context characterized by an important output capacity surplus and a sluggish economic activity, notably in some advanced and emerging economies.

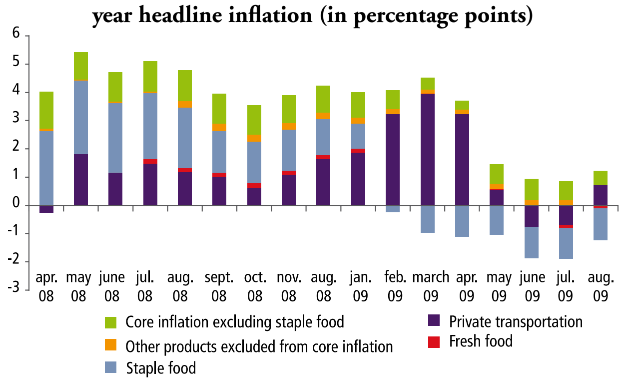
The breakdown of the cost of living index by type of groups shows that the recent rise in inflation is attributed to higher meat and fresh vegetables prices by 5.8 percent and 4.7 percent respectively. These rises more than offset the decline by 10.6 percent in cereal prices and by 8.1 percent in fats,

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 (in percentage points)



Sources: HCP, and BAM calculations

itself resulting from the base effect related to the sharp rise in food and agricultural commodity prices in 2008. In contrast, prices of the group "Milk, dairy products and eggs" went up from 2.2 percent to 2.9 percent.

The decline in the prices of some staple food products passed through core inflation which reached an all-time low, standing at -0.6 percent in August and July, after -0.5 percent in June, bringing therefore its annual average since the beginning of the year to 0.3 percent. The change in commodity prices appear to go in line with the food products import price index, which showed a drop by 7 percent in July.

As to the price index of non food products, it registered a moderate rise by 1 percent in August and July, after 1.3 percent in June. While the group "Transportation and communication" contributed to this slowdown through the "Private Transportation" item, the majority of the other groups registered, in August, growth rates similar to those registered in the previous month.

It is worth stating that the drop by 4.4 percent in the private transportation prices is due to the base effect linked to the July 2008 rise in domestic prices of some fuels, resulting from the surge in world oil prices.

5.2 Goods and services

The breakdown of the cost of living Index shows that annual inflation of processed goods which stood at 0.6 percent in June and July, has

Table 5.1 : Inflation and its components

	Monthly change (%) (%)			Year-on-year (%)		
	June 09	Jul. 09	Aug. 09	June 09	Jul. 09	Aug. 09
Headline inflation	**-1.7**	**0.1**	**1.5**	**-0.9**	**-1.0**	**0.0**
- Fresh food	-7.7	-0.2	7.2	-3.3	-3.0	3.4
- Private transportation	0.1	0.0	0.0	0.9	-4.4	-4.4
- Other products excluded from core inflation	0.0	0.0	0.1	3.9	3.8	0.2
Core inflation *Including:*	**-0.1**	**0.1**	**0.1**	**-0.5**	**-0.6**	**-0.6**
- Staple food	-0.5	0.1	0.3	-7.3	-7.2	-7.2
- Other food products	-0.8	-0.1	0.1	1.4	0.4	0.1
- Clothing	0.0	0.1	0.1	1.4	1.5	1.4
- Housing	0.0	0.1	0.1	0.6	0.6	0.7
- Equipment	0.1	0.0	0.0	1.4	1.0	0.9
- Medical care	0.0	0.0	0.1	1.0	1.0	1.0
- Public transportation and communication	0.2	0.0	0.1	1.5	1.5	1.5
- Leisure activities and culture	0.0	-0.1	0.0	1.8	1.7	1.7
- Other goods and services	0.1	0.2	0.1	2.0	2.1	1.8

Sources : HCP, and BAM calculations

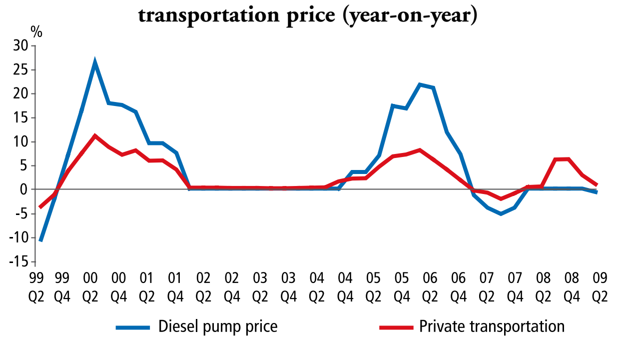
Table 5.2 : Domestic selling prices of oil products

Products (Dh/Liter)	Jul. 2008	Sept. 2008	Dec. 2008	Feb. 2009	Apr. 2009	Jul. 2009	Aug. 2009
Premium gasoline	11.25	11.25	11.25	10.25	10.25	10.25	10.25
Diesel 350/50 *	10.13	10.13	10.13	7.50	7.15	7.15	7.15
Industrial fuel(Dh/Ton)	3374	3374	3374	3074	3074	3074	3074

(*) 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: Diesel pump price and private transportation price (year-on-year)



Sources: HCP, and the Ministry of Energy and Mining significantly dropped to settle at -0.1 percent. This decline is largely attributed to the drop in the group "Fats", in connection with the fluctuations in the world prices of staple food.

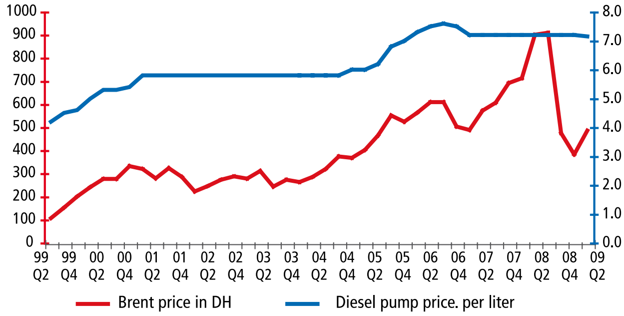
For its part, the price index of unprocessed goods declined by 0.4 percent instead of 4.8 percent in July and 4.9 percent two months earlier, chiefly reflecting the drop in prices of cereals, fish and fresh fruit, which more than offset the annual rise in the prices of meat and vegetables. The prices of all processed and unprocessed goods pushed headline inflation downward by -0.3 percentage point.

Conversely, the prices of services, excluding private transportation, grew at an annual rate of 1.4 percent, a virtually stable rate compared to the precedent month, and contributed by 0.4 percentage point to headline inflation. While the prices of the group "Restaurants, cafes and hotels" saw a sustained growth in July and August owing to the effects of the summer period, the majority of other sub-groups belonging to the services category, excluding private transportation, recorded relatively moderate and stable annual growth rates in August.

5.3 Tradable and nontradable goods

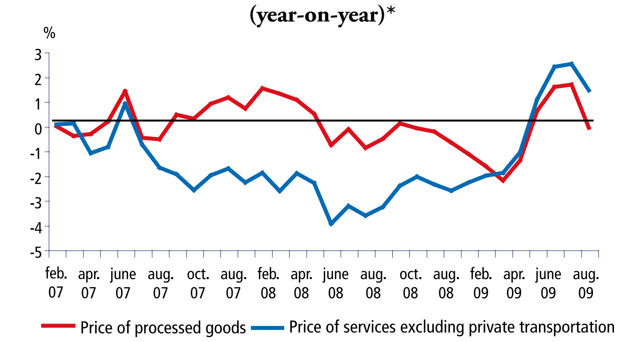
The breakdown of the CLI into tradable and tradable goods shows two diverging developments. Indeed, the tradables price index, which represents 43 percent of the overall CLI, declined by 2.3 percent in August following previous drops by 4.5 percent in July and 4.3 percent in June. The contribution of this category of goods to the change in the overall index stood at -1.1 percentage point in August. This development is attributed both to the impact of an abundant supply of some fresh products over the last two months and to the continued decline of cereals and fats prices.

Chart 5.4: World oil price and diesel pump price in Morocco, in dirhams



Source: IMF; Ministry of Energy and Mining

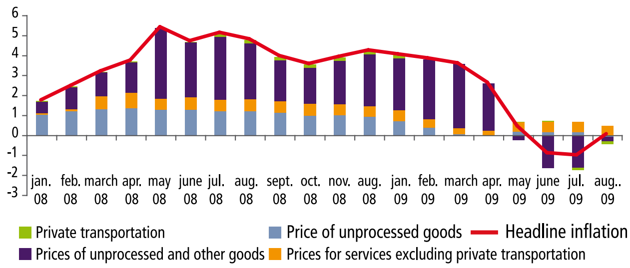
Chart 5.5: Relative prices of processed goods and services excluding private transportation compared with headline inflation (year-on-year)*



(*) Gap between the inflation rate of processed goods and services excluding private transportation and the headline inflation rate.

Sources: HCP, and BAM calculations

Chart 5.6: Contribution of goods and services prices to headline inflation (year-on-year)



Sources: HCP, and BAM calculations

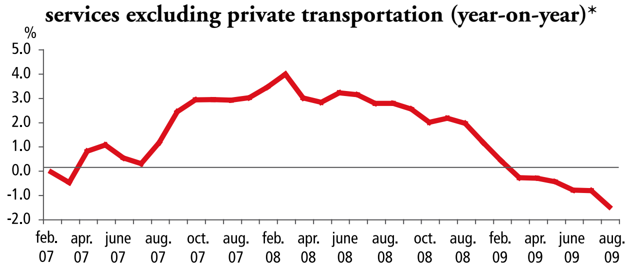
Table 5.3: Price indexes of goods and services

	Monthly change (%)			Year-on-year change (%)		
	June 09	Jul. 09	Aug. 09	June 09	Jul. 09	Aug. 09
Processed goods	-0.1	0.0	0.2	0.6	0.6	-0.1
Unprocessed goods and others	-5.7	-0.1	5.0	-4.9	-4.8	-0.4
Services excluding private transportation	0.1	0.1	0.1	1.4	1.5	1.4
Private transportation	0.1	0.0	0.0	0.9	-4.4	-4.4

Sources : HCP, and BAM calculations

Conversely, the annual growth in nontradables prices accelerated to 2.1 percent in August compared to 1.6 percent in July and 1.7 percent in June. This situation reflects, on the one hand, an increase in prices of meat and a sustained rise in the prices of "Restaurants, cafés and hotels", and on the other hand, a drop in private transportation prices. The change in the price index of nontradable goods contributed by 1.1 percentage point to headline inflation.

Chart 5.7: Gap in inflation rates between processed goods and services excluding private transportation (year-on-year)*



(*) The gap between the inflation rate of processed goods and services excluding private transportation

Sources: HCP, and BAM calculations

5.4 Industrial producer price index

July data related to industrial producer prices highlight the ongoing decline in production costs in the main industrial sectors, and therefore confirm the role played by supply factors in the observed and projected easing of inflationary pressures. Indeed, the manufacturing industries price index, calculated on the basis of ex-works prices excluding taxes and subsidies, registered an annual drop of 21.2 percent in July compared to 20.5 percent in the previous month. Accordingly, the drop in prices of refining and coking remained virtually unchanged from one month to the other in July, standing at -43.3 percent, negatively contributing by 15 percentage points to the change in the overall index.

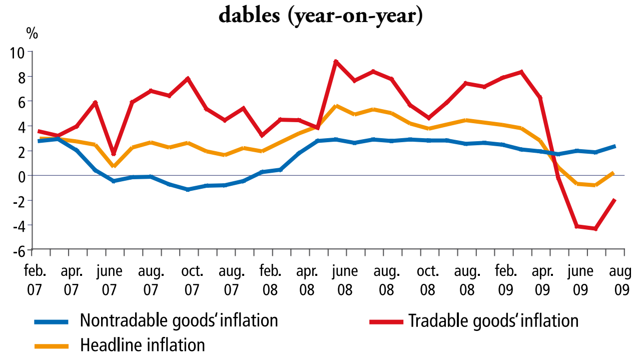
Excluding refining and coking, manufacturing producer prices registered a 9.4 percent drop compared with 9.1 percent a month earlier, in connection with the time lag in the transmission of prior deceleration in world commodity prices excluding energy. The drop concerned in particular prices of the chemical and metallurgical sectors which fell by 36 percent and 14.9 percent respectively, and to a lesser extent, prices of the "Metal working" industry which dropped by 5.6 percent. As to producer costs in the food industries sector, their drop was limited to 1.6 percent.

Table 5.4: Change in the price indexes of tradables and nontradables

	Monthly change (%)			Year-on-year change (%)		
	June 09	Jul. 09	Aug. 09	June 09	Jul. 09	Aug. 09
Tradables	-4.4	-0.7	3.0	-4.3	-4.5	-2.3
Nontradables	0.0	0.5	0.7	1.7	1.6	2.1

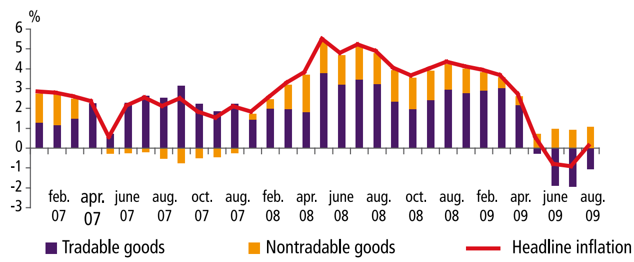
Sources : HCP, and BAM calculations

Chart 5.8: Change in price indexes of tradables and nontradables (year-on-year)



Sources: HCP, and BAM calculations

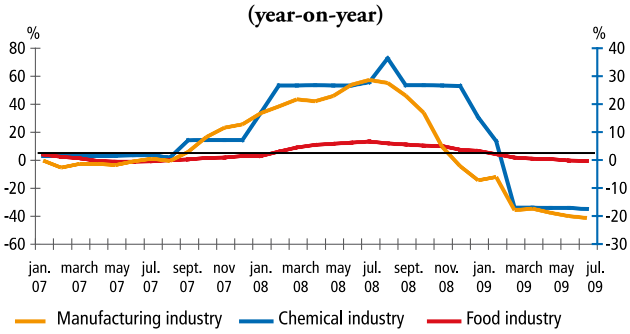
Chart 5.9: Contribution of tradables and nontradables to headline inflation (year-on-year)



Sources: HCP, and BAM calculations

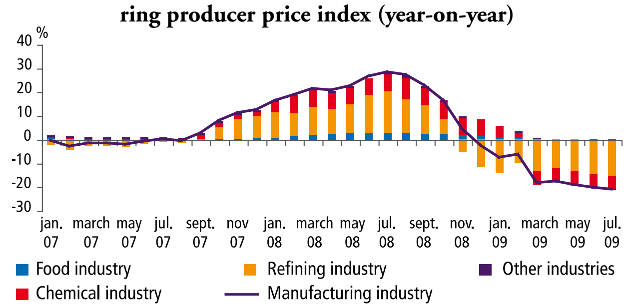
The results of the July BAM business survey confirm the recent trend in industrial producer prices. Nonetheless, corporate managers' projections for the next three months suggest diverging developments. Prices in the textile and leather sector may drop while producer costs in the chemical and parachemical may go upward.

Chart 5.10: Change in industrial producer price indexes (year-on-year)



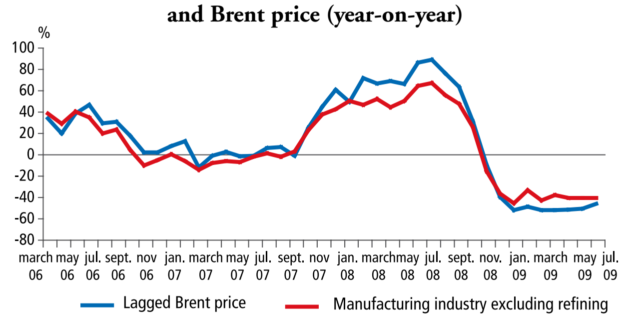
Sources: HCP, and BAM calculations

Chart 5.11 : Contribution of the main headings to manufacturing producer price index (year-on-year)



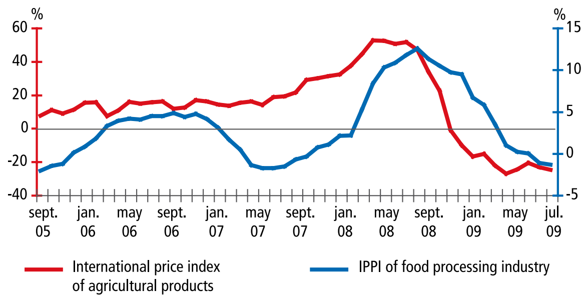
Sources: HCP, and BAM calculations

Chart 5.12: Refining industry price index and Brent price (year-on-year)



Sources: IMF, HCP, and BAM calculations

Chart 5.13: Change in domestic and international food prices (year-on-year)



Sources: IMF, HCP, and BAM calculations

6. INFLATION OUTLOOK

This section presents the inflation trend deemed to be the most probable (central forecast) over the next six quarters and examines the major risks associated thereto (balance of risk). The central forecast scenario is therefore dependent on the assumptions and trends envisaged for a series of variables affecting economic activity and inflation. Assuming the non-occurrence of the major risk factors identified, the inflation trend over the coming six quarters remains in line with the price stability objective, with an average forecast of about 1.1 percent. During the year 2009, inflation is expected to reach 1.2 percent, markedly lower compared with the forecast rate outlined in the last MPR (2.8%). Compared to the previous Report, inflation forecast was slightly revised downwards over the forecast horizon (1.1 percent compared to 2.4 percent). Risks to the central forecast are overall tilted to the downside. They result from the uncertainties surrounding both international and domestic developments. The first of these are linked in particular to the crisis exit strategies adopted in our main trading partners and the second bear on the developments in the labor market and the resiliency of domestic growth engines vis-à-vis the global economic crisis.

6.1 Baseline scenario assumptions

6.1.1 International environment

After several quarters of negative growth, the main world economies seem to show some signs of recovery over the last few weeks. Indeed, many institutions agree that the "trough of the wave" had been reached, but that the recovery will be fragile.

An OECD report issued in the beginning of September stated : «The recovery, after the world recession, will probably come sooner than anticipated few months ago. Economic growth will, nevertheless, remain weak over a good portion of next year». In turn, the International Monetary Fund (IMF) revised upwards its growth forecasts for 2009 and 2010.

Accordingly, it projects a decline by 1.3 percent in global GDP this year, compared to a previous forecast of -1.4 percent and an increase by 2.9 percent in 2010 instead of 2.5 percent.

For advanced economies, the IMF projects a decline by 3.7 percent this year, a little below the -3.8 percent expected earlier -followed by a 1.0 percent rise in 2010 instead of 0.6 percent.

Similarly, GDP growth forecasts for several economies were revised upwards for 2010, especially in the United States (1.2 percent instead of 0.8 percent), the Euro area (0 percent against -0.3 percent) and France (0.8 percent instead of 0.4 percent).

The main uncertainties surrounding global growth remain linked, on the one hand, to the developments in the labor market due to persisting high unemployment rates, and on the other hand, to the drop in credit growth and the solidity of the banking systems.

Based on these developments, we assume in our central forecast that growth in our main partner countries, namely Germany, Spain, France and Italy would stand at -3.6 percent in 2009 and -0.2 percent in 2010. These calculations were based on an average rate weighted by the respective shares of these countries in our external trade.

The latest published figures show that inflation is continuing to edge downwards both in the United States and in Europe. Accordingly, based on updated projections of the ECB, inflation would drop from 3.3 percent in 2008 to 0.4 percent in 2009. Both ECB and OCDE experts attribute this change to an important base effect linked to the surge in commodity and oil prices in 2008. The current fragile economic conditions should, nonetheless, contribute to the easing of inflationary pressures. Therefore, inflation in the Euro area would hover around 1.2 percent according to the ECB.

Such developments seem to suggest an easing of inflationary pressures coming from import prices as confirmed by the recent changes in the indicators related to import unitary values, elaborated by Bank Al-Maghrib. Accordingly, the forecast models show a drop in import prices.

6.1.2 National environment

Against a backdrop of slowing external demand for Moroccan products, economic growth was mainly driven by the good performance of the agricultural sector. Indeed, cereal output increased to 102 million quintals, nearly two-times the output of the previous crop year.

GDP growth would stand at around 5.3 percent in 2009, thereby reflecting an outstanding performance of agricultural activity, while nonagricultural activity is expected to stand at around 2.3 percent, a lower rate compared to its historical trend.

For the next crop year 2010-2011, the central forecast scenario projects 75 million quintals. In view of the current filling rate of dams, this expected level is higher compared to the habitually adopted scenario for an average crop year (60 million quintals).

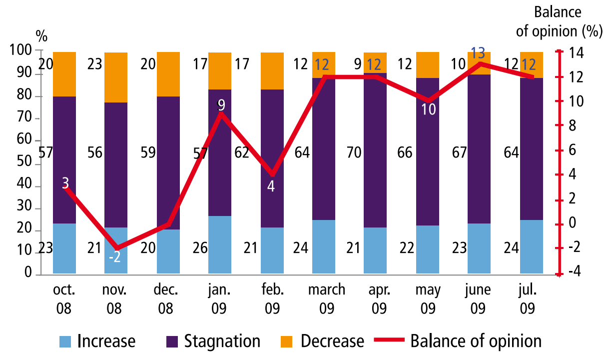
Should growth in our trading partners follow the trends highlighted in the first part of this Chapter, nonagricultural growth in 2010 would continue to stand below its registered historical averages.

The latest statistical data on the labor market issued on the second quarter of 2009 indicate a drop in the unemployment rate by 1 percent both in rural and urban areas (Chapter 2). Indeed, the high unemployment rate recorded in sectors closely dependent on foreign demand was largely offset by net job creations in agriculture, building and public works and services. However, the uncertain growth perspectives point to a probable deterioration of labor market conditions in the forthcoming quarters. The results of the Bank Al-Maghrib's business survey for July show that managers expect either a contraction or stagnation in the number of employed persons on the short term.

Oil prices level remains sustainable compared with the Finance Act projections (at $100 dollars a barrel). Accordingly, subsidization costs declined by 68 percent. Based on the IMF forecasts, oil price is expected to stand at 58 dollars a barrel in 2009 and 70 dollars in 2010. The forecast scenario assumes a stagnation of the 50 PPM diesel price at the pump at 7.15 dirhams.

The results of Bank Al-Maghrib's business survey in the industrial sector for July show that the percentage of corporate managers who anticipate stagnation in inflation over the next three months is lower compared to June. In contrast, the percentage of those predicting a drop in inflation was slightly down compared to the same period.

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



Source: BAM monthly business survey

6.2 Inflation outlook and balance of risks

Assuming the non-occurrence of the main risks, the central forecast for the next six quarters would stand at 1.1 percent, a lower rate compared with the last MPR which projected a 2.4 percent assumption.

This downward projection is due to the drop, on the one hand, in fresh produce prices, as well as to the lag in the transmission of the global decline in food and agricultural commodity prices. In addition, the lower world inflation rates would translate by a drop in import producer prices, leading thereby to an easing of inflationary pressures.

Accordingly, all quarterly forecasts were adjusted downward, bringing annual inflation in 2009 from 2.8 percent to 1.2 percent. Inflation would therefore stand below its historical average over the next four quarters, before returning to its normal levels by the end of the forecast horizon.

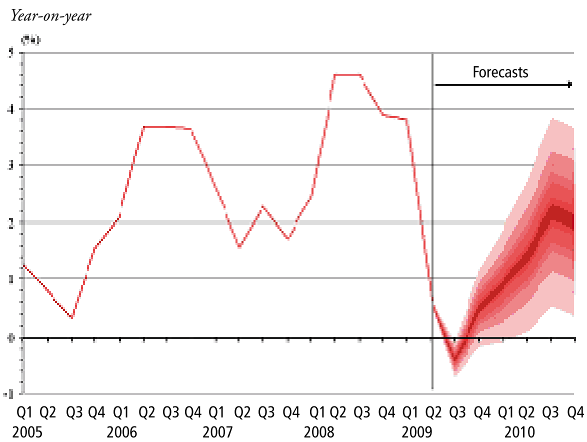
Table 6.1: Inflation outlook For 2009 Q3-2010 Q4

Year-on-year

	2009		2010				Average		Forecast horizon
	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	2009	2010	
Central forecast (%)	-0.4	0.5	0.9	1.4	2.2	2.0	1.2	1.6	1.1

These projections were based on assumptions considered as being the most probable. However, there are still many sources of uncertainty stemming from future trends in exogenous variables as well as from the forecasting models which may impact the projected inflation rate either upwards or downwards. Analysis of the balance of risks shows an asymmetric forecast range represented in the form of a fan chart (Chart 6.2).

Chart 6.2: Inflation forecasts, 2009 Q3- 2010-Q4 (quarterly data)



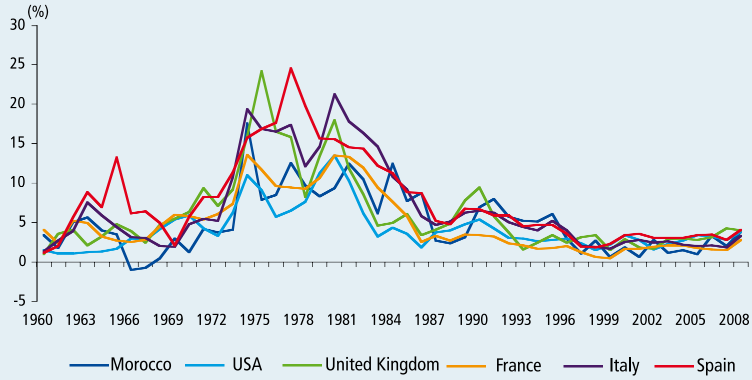
(*) This chart represents the confidence interval relative to inflation projection derived from the baseline scenario (dark red) ; Confidence intervals from 10 percent to 90 percent are also reported. Each addition of intervals of the same color, on both sides of the central forecast, increases by 10 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.

The fan chart of this forecast exercise suggests a very slight asymmetry denoting the existence of equivocal probabilities of rise and drop of headline inflation compared to the central forecast. This asymmetry stems from the different risks related, on the one hand, to the uncertainties surrounding the developments of the global economic situation with regard to the crisis exit strategies in our trading partners and, on the other hand, to the domestic developments in the labor market and the resiliency of domestic growth engines vis-à-vis the global economic crisis. The materialization of one or more of these risks could lead to a deviation of the inflation rate from the central forecast, which would stand, with a probability of 90 percent, within the forecast range represented on the fan chart.

Box 6.1 : A new regime switching structural statistical model for inflation forecast

The non-stationary status of Moroccan macroeconomic series, particularly inflation, is one of the issues that had been the subject of various research projects undertaken in Bank Al-Maghrib in 2009. The use of unit root tests showed that inflation trend in Morocco recorded between 1960 and 2008 many breaking points due to internal factors (international openness up, structural reforms, ...) and/or external ones (oil crisis, fall down in import prices; globalization..). This result led to a new identification of the inflation trend in Morocco, and by corollary, the introduction of a new forecasting statistical model which takes into account the various breaking points characterizing the trend.

Chart B 6.1 : Prices' change in Morocco compared to the change in some OECD countries



(*) Annual data

Source : IFS

The new BAM model is based on a fifty-year observation sample, elaborated on a monthly and quarterly basis. It is composed of three equations specifying respectively the trend, the fluctuations and the variance. A statistical evaluation of this model over a sufficiently long period has shown that its forecast qualities, on a forecast horizon of up to nine quarters, offer more precise results. The model also allows forecasting the variance in inflation, which would contribute to a better assessment of the uncertainties illustrated by the inflation forecast fan charts of Bank Al-Maghrib.

(*) SCARMA- EGARCH: Structural Change ARMA with Exponential GARCH component.

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